IMPORTANT NOTICE

HDFC BANK LIMITED, ACTING THROUGH ITS REGISTERED OFFICE IN INDIA (THE "BANK") U.S.$1,000,000,000 ADDITIONAL TIER 1 NOTES (THE "OFFERING")

Dear Sir or Madam,

1. We refer to the proposed offer of the U.S.$1,000,000,000 additional tier 1 notes (the "**Additional Tier 1 Notes**"), further details of which are set out in the attached offering memorandum dated August 18, 2021 (the "**Offering Memorandum**") and produced in connection with the Offering. Prospective investors are referred to the section headed "*Prohibition on Marketing and Sales to Retail Investors*" of the Offering Memorandum.

2. The Additional Tier 1 Notes discussed in the Offering Memorandum attached are complex financial instruments. They are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Additional Tier 1 Notes. Potential investors in the Additional Tier 1 Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Additional Tier 1 Notes (or any beneficial interests therein).

3.

(a) In the United Kingdom ("**U.K.**"), the Financial Conduct Authority ("**FCA**") Conduct of Business Sourcebook ("**COBS**") requires, in summary, that the Additional Tier 1 Notes should not be offered or sold to retail clients (as defined in COBS 3.4 and each a "**retail client**") in the U.K.

(b) The Joint Lead Managers are required to comply with COBS.

(c) By purchasing, or making or accepting an offer to purchase, any Additional Tier 1 Notes (or a beneficial interest in such Additional Tier 1 Notes) from the Bank and/or the Joint Lead Managers, you represent, warrant, agree with and undertake to the Bank and the Joint Lead Managers that:

   (i) you are not a retail client in the U.K.; and

   (ii) you will not sell or offer the Additional Tier 1 Notes (or any beneficial interest therein) to retail clients in the U.K. or communicate (including the distribution of the attached document) or approve an invitation or inducement to participate in, acquire or underwrite the Additional Tier 1 Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the U.K.

(d) In selling or offering the Additional Tier 1 Notes or making or approving communications relating to the Additional Tier 1 Notes you may not rely on the limited exemptions set out in COBS.

4. The obligations in paragraph 3 above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the European Economic Area ("**EEA**") or the U.K.) relating to the promotion, offering, distribution and/or sale of the Additional Tier 1 Notes (or any beneficial interests therein), whether or not specifically mentioned in the attached document, including (without limitation) any requirements under the Markets in Financial Instruments Directive 2014/65/EU (as amended) ("**MiFID II**") or the UK FCA Handbook as to determining the appropriateness and/or suitability of an investment in the Additional Tier 1 Notes (or any beneficial interests therein) for investors in any relevant jurisdiction.

5. Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Additional Tier 1 Notes (or any beneficial interests therein) from the Bank and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

6. This document is not an offer to sell or an invitation to buy any Additional Tier 1 Notes.

7. This document, and any non-contractual obligations arising out of or in connection therewith, shall be governed by and constructed in accordance with English law.

8. Your offer or agreement to buy any Additional Tier 1 Notes will be evidence of your acceptance of, or acceptance on behalf of the client for whom you are acting as an agent for, of the terms of this letter.

Yours faithfully.

Barclays Bank PLC, Merrill Lynch (Singapore) Pte. Ltd., Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Standard Chartered Bank, BNP Paribas, Emirates NBD Bank PJSC, Morgan Stanley & Co. International plc, MUFG Securities Asia Limited, Société Générale and UBS AG Singapore Branch

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR (2) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the "**Offering Memorandum**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your Representation: In order to be eligible to view the following Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the following Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) you consent to delivery of such Offering Memorandum and any amendments or supplements thereto by electronic transmission.

The attached Offering Memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Bank or any Joint Lead Manager or any of their respective directors, officers, employees, representatives, agents, affiliates or advisers accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. The Joint Lead Managers will upon request provide a hard copy version to you.

The following Offering Memorandum has not been approved by an authorized person in the United Kingdom. The securities may not be offered or sold other than to persons whose ordinary activities involve these persons in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the securities would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by us. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Offering Memorandum to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generated by using the "Reply" function on your e-mail software, will be ignored or rejected.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers (as defined in this Offering Memorandum) or any affiliate of the Joint Lead Managers are a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Bank (as defined in this Offering Memorandum) in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Issuer and Joint Lead Managers, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other item of a destructive nature.

(*a company incorporated with limited liability in the Republic of India*)

HDFC Bank Limited, acting through its registered office in India
U.S.$1,000,000,000 Additional Tier 1 Notes

Issue Price: 100.0 percent

The U.S.$1,000,000,000 Additional Tier 1 Notes (the "**Additional Tier 1 Notes**") will be issued by HDFC Bank Limited (the "**Bank**") acting through its registered office in India (the "**Offering**").

The Additional Tier 1 Notes will bear interest from and including August 25, 2021 (the "**Issue Date**"). In respect of the period from, and including, the Issue Date to, but excluding, February 25, 2027 (the "**First Reset Date**"), the Initial Interest Rate (as defined in the Conditions) shall be 3.70 percent per annum. In respect of the period from and including, the First Reset Date, and each Reset Date falling thereafter, to but excluding, the immediately following Reset Date, the relevant Reset Interest Rate (as defined in the Conditions) shall be equal to the sum of the 5 year US Treasury Rate in relation to that Reset Period plus 2.925 percent per annum (the "**Margin**"). Interest on the Additional Tier 1 Notes shall be payable semi-annually in arrear in equal instalments on February 25 and August 25 in each year commencing on February 25, 2022. The Additional Tier 1 Notes are perpetual and have no maturity date. The Additional Tier 1 Notes will be issued only in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Additional Tier 1 Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without preference among themselves. The claims of the Noteholders in respect of the Additional Tier 1 Notes in a winding up, liquidation or dissolution of the Issuer (as determined pursuant to the Companies Act, 2013, as amended (the "**Companies Act**") and the Banking Regulation Act, 1949, as amended (the "**BR Act**")) will be (i) senior to the claims of investors in equity shares and perpetual non-cumulative preference shares of the Issuer, whether currently outstanding or issued at any time in the future; (ii) subordinate to the claims of depositors, general creditors and holders of subordinated debt of the Issuer other than any subordinated debt qualifying as Additional Tier 1 Capital (as defined under the RBI Basel III Guidelines (as defined in "*Terms and Conditions of the Additional Tier 1 Notes*" (the "**Conditions**")) of the Issuer; and (iii) *pari passu* and without preference among themselves and other subordinated debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines whether currently outstanding or issued at any time in the future.

If a PONV Trigger Event or a CET1 Trigger Event occurs, the Issuer will, without the need for the consent of Noteholders or the Trustee (i) deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent within three Business Days of the occurrence of such PONV Trigger Event or CET1 Trigger Event, (ii) cancel any interest which is accrued and unpaid up to the relevant Loss Absorption Effective Date, and (iii) *pari passu* and *pro rata* with any other Tier 1 Loss Absorbing Instruments (where possible), and taking into account the prior loss absorption in full of Tier 1 Loss Absorbing Instruments (where possible) irrevocably, reduce the Outstanding Nominal Amount of each Additional Tier 1 Note by the relevant Write-Down Amount (as defined in the Conditions), subject as required by the RBI at the relevant time.

Once the Outstanding Nominal Amount of an Additional Tier 1 Note has been Written Down pursuant to a PONV Trigger Event, the relevant Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue. Following a Write-Down due to a PONV Trigger Event having occurred, all rights of any Noteholder for payment of any amounts under or in respect of the PONV Write-Down Amount in respect of their Additional Tier 1 Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, any default) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Loss Absorption Event Notice or the Loss Absorption Effective Date and even if the PONV Trigger Event has ended.

Once the nominal amount of a Note has been Written Down pursuant to a CET1 Trigger Event, the Outstanding Nominal Amount of the Additional Tier 1 Notes may be increased up to the Maximum Reinstatement Amount (as defined in the Conditions) (a "**Reinstatement**") at the Issuer's option and subject to any conditions specified in the RBI Basel III Guidelines, or as are otherwise notified to the Issuer by the RBI, from time to time. The Additional Tier 1 Notes may be subject to more than one Reinstatement. The Issuer will not reinstate the principal amount of any Tier 1 Loss Absorbing Instrument that has been written down (and which is capable under its terms of being reinstated) unless it does so on a *pro rata* basis with a Reinstatement on the Additional Tier 1 Notes.

Subject to the satisfaction of the Conditions for Redemption (as defined in the Conditions), the Issuer may redeem the Additional Tier 1 Notes in whole, but not in part, at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption in the event of certain tax changes as described under "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption or Variation for Tax Reasons*." The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Tax Event (as defined in the Conditions), to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Notes (as defined in the Conditions). The Issuer may, at its sole discretion but subject always to the Conditions for Redemption having been satisfied, redeem the Additional Tier 1 Notes (in whole but not in part) at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption at any time from (and including) February 25, 2026 (the "**First Call Date**") to (but excluding) the First Reset Date or at any Interest Payment Date thereafter, other than any Reset Date. See "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption at the Option of the Issuer*." Subject to the Conditions for Redemption having been satisfied, the Issuer may at its sole discretion, redeem the Additional Tier 1 Notes in whole, but not in part, at any time in accordance with the RBI Basel III Guidelines, at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption if a Regulatory Event (as defined in the Conditions) has occurred and is continuing. The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Regulatory Event, to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Notes. See "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption or Variation for Regulatory Reasons*."

Application will be made to the Global Securities Market ("**GSM**") of the India International Exchange (IFSC) Limited ("**India INX**") for the listing and quotation of the Additional Tier 1 Notes on the India-INX. The India-INX has not approved or verified the contents of the listing particulars. Admission of the Additional Tier 1 Notes to the India-INX and quotation of the Additional Tier 1 Notes on the India-INX is not to be taken as an indication of the merits of the Bank or the Additional Tier 1 Notes.

See "Risk Factors" beginning on page 11 for a discussion of certain factors to be considered in connection with an investment in the Additional Tier 1 Notes.

The Additional Tier 1 Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any U.S. state securities laws. Accordingly, the Additional Tier 1 Notes are being offered and sold only (i) in the United States to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) to persons outside the United States in an offshore transaction in compliance with Regulation S under the Securities Act ("**Regulation S**"). Prospective purchasers are hereby notified that the sellers of the Additional Tier 1 Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "*Transfer Restrictions*."

The Additional Tier 1 Notes will be represented by one or more global certificates in fully registered form, respectively, without coupons, which will be registered in the name of a nominee of The Depository Trust Company ("**DTC**"). Upon issue, the Additional Tier 1 Notes will be listed on the GSM of the India INX and will be delivered to investors through the book-entry facilities of DTC, Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**") on or about the Issue Date.

The Additional Tier 1 Notes are expected to be assigned a rating of "Ba3" by Moody's Investors Service Limited. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

This Offering Memorandum has not been and will not be registered or published as a prospectus or a statement in lieu of a prospectus with the Registrar of Companies, the Securities and Exchange Board of India or any other statutory or regulatory body of like nature in India in respect of a public offer or information memorandum or other offering material in respect of any private placement of securities under the Companies Act, 2013, as amended, and the rules framed thereunder or any other applicable Indian laws. This Offering Memorandum has not been and will not be reviewed or approved by any regulatory authority in India, including, but not limited to, the Securities and Exchange Board of India, any Registrar of Companies, the Reserve Bank of India, or any stock exchange in India. This Offering Memorandum and the Additional Tier 1 Notes are not and should not be construed as an advertisement, invitation, offer or sale of any securities to the public or any person resident in India. The Additional Tier 1 Notes have not been and will not be, offered or sold to any person resident in India.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Barclays **BofA Securities** **Citigroup** **HSBC** **J.P. Morgan** **Standard Chartered Bank**

Joint Bookrunners and Joint Lead Managers

BNP PARIBAS **Emirates NBD Capital** **Morgan Stanley** **MUFG** **Société Générale Corporate & Investment Banking** **UBS**

The date of this Offering Memorandum is August 18, 2021.

This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Additional Tier 1 Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation.

In connection with the issue of the Additional Tier 1 Notes, any of the Joint Lead Managers appointed and acting in its capacity as the stabilization manager (the "**Stabilization Manager**") or persons acting on behalf of the Stabilization Manager) may over-allot the Additional Tier 1 Notes or effect transactions with a view to supporting the price of the Additional Tier 1 Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Issuer. However, there is no obligation on such Stabilization Manager to do this. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the Additional Tier 1 Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Additional Tier 1 Notes. Such stabilization shall be in compliance with all applicable laws, regulations and rules.

None of the Bank, Barclays Bank PLC, Merrill Lynch (Singapore) Pte. Ltd, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Standard Chartered Bank, BNP Paribas, Emirates NBD Bank PJSC, Morgan Stanley & Co. International plc, MUFG Securities Asia Limited, Société Générale and UBS AG Singapore Branch (together, the "Joint Lead Managers"), Citicorp International Limited (the "Trustee"), the Agents (as defined in the Terms and Conditions of the Additional Tier 1 Notes) (the "Agents") or any of their respective affiliates or representatives is making any representation to any offeree or purchaser of the Additional Tier 1 Notes offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Additional Tier 1 Notes.

For this Offering, the Bank and the Joint Lead Managers are relying upon exemptions from registration under the Securities Act for offers and sales of securities which do not involve a public offering, including Rule 144A. **Prospective investors are hereby notified that sellers of the Additional Tier 1 Notes may be relying on the exemption from Section 5 of the Securities Act provided by Rule 144A.** The Additional Tier 1 Notes are subject to restrictions on transferability and resale. Purchasers of the Additional Tier 1 Notes may not transfer or resell the Additional Tier 1 Notes except as permitted under the Securities Act and applicable state securities laws. See "*Transfer Restrictions*."

The distribution of this Offering Memorandum and the offer and sale of the Additional Tier 1 Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Additional Tier 1 Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Additional Tier 1 Notes or possesses or distributes this Offering Memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Additional Tier 1 Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. There are restrictions on the offer and sale of the Additional Tier 1 Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, European Economic Area, the United Kingdom, Hong Kong, Singapore and India. See "*Subscription and Sale*."

UK MIFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Additional Tier 1 Notes has led to the conclusion that: (i) the target market for the Additional Tier 1 Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Additional Tier 1 Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Additional Tier 1 Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Additional Tier 1 Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Additional Tier 1 Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Additional Tier 1 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Additional Tier 1 Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

UK PRIIPs REGULATION/PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Additional Tier 1 Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Additional Tier 1 Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Additional Tier 1 Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation."

In addition to the above, pursuant to the United Kingdom ("U.K.") Financial Conduct Authority Conduct of Business Sourcebook ("COBS") the Additional Tier 1 Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients (as defined in COBS 3.4) in the U.K.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Additional Tier 1 Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Bank and the Joint Lead Managers reserve the right to reject any offer to purchase any of the Additional Tier 1 Notes, in whole or in part, for any reason, as well as the right to sell less than the principal amount of the Additional Tier 1 Notes offered by this Offering Memorandum or for which any prospective purchaser has subscribed.

Investors should contact the Joint Lead Managers with any questions about this Offering or if they require additional information to verify the information contained in this Offering Memorandum.

This Offering Memorandum has been prepared by the Bank solely for use in connection with the offering of the Additional Tier 1 Notes. The Bank as well as the Joint Lead Managers reserve the right to withdraw the Offering of the Additional Tier 1 Notes at any time or to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Additional Tier 1 Notes offered hereby. This Offering Memorandum is personal to the prospective investor to whom it has been delivered by the Joint Lead Managers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Additional Tier 1 Notes.

This Offering Memorandum is intended solely for the purpose of soliciting indications of interest in the Additional Tier 1 Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the trust deed relating to the Additional Tier 1 Notes and other transaction documents described herein.

The Bank accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Bank, having made all reasonable enquiries, confirms that this Offering Memorandum contains or incorporates all information which is material in the context of the Additional Tier 1 Notes, that the information contained or incorporated in this Offering Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that there are no other facts the omission of which would make this Offering Memorandum or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly.

In this Offering Memorandum, none of the Joint Lead Managers, the Trustee or the Agents have separately verified the information contained herein. Accordingly, the Joint Lead Managers, the Trustee and the Agents named herein make no representation or warranty, express or implied, as to the accuracy or completeness of such information, nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee or the Agents, and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Offering Memorandum or any other information in connection with the Additional Tier 1 Notes or their distribution or the Offering. Investors may not reproduce or distribute this Offering Memorandum in whole or in part, and investors may not disclose any of the contents of this Offering Memorandum or use any information herein for any purpose other than considering an investment in the Additional Tier 1 Notes. Investors agree to the foregoing by accepting delivery of this Offering Memorandum.

Prospective investors in the Additional Tier 1 Notes should rely only on the information contained in this Offering Memorandum. Neither the Bank nor the Joint Lead Managers has authorized the provision of information different from that contained in this Offering Memorandum. The information contained in this Offering Memorandum is accurate in all material respects only as of the date of this Offering Memorandum or as otherwise indicated, regardless of the time of delivery of this Offering Memorandum or of any sale of the Additional Tier 1 Notes. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Bank's affairs and those of each of its respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to its date.

In making an investment decision, prospective investors must rely on their examination of the Bank and the terms of this Offering, including the merits and risks involved. The Additional Tier 1 Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any other United States federal or state securities commission or any other United States or other regulatory authority, none of whom have passed upon or endorsed the merits of the Offering or confirmed the accuracy or determined the adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

AVAILABLE INFORMATION

While any Additional Tier 1 Notes remain outstanding and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Bank shall, during any period in which the Bank is not subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB who is a Holder of the Additional Tier 1 Notes and any prospective purchaser of Additional Tier 1 Notes who is a QIB designated by such Holder of the Additional Tier 1 Notes, upon the request of such Holder of the Additional Tier 1 Notes or prospective purchaser, the information concerning the Bank required to be provided to such holder or prospective purchaser by Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a banking company that has been incorporated under the laws of India. Substantially all of the directors and executive officers of the Issuer and certain experts named herein reside in India, and a substantial portion of the assets of the Issuer and the assets of such directors and executive officers and certain experts are located in India. As a result, it may be difficult for investors to effect service of process upon the Issuer or such directors and executive officers outside India or to enforce judgments against them obtained in courts outside India predicated upon civil liabilities of the Issuer or such directors and executive officers under laws other than Indian law.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. The Issuer understands that in India the statutory basis for recognition of foreign judgments is found in Section 13 and Section 44A of the Indian Code of Civil Procedure 1908 (the "**Civil Code**").

Section 13 of the Civil Code provides that a foreign judgment shall be conclusive as to any matter directly adjudicated upon between the same parties or between parties under whom they or any of them claim litigating under the same title except: (i) where the judgment has not been pronounced by a court of competent jurisdiction; (ii) where the judgment has not been given on the merits of the case; (iii) where the judgment appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where the judgment has been obtained by fraud; or (vi) where the judgment sustains a claim founded on a breach of any law in force in India. A foreign judgment which is conclusive under Section 13 of the Civil Code may be enforced either by a fresh suit upon the judgment or by proceedings in execution.

Section 44A of the Civil Code provides that where a foreign judgment has been rendered by a superior court (within the meaning of such section) in any country or territory outside India which the government of India has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. However, Section 44A of the Civil Code is applicable only to monetary decree, which are not amounts payable in respect of taxes, other charges of a like nature or in respect of a fine or other penalty, and does not apply to an arbitration award, even if such award is enforceable as a decree or judgment.

Under Section 14 of the Civil Code, an Indian court shall, on production of any document purporting to be a certified copy of a foreign judgment, presume that the judgment was pronounced by a court of competent jurisdiction unless the contrary appears on the record and such presumption may be displaced by proving want of jurisdiction.

The United Kingdom, Singapore, Hong Kong and United Arab Emirates have been declared by the Government of India to be a reciprocating territory and the High Courts in England as the relevant superior courts for the purposes of section 44A of the Civil Code. The United States has not been declared by the Government of India to be a reciprocating territory for the purposes of section 44A of the Civil Code. Accordingly, a judgment by a court in the United States may be enforced only by a new suit upon the judgment and not by proceedings in execution.

Since the United Kingdom has been declared by the Government of India as a reciprocating territory and the High Courts in England as the relevant superior courts for the purposes of Section 44A of the Civil Code, a judgment of a superior court in the United Kingdom may be enforced by proceedings in execution and a judgment not of a superior court, by a fresh suit resulting in a judgment or order. The suit to enforce a foreign judgment must be filed in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India.

It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India under the Foreign Exchange Management Act, 1999, as amended, to execute such a judgment or to repatriate any amount recovered pursuant to the execution of such foreign judgment and any such amount may be subject to income tax in accordance with applicable laws. Any judgment awarding damages in a foreign currency would be converted into Indian Rupees on the date of the judgment and not on the date of the payment. We cannot predict whether a suit brought and instituted in an Indian court will be disposed of in a timely manner or be subject to considerable delay.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless the context otherwise requires:

(i) all financial information relating to the Bank and the Group provided as at and for the fiscal year ended March 31, 2019 contained in this Offering Memorandum has been derived from audited consolidated financial statements of the Bank as at and for the year ended March 31, 2019 (the "**Fiscal 2019 Financial Statements**");

(ii) all financial information relating to the Bank and the Group provided as at and for the fiscal year ended March 31, 2020 contained in this Offering Memorandum has been derived from audited consolidated financial statements of the Bank as at and for the year ended March 31, 2020 (the "**Fiscal 2020 Financial Statements**");

(iii) all financial information relating to the Bank and the Group provided as at and for the fiscal year ended March 31, 2021 contained in this Offering Memorandum has been derived from audited consolidated financial statements of the Bank as at and for the year ended March 31, 2021 (the "**Fiscal 2021 Financial Statements**," together with the Fiscal 2020 Financial Statements and the Fiscal 2019 Financial Statements, the "**Financial Statements**"); and

(iv) all financial information relating to the Bank and the Group provided as at and for the three months ended June 30, 2020 and 2021 contained in this Offering Memorandum has been derived from the unaudited but reviewed financial results as at and for the three months ended June 30, 2020 and 2021 (the "**June Financial Results**") prepared and presented in accordance with generally accepted accounting principles in the Republic of India as applicable to banks in India.

The Bank's fiscal year ends on March 31, and references in this Offering Memorandum to any specific fiscal year are to the 12-month period ended on March 31 of such year.

The Financial Statements have been prepared in accordance with U.S. GAAP. The Bank maintains its financial books and records and prepares its Financial Results in Rupees in accordance with generally accepted accounting principles in the Republic of India as applicable to banks in India ("**Indian GAAP**") which differ in certain important respects from U.S. GAAP. For a discussion of the principal differences between Indian GAAP and U.S. GAAP as they relate to the Issuer, see "*Unaudited Reverse Reconciliation of Selected Financial Information and Summary of Differences between Indian GAAP and US GAAP*".

CERTAIN DEFINITIONS

Capitalized terms, which are used but not defined in any particular section of this Offering Memorandum will have the meaning attributed to them in "*Terms and Conditions of the Additional Tier 1 Notes*" or any other section of this Offering Memorandum.

In this document, all references to "**we**", "**us**", "**our**", "**HDFC Bank**" or "**the Bank**" shall mean HDFC Bank Limited or where the context requires also to its subsidiaries whose financials are consolidated for accounting purposes. References to the "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. References to the "Companies Act" in the document mean the Indian Companies Act, 2013 and all rules and regulations issued thereunder.

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

All references in this document to "**U.S. dollars**," "**U.S.$**" and "**$**" refer to United States dollars and to "**Rupee**," "**INR**," "**Rupees**," "**₹**" and "**Rs.**" refer to Indian Rupees. In addition, references to "**Sterling**," "**GBP**" and "**£**" refer to pounds sterling and to "**euro**," "**EUR**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time.

References to "**lac**," "**lakhs**" and "**crores**" in the Bank's Financial Statements and Financial Results are to the following:

One lakh or lac	100,000 (one hundred thousand)
One crore	10,000,000 (ten million)
Ten crores	100,000,000 (one hundred million)
One hundred crores	1,000,000,000 (one thousand million or one billion)

Certain figures and percentages included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Although we have translated selected Indian rupee amounts in this document into United States dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to United States dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to United States dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at U.S.$1.00 = Rs. 73.14 on March 31, 2021. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 16, 2021 was Rs. 74.61 per U.S.$1.00.

INDUSTRY AND MARKET DATA

Certain industry and market share data in this Offering Memorandum are derived from data of the Reserve Bank of India (the "**RBI**") or the Director General of Commercial Intelligence and Statistics. Certain other information regarding market position, growth rates and other industry data pertaining to the Issuer's business contained in this Offering Memorandum consists of estimates based on data reports compiled by professional organizations and analysts, on data from other external sources and on the Issuer's knowledge of its markets. This data is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, so the Issuer relies on internally developed estimates. While the Issuer has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Issuer, the Joint Lead Managers, the Trustee nor the Agents has independently verified that data and neither the Issuer, the Joint Lead Managers, the Trustee nor the Agents makes any representation regarding the accuracy of such data. Similarly, while the Issuer believes its internal estimates to be reasonable, such estimates have not been verified by any independent sources and neither the Issuer, the Joint Lead Managers, the Trustee nor the Agents can assure potential investors as to their accuracy.

FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Offering Memorandum which contain words or phrases such as "will," "would," "should," "can," "could," "may," "aim," "will likely result," "is likely," "believe," "expect," "will continue," "will achieve," "anticipate," "estimate," "intend," "plan," "contemplate," "seek to," "trying to," "target," "propose to," "future," "objective," "goal," "project," "will pursue," "judgment" and similar expressions or variations of such expressions, that are "forward-looking statements." Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Bank's expectations with respect to, but not limited to, the actual growth in demand for banking and other financial products and services, its ability to successfully implement its strategy, including its use of the internet and other technology and its rural expansion, its ability to integrate recent or future mergers or acquisitions into its operations, its ability to manage the increased complexity of the risks the Bank faces following its rapid international growth, future levels of impaired loans, its growth and expansion in domestic and overseas markets, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal, tax or regulatory proceedings in India and in other jurisdictions the Bank is or will become a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of changes in banking regulations and other regulatory changes in India and other jurisdictions on the Bank, its ability to roll over its short-term funding sources and its exposure to credit, market and liquidity risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income and net income could differ materially from those that have been estimated.

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

AGREEMENTS AND ACKNOWLEDGMENTS OF INVESTORS, INCLUDING HOLDERS AND BENEFICIAL OWNERS

Each holder and beneficial owner acknowledges and agrees *inter alia* that upon the occurrence of a PONV Trigger Event or a CET1 Trigger Event, all or some of the rights of holders of the Additional Tier 1 Notes relating to them shall be subject to Write-Down and the right to receive interest on any portion of nominal amount Written-Down will cease and all interest amounts that were accrued, unpaid and payable prior to the Write-Down shall be cancelled. In addition, in respect of the Additional Tier 1 Notes, (1) interest is payable solely at the Bank's discretion, and no amount of interest shall become due and payable to the extent that it has been cancelled by the Bank at its sole discretion and (2) a cancellation of interest (in whole or in part) in accordance with the terms and conditions of such Additional Tier 1 Notes shall not constitute a default in payment or otherwise under the terms thereof. Any interest cancelled (in whole or in part) in the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation. See "*Risk Factors – Risks Relating to an Investment in the Additional Tier 1 Notes*".

PROHIBITION ON MARKETING AND SALES TO RETAIL INVESTORS

The Additional Tier 1 Notes discussed in this Offering Memorandum are complex financial instruments. They are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Additional Tier 1 Notes. Potential investors in the Additional Tier 1 Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Additional Tier 1 Notes (or any beneficial interests therein).

In the U.K., the Financial Conduct Authority ("**FCA**") Conduct of Business Sourcebook ("**COBS**") requires, in summary, that the Additional Tier 1 Notes should not be offered or sold to retail clients (as defined in COBS 3.4 and each a "**retail client**") in the U.K.

The Joint Lead Managers are required to comply with COBS.

By purchasing, or making or accepting an offer to purchase, any 1 Additional Tier 1 Notes (or a beneficial interest in such Additional Tier 1 Notes) from the Bank and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Bank and each of the Joint Lead Managers that:

1. it is not a retail client in the U.K.; and

2. it will not sell or offer the Additional Tier 1 Notes (or any beneficial interest therein) to retail clients in the U.K. or communicate (including the distribution of the Offering Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Additional Tier 1 Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK.

In selling or offering the Additional Tier 1 Notes or making or approving communications relating to the Additional Tier 1 Notes you may not rely on the limited exemptions set out in COBS.

The obligations above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the European Economic Area ("**EEA**") or the U.K.) relating to the promotion, offering, distribution and/or sale of the Additional Tier 1 Notes (or any beneficial interests therein), whether or not specifically mentioned in the Offering Memorandum, including (without limitation) any requirements under the Markets in Financial Instruments Directive 2014/65/EU (as amended) ("**MiFID II**") or the U.K. FCA Handbook as to determining the appropriateness and/or suitability of an investment in the Additional Tier 1 Notes (or any beneficial interests therein) for investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Additional Tier 1 Notes (or any beneficial interests therein) from the Bank and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

The offering of the Additional Tier I Notes will be made entirely outside India. This Offering Memorandum may not be distributed, directly or indirectly, in India or to residents of India and the Additional Tier 1 Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in India or to, or for the account or benefit of, any resident of India.

Each purchaser of the Additional Tier I Notes will be deemed to represent that it is neither located in India nor a resident of India and that it is not purchasing for, or for the account or benefit of, any such person, and understands that the Additional Tier I Notes may not be offered, sold, pledged or otherwise transferred to any person located in India, to any resident of India or to, or for the account of, such persons, unless determined otherwise in compliance with applicable law.

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SUMMARY

Overview

We are a new generation private sector bank in India. Our goal is to be the preferred provider of financial services to our customers in India across metro, urban, semi-urban and rural markets. Our strategy is to provide a comprehensive range of financial products and services to our customers through multiple distribution channels, with what we believe are high-quality services, advanced technology platforms and superior execution.

We have three principal business activities: retail banking, wholesale banking and treasury operations. Our retail banking products include deposit products, loans including loans to small and medium enterprises, credit cards, debit cards, third-party mutual funds and insurance products, bill payment services, and other products and services. With respect to wholesale banking, we offer customers a range of financing products, such as documentary credits and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. We offer a range of deposit and transaction banking services, such as cash management, custodial and clearing bank services and correspondent banking. Our treasury operations manage our balance sheet, and include customer-driven services such as advisory services related to foreign exchange and derivative transactions for corporate and institutional customers, supplemented by proprietary trading, including Indian Government securities. Further, our non-banking finance company ("**NBFC**") subsidiary HDB Financial Services Limited ("**HDBFSL**") offers a wide range of loans and asset finance products including mortgage loans, commercial vehicle loans, consumer loans and gold loans, as well as a range of business process outsourcing solutions. We provide our customers with brokerage accounts through our subsidiary HDFC Securities Limited ("**HSL**"), which we believe is one of the leading stock brokerage companies in India and which offers a suite of products and services across various asset classes such as equity, gold and debt, among others.

As a result of trade tensions and geopolitical risks, global growth slowed to 2.8 percent in 2019 from 3.6 percent in 2018, according to IMF estimates. In 2020, growth declined by a further 3.3 percent, driven by the COVID-19 pandemic and related lockdowns and movement restrictions across the globe which caused GDP to contract in major economies. Going forward, we expect the global economic recovery to be driven by emerging markets and the United States. The IMF projects global GDP growth at 6 percent in 2021, with China and the United States growing at 8.4 percent and 6.4 percent, respectively.

The COVID-19 pandemic also adversely impacted India's economic growth. The Government imposed a strict lockdown between March 25, 2020 and May 31, 2020. While this helped to control the spread of the pandemic during the first wave, it adversely impacted all sectors of the economy, with the consumption and services sectors worst affected. India's GDP contracted by 24.4 percent in the first quarter of fiscal 2021 as a result of stay at home orders, restrictions on production and significantly decreased sales of non-essential items. In addition, India experienced an increase in unemployment, with the unemployment rate increasing to 11.90 percent as of May 2021 compared to 7.2 percent in January 2020 according to the Center for Monitoring Indian Economy. In response to the pandemic and its economic impact, the Government and the RBI announced several measures during fiscal 2021. These included easing the policy rate, imposing a temporary moratorium on debt repayments and halting dividend payments by banks, among other things. Together with the easing of restrictions and improved hiring, economic activity started to improve again from the second quarter of fiscal 2021. GDP rebounded with 0.5 percent year on year growth in the third quarter of fiscal 2021 as compared to a contraction of 7.4 percent in the second quarter of fiscal 2021 and 24.4 percent in the first quarter of fiscal 2021. In the third quarter, from a supply-side perspective, GDP growth was primarily driven by agriculture (4.5 percent), manufacturing (1.7 percent) and construction and utilities (6.5 percent). From a demand-side perspective, the primary driver was investment, which recorded year on year growth of 2.6 percent in the third quarter, as compared to a contraction of 46.6 percent in the first quarter and a contraction of 8.6 percent in the second quarter of fiscal 2021. The fourth quarter of the fiscal 2021 reaffirmed that the economy was recovering as growth momentum picked up pace. India's GDP grew by 1.6 percent in the fourth quarter, compared to 0.5 percent in the previous quarter due to improvements across all sectors of the economy. For the full year, India's GDP declined by 7.3 percent in fiscal 2021 compared to growth of 4.0 percent in the prior year.

More recently, the "second wave" of COVID-19 and related containment measures have adversely affected the pace of recovery for the Indian economy during April 2021 and May 2021. The majority of economic high-frequency indicators (i.e., economic indicators that are available more frequently than traditional economic data) decreased in April 2021 after having demonstrated solid growth during March 2021. However, given lockdowns and other restrictive measures were only being imposed at a local level, instead of nationally, the impact of the "second wave" on the economy is expected to be less severe than the "first wave". Furthermore, the increasing availability of COVID-19 vaccinations in fiscal 2022 is expected to have a significantly positive impact on economic activity.

We expect the Indian economy to return to its path to recovery beginning in the second quarter of fiscal 2022. We estimate that GDP growth will be 9.1 percent in fiscal 2022.

The economic disruptions caused by COVID-19 also had a bearing on inflation. The headline consumer price index ("**CPI**") tracked above the RBI's upper tolerance of 6.0 percent between April and November 2020. The sharp jump in headline CPI was the result of supply bottlenecks that kept food inflation elevated for most of fiscal 2021. Headline CPI averaged 6.7 percent in the first half of fiscal 2021, before decreasing to 5.6 percent in the second half of fiscal 2021. For the full year, headline CPI increased to 6.2 percent in fiscal 2021, compared to 4.8 percent in fiscal 2020. More recently, headline CPI stood at 6.3 percent in June 2021, remaining above the RBI's threshold for the second consecutive month. Going forward, higher crude oil prices and input prices, along with a rebound in demand are likely to keep inflation at elevated levels for the remainder of fiscal 2022. We expect inflation to average 6.0 percent in fiscal 2022.

In response to the adverse impact of the COVID-19 pandemic and related disruptions, the Government significantly increased spending and revised upwards its fiscal deficit target for fiscal 2021. The revised target was 9.5 percent of GDP compared to the previously budgeted estimate of 3.5 percent. According to the provisional data of the Controller of General Accounts of India, the fiscal deficit in fiscal 2021 was 9.3 percent, compared to 4.6 percent in fiscal 2020. For fiscal 2022, the Government is targeting a fiscal deficit of 6.8 percent and plans to improve the quality of its spending. We expect the fiscal deficit to rise to 7.3 percent of GDP for fiscal 2022, reflecting the cost of the measures announced in June 2021 (including, among other things, free food grains, and an additional fertilizer subsidy), which aim to mitigate the impact of the second wave of COVID-19.

Since commencing operations in January 1995 we have grown rapidly. As of March 31, 2021, we had 5,608 branches and 16,087 ATMs/Cash Deposit and Withdrawal Machines ("**CDMs**") in 2,902 cities and towns and 61.9 million customers. In addition, we had 15,756 business correspondents, which are primarily manned by common service centers ("**CSCs**"). On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 15,961.9 billion as of March 31, 2020 to Rs. 17,979.8 billion as of March 31, 2021. Our net income has increased from Rs. 260.3 billion for fiscal 2020 to Rs. 326.0 billion for fiscal 2021. Our loans and deposits as of March 31, 2021 were at Rs. 11,700.2 billion and Rs. 13,337.2 billion respectively. Across business cycles, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2021, gross non-performing customer assets as a percentage of gross customer assets was 1.70 percent. Our net customer assets represented 91.8 percent of our deposits and our deposits represented 74.2 percent of our total liabilities and shareholders' equity. The average non-interest-bearing current accounts and low-interest-bearing savings accounts represented 40.0 percent of average total deposits for the year ended March 31, 2021. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) of 3.6 percent for fiscal 2021. We had a return on equity (net income as a percentage of average total shareholders' equity) of 15.1 percent for fiscal 2020 and 16.1 percent for fiscal 2021. As at March 31, 2021 we had a total capital adequacy ratio (calculated pursuant to RBI guidelines) of 18.79 percent. Our Common Equity Tier I ("**CET-I**") ratio was 16.85 percent as at March 31, 2021.

About Our Bank

The Bank was incorporated in August 1994 and commenced operations as a scheduled commercial bank in January 1995. In 2000, we merged with Times Bank Limited and, in 2008, we acquired Centurion Bank of Punjab Limited ("**CBoP**"). We are part of the HDFC Group of companies established by our principal shareholder, Housing Development Finance Corporation Limited ("**HDFC Limited**"), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and general insurance. HDFC Limited and its subsidiaries (together, "**HDFC Group**") owned 21.1 percent of our outstanding equity shares as of March 31, 2021 and our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. See also "Principal Shareholders". We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or that restrict HDFC Limited or any of its group companies from competing with our business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

We have two subsidiaries: HDBFSL and HSL. HDBFSL is a non-deposit-taking NBFC engaged primarily in the business of retail asset financing while HSL is primarily in the business of providing brokerage and other investment services. Effective April 1, 2018 the financial results of our subsidiary companies have been prepared in accordance with notified Indian Accounting Standards (April 1, 2017 being the transition date). HDBFSL's total assets and shareholders' equity as of March 31, 2021 were Rs.

626.4 billion and Rs. 84.5 billion, respectively. HDBFSL's net income was Rs. 3.9 billion for fiscal 2021. As of March 31, 2021, HDBFSL had 1,319 branches across 959 cities in India. HSL's total assets and shareholders' equity as of March 31, 2021 were Rs. 47.6 billion and Rs. 14.8 billion, respectively. HSL's net income was Rs. 7.0 billion for fiscal 2021. On December 1, 2016, Atlas Documentary Facilitators Company Private Ltd. which provided back office transaction processing services to us, and its subsidiary HBL Global Private Ltd. which provided direct sales support for certain products of the Bank, amalgamated with HDBFSL.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000.Our agent in the United States for the 2001, 2005, 2007, 2015 and 2018 ADS offerings is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022.

Our Competitive Strengths

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

- we have a strong brand and extensive reach through a large distribution network;
- we provide a wide range of products and high-quality service to our clients in order to meet their banking needs;
- we have achieved robust and consistent financial performance while maintaining a healthy asset quality during our growth;
- we have an advanced technology platform; and
- we have an experienced management team.

THE OFFERING

The following is a brief summary of the terms of the Offering and is qualified in its entirety by the remainder of this Offering Memorandum. This summary is derived from, and should be read in conjunction with, the full text of the "Terms and Conditions of the Additional Tier 1 Notes." Terms used in this summary and not otherwise defined shall have the meanings given to them in the "Terms and Conditions of the Additional Tier 1 Notes."

Issuer .... HDFC Bank Limited, acting through its registered office in India.

Issue .... U.S.$1,000,000,000 Additional Tier 1 Notes (the "**Additional Tier 1 Notes**"). The Additional Tier 1 Notes will be issued in registered form, in specified denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Additional Tier 1 Notes have not been registered with the SEC and are being offered and sold outside the United States in reliance on Regulation S and inside the United States to QIBs in reliance on Rule 144A.

Issue Price .... 3.70% of the principal amount of the Additional Tier 1 Notes.

Issue Date .... August 25, 2021

Maturity Date .... The Additional Tier 1 Notes are perpetual and have no scheduled maturity date. The Issuer will have the right to redeem the Additional Tier 1 Notes as described in Condition 4.

Status and Subordination .... The Additional Tier 1 Notes are direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without preference among themselves.

In a winding up, liquidation or dissolution of the Issuer (as determined pursuant to the Companies Act and the BR Act), the claims of the holders of Additional Tier 1 Notes pursuant thereto in respect of the Additional Tier 1 Notes will rank:

(i) senior to the claims of investors in equity shares and perpetual non-cumulative preference shares of the Issuer, whether currently outstanding or issued at any time in the future;

(ii) subordinate to the claims of depositors, general creditors and holders of subordinated debt of the Issuer other than any subordinated debt qualifying as Additional Tier 1 Capital (as defined under the RBI Basel III Guidelines) of the Issuer; and

(iii) *pari passu* and without preference among themselves and other subordinated debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines whether currently outstanding or issued at any time in the future.

The principal of, and interest and any additional amounts payable on, the Additional Tier 1 Notes will be subordinated in right of payment upon the occurrence of any winding up, liquidation or dissolution proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer (including liabilities of all offices and branches of the Issuer wherever located and any subordinated debt securities of the Issuer that rank senior to the Additional Tier 1 Notes), except in each case to those liabilities which by their terms rank, or are expressed to rank, equally in right of payment with or which are subordinated to the Additional Tier 1 Notes, in the manner and to the extent provided in the Trust Deed.

No Noteholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Additional Tier 1 Notes and each Noteholder shall by virtue of its subscription, purchase or holding of any Note, be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

For the avoidance of doubt, if the Issuer goes into winding up, liquidation or dissolution (as determined pursuant to the Companies Act and the BR Act) before any Write-Down under the Conditions, the Additional Tier 1 Notes will absorb losses in accordance with the Conditions.

Interest.. The Additional Tier 1 Notes bear interest on their outstanding principal amount from and including August 25, 2021 (the "**Issue Date**"). The rate of interest (the "**Interest Rate**") applicable to the Additional Tier 1 Notes shall be:

(i) in respect of the period from and including, the Issue Date, to but excluding, February 25, 2027 (the "**First Reset Date**"), 3.70 percent per annum (the "**Initial Interest Rate**"); and

(ii) in respect of the period from and including, the First Reset Date and each Reset Date falling thereafter, to but excluding, the immediately following Reset Date, the relevant Reset Interest Rate, which shall equal the sum of the 5 year US Treasury Rate in relation to that Reset Period plus 2.925 percent per annum.

Interest on the Additional Tier 1 Notes will be payable semi-annually in arrear in equal instalments on February 25 and August 25 in each year, commencing on February 25, 2022. See "*Terms and Conditions of the Additional Tier 1 Notes – Interest*."

Cancellation of Interest .... The Issuer may, at its full discretion and as it deems fit, in accordance with the RBI Basel III Guidelines, elect at any time to cancel (in whole or in part) interest otherwise scheduled to be paid on an Interest Payment Date. Further, the Issuer will cancel (in whole or in part) the payment of any interest otherwise scheduled to be paid on an Interest Payment Date to the extent that such payment of interest on the Additional Tier 1 Notes is not permitted to be paid under the RBI Basel III Guidelines.

In the event that the Issuer determines that it shall not, or is not permitted to, make a payment of interest on Additional Tier 1 Notes in accordance with Condition 3, the Issuer shall notify or procure notification as soon as possible and at least five Business Days prior to, but not more than 60 calendar days prior to the relevant Interest Payment Date, to the Trustee and the Paying Agents (in a certificate signed by two directors of the Issuer), the relevant stock exchange(s) (if any) on which the Additional Tier 1 Notes are for the time being listed and the holders of the Additional Tier 1 Notes (in accordance with Condition 16) of that fact and of the amount that shall not be paid provided that failure to give such notice shall not affect the cancellation of any interest payment (in whole or in part) and shall not constitute a default.

See "*Terms and Conditions of the Additional Tier 1 Notes – Interest – Payment Limitation*".

Non-Cumulative Interest.............. Interest on the Additional Tier 1 Notes will be non-cumulative. If interest is not paid in whole or in part on an Interest Payment Date pursuant to and in accordance with Condition 3, or is cancelled pursuant to Condition 5, such interest will not be due and payable and the right of Noteholders to receive interest in respect of the Interest Period ending on such Interest Payment Date will be lost and the Issuer will have no further obligation in respect of the interest for such Interest Period, whether or not any amount of interest is paid for any future Interest Period.

Dividend Stopper........................... If for any reason any payment of interest is not paid in full on an Interest Payment Date then, from the date of which such cancellation has first been notified to any of the Trustee, the Principal Paying Agent or the Noteholders (a "**Dividend Stopper Date**"), the Issuer will not, so long as any of the Additional Tier 1 Notes are outstanding:

(i) declare or pay any discretionary distribution or dividend or make any other payment on, or directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire its Common Equity Tier 1 Capital (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) pay discretionary interest or any other distribution on, or directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire, any of its instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, *pari passu* with, or junior to, the Additional Tier 1 Notes (excluding securities the terms of which stipulate a mandatory redemption),

in each case unless or until the next Interest Payment Date following the Dividend Stopper Date on which an interest amount has been paid in full (or an equivalent amount has been separately set aside for payment to the Noteholders), or the prior approval of the Noteholders has been obtained via an Extraordinary Resolution.

See "*Terms and Conditions of the Additional Tier 1 Notes – Interest – Dividend Stopper*".

Write-down on PONV Trigger Event .... If a PONV Trigger Event occurs, the Issuer will, without the need for the consent of Noteholders or the Trustee:

(i) deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent within three Business Days of the occurrence of such PONV Trigger Event;

(ii) cancel any interest which is accrued and unpaid up to the relevant Loss Absorption Effective Date; and

(iii) *pari passu* and *pro rata* with any other Tier 1 Loss Absorbing Instruments (where possible), and taking into account the prior loss absorption in full of Tier 1 Loss Absorbing Instruments (where possible) reduce the Outstanding Nominal Amount of each Note by the relevant Write-Down Amount (such reduction being referred to as a "**Write-Down**" and "**Written Down**" being construed accordingly),

subject as is otherwise required by the RBI at the relevant time. The Issuer will effect a Write-Down within 30 days of the Write-Down Amount being determined by the RBI. "**PONV Trigger Event**" in respect of the Issuer, means the earlier of:

(A) a decision that a write-down, without which the Issuer would become non-viable, is necessary, as determined by the RBI; and

(B) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined by the RBI.

See "*Terms and Conditions of the Additional Tier 1 Notes – Loss Absorption – Principal write-down on PONV Trigger Event*".

Write-down on CET1 Trigger Event	If a CET1 Trigger Event occurs, the Issuer will, without the need for any consent from the Noteholders or the Trustee: (i) deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent within three Business Days of the occurrence of such CET1 Trigger Event; (ii) cancel any interest which is accrued and unpaid on the Additional Tier 1 Notes up to the relevant Loss Absorption Effective Date; and (iii) *pari passu* and *pro rata* with any other Tier 1 Loss Absorbing Instruments (where possible) Write-Down the Outstanding Nominal Amount of each Note by the relevant Write-Down Amount. "**CET1 Trigger Event**" means that the Issuer's Common Equity Tier 1 Ratio (as defined in the Conditions) is at or below the CET1 Trigger Event Threshold; "**CET1 Trigger Event Threshold**" means: (A) if calculated at any time prior to 1 October 2021, 5.5%; or (B) if calculated at any time from and including 1 October 2021 (on account of deferred implementation of the last tranche of the capital conservation buffer), 6.125%. See "*Terms and Conditions of the Additional Tier 1 Notes – Loss Absorption – Principal write-down on CET1 Trigger Event*".
Redemption or Variation for Tax Reasons.......................................	The Issuer may redeem the Additional Tier 1 Notes in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption, if the Issuer satisfies the Trustee immediately before the giving of such notice that: (i) on the occasion of the next payment due under the Additional Tier 1 Notes, the Issuer has or will become obliged to pay additional amounts or will, having been entitled to claim a deduction, no longer be entitled to claim a deduction in respect of computing its taxation liabilities with respect to interest on the Additional Tier 1 Notes, in each case as a result of any change in, or amendment to, the laws, regulations or rulings of India or any political subdivision or any authority thereof or therein having power to tax, or any change in the official application of such laws, regulations or rulings or the official interpretation of existing or new provisions contained in such laws, regulations or rulings, which change or amendment becomes effective on or after August 18, 2021; and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (together with clause (i), a "**Tax Event**"), provided that (I) the Conditions for Redemption set out in Condition 4(e) have been satisfied and (II) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Additional Tier 1 Notes then due.

The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Tax Event, to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Notes. See "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption or Variation for tax reasons*".

Redemption at the Option of the Issuer..

The Issuer may, at its sole discretion but subject always to the Conditions for Redemption set out in Condition 4(e) having been satisfied, redeem the Additional Tier 1 Notes (in whole but not in part) at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption at any time from August 25, 2026 to (but excluding) the First Reset Date or at any Interest Payment Date thereafter, other than any Reset Date, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 which notices shall specify the date fixed for redemption and be irrevocable. For avoidance of doubt, any call date with regard to an exercise of a redemption by the Issuer pursuant to the provisions above shall not be a date which is co-terminus with a Reset Date.

Any redemption of the Additional Tier 1 Notes is subject to compliance with applicable regulatory requirements, including the prior approval of the RBI. The RBI, while considering the request of the Issuer to so redeem any Additional Tier 1 Notes, may take into consideration, amongst other things, the Issuer's capital adequacy position both at the time of the proposed redemption and thereafter. See "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption at the option of the Issuer*."

Redemption or Variation for Regulatory Reasons..................

Subject to the Conditions for Redemption set out in Condition 4(e) having been satisfied, the Issuer may at its sole discretion, redeem the Additional Tier 1 Notes in whole, but not in part, at any time in accordance with the RBI Basel III Guidelines, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption, if a Regulatory Event has occurred and is continuing.

The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Regulatory Event, to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Notes.

A "**Regulatory Event**" occurs if, as a result of change in regulation, the Issuer is notified in writing by the RBI to the effect that the Outstanding Nominal Amount (or the amount that qualifies as regulatory capital, if some amount of the Additional Tier 1 Notes is held by the Issuer or whose purchase is funded by the Issuer) of the Additional Tier 1 Notes is fully or partly excluded from the Tier 1 Capital of the Issuer.

See "*Terms and Conditions of the Additional Tier 1 Notes – Call, Redemption and Purchase – Redemption or Variation for Regulatory Reasons*".

Conditions for Redemption.......... The Issuer shall not redeem or vary any Additional Tier 1 Notes unless:

(i) the Issuer has obtained the prior approval of the RBI (Department of Banking Regulation) prior to the redemption of the Additional Tier 1 Notes;

(ii) in the case of a Tax Event or a Regulatory Event, the change of law or regulation giving rise to the right to redeem or vary the Additional Tier 1 Notes has occurred after the Issue Date and the RBI is convinced that the Issuer was not in a position to anticipate the Tax Event or the Regulatory Event at the time of issuance of the Additional Tier 1 Notes;

(iii) either (a) the Issuer replaces the Additional Tier 1 Notes with capital of the same or better quality and the replacement is done on conditions which are sustainable for the income capacity of the Issuer or (b) the Issuer demonstrates to the satisfaction of the RBI that its capital position would, following such redemption, be well above its minimum capital requirements after the call option is exercised,

(collectively, the "**Conditions for Redemption**").

Rights of Enforcement .... If any order of the Government is made for the winding up, liquidation or dissolution of the Issuer (as determined pursuant to the Companies Act and the BR Act), save for the purposes of reorganization on terms previously approved by an Extraordinary Resolution of the Noteholders, the Trustee may, and if so requested in writing by the holders of at least one-fifth in Outstanding Nominal Amount of the Additional Tier 1 Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject to being indemnified, secured and/or prefunded to its satisfaction) give notice to the Issuer that the Additional Tier 1 Notes are, and they shall, subject to the prior approval of the RBI having been obtained, thereupon immediately become, due or repayable at their Outstanding Nominal Amount, together with accrued but unpaid interest as provided in the Trust Deed.

Pursuant to Section 37 and Section 38 of the BR Act, the Issuer may only be placed in liquidation by order of the High Court if the Issuer is unable to pay its debts, or an application is made by the RBI for the Issuer's winding up in this regard.

Global Certificates .... Additional Tier 1 Notes which are offered and sold outside the United States in reliance on Regulation S will be represented by interests in a global registered note certificate (the "**Regulation S Global Note Certificate**"), deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream on or about the Issue Date.

Additional Tier 1 Notes which are offered and sold in the United States in reliance on Rule 144A will be represented by interests in a global registered note certificate (the "**Rule 144A Global Note Certificate**" and, together with the Regulation S Global Note Certificate, the "**Global Note Certificates**"), deposited with a custodian for and registered in the name of a nominee of DTC on or about the Issue Date.

	The security numbers for the Additional Tier 1 Notes are: For the Additional Tier 1 Notes sold under Regulation S: ISIN: USY3119PFH74 CUSIP: Y3119P FH7 For the Additional Tier 1 Notes sold under Rule 144A: ISIN: US40415FAA93 CUSIP: 40415F AA9 Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including depositaries for Euroclear and Clearstream. The sole holder of the Additional Tier 1 Notes represented by the Global Note Certificates will at all times be DTC or its nominee (or a successor of DTC or its nominee), and voting and other consensual rights of holders of the Additional Tier 1 Notes will be exercisable by beneficial owners of the Additional Tier 1 Notes only indirectly through the rules and procedures of the depositaries from time to time in effect. Beneficial interests in the Global Note Certificates may not be exchanged for Additional Tier 1 Notes in definitive form except in the limited circumstances described under "*Summary of Provisions Relating to the Additional Tier 1 Notes while in Global Form*."
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Additional Tier 1 Notes in, among others, Hong Kong, Singapore, the United Kingdom, the European Economic Area, India and the United States. For a description of the selling restrictions on offers, sales and deliveries of the Additional Tier 1 Notes, see "*Subscription and Sale*."
Listing and Trading of the Additional Tier 1 Notes.............	Application will be made to the GSM of the India INX for the Additional Tier 1 Notes to be admitted for trading on the India INX. The listing of the Additional Tier 1 Notes is in compliance with the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 as amended from time to time.
Rating	The Additional Tier 1 Notes are expected to be rated "Ba3" by Moody's Investors Service Limited.
Trustee	Citicorp International Limited
Principal Paying and Transfer Agent	Citibank, N.A., London Branch.
Registrar	Citicorp International Limited
Governing Law.............................	The Additional Tier 1 Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
Use of Proceeds	The gross proceeds from the sale of the Additional Tier 1 Notes is U.S.$1,000,000,000. Subject to compliance with applicable laws and regulations, we intend to use the proceeds after the deduction of fees to strengthen our capital structure and ensure adequate capital to support growth and expansion, including enhancing our solvency and capital adequacy ratio.
Legal Entity Identifier.................	335800ZQ6I4E2JXENC50

RISK FACTORS

Prospective investors should carefully consider the risks described below, together with the risks described in the other sections of this Offering Memorandum, including the financial statements included in this Offering Memorandum, before making any investment decision relating to the Additional Tier 1 Notes. The occurrence of any of the following events could have a material adverse effect on our business, including our ability to grow our asset portfolio, the quality of our assets, our liquidity, our financial performance, our stockholders' equity, our ability to implement our strategy and our ability to repay the interest or principal on the Additional Tier 1 Notes in a timely fashion or at all. The risks described below are not the only ones that may affect the Additional Tier 1 Notes. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations.

Risks Relating to the Bank's Business

Economic and Political Risks

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

Our performance and the quality and growth of our assets are dependent on the health of the overall Indian economy. In addition to inflation, interest rates, external trade, capital flows, the COVID-19 pandemic, and in particular its domestic impact, has been an important driver for India's growth trajectory in fiscal 2021. While we experienced solid growth in the first half of fiscal 2021, the increasing impact from the pandemic on India also adversely affected the quality of our loan portfolio. Our gross non-performing loans as a percentage of our total loan portfolio increased from 1.5 percent in fiscal 2020 to 1.8 percent in fiscal 2021. While a successful vaccination drive could improve growth prospects, only a very small proportion of Indian adults are currently vaccinated. An increase in the number of COVID-19 cases and any future wave may slow or halt any future economic recovery.

In 2020, global GDP contracted by 3.3 percent, but in 2021, the IMF expects global GDP to increase again, growing by 6.0 percent, particularly driven by the economic recovery in the U.S. and China. In 2020, global GDP contracted by 3.3 percent A global economic recovery could result in an export-led improvement in Indian growth prospects. However, in addition to the development of the pandemic in India, a worsening of the COVID-19 pandemic in Asia could limit growth by adversely affecting investor sentiment and hindering trade across Asia. Despite the decreased growth prospectus, investor sentiment has remained relatively strong. India recorded gross FDI inflows of U.S.$81.72 billion in fiscal 2021 compared to inflows of U.S.$74.4 billion in fiscal 2020, while portfolio investors remained net purchases of both debt and equity during the second half of fiscal 2021. We believe that as a result of the surplus liquidity and accommodative monetary policy stance across global market, foreign portfolio flows in India are likely to remain strong, as investors are likely to seek higher yields in times of surplus global liquidity.

We believe that overall bank credit growth is likely to increase in fiscal 2022 from 5.9 percent in fiscal 2021 and 9.5 percent in fiscal 2020. However, increased systemic risk, slower economic growth and weak employment opportunities may result in credit growth not recovering to pre-pandemic levels. These factors could be exacerbated by any future waves of the pandemic. In particular, retail lending for large purchases could slow markedly as households seek to conserve cash during an economically unstable period.

Corporate borrowing could also slow as many large corporates over-borrowed in fiscal 2021 reducing the need for further borrowing in the short-term. The impact of COVID-19 is likely to be prolonged in certain sectors in the Indian economy, including hospitality and civil aviation, which could adversely affect the Bank's operations in those areas. Any extended slowdown in the economy may adversely impact credit growth and the level of non-performing and restructured loans. If the Indian economy growth prospects deteriorate, our asset base may erode, which would result in a material decrease in our net profits and total assets which could materially adversely affect our business, results of operations and financial position. See also "*The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

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

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2021, net interest revenue after allowances for credit losses represented 67.7 percent of our net revenue. Changes in market interest rates affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. An increase in interest rates could result in an increase in interest expense relative to interest revenue if we are not able to increase the rates charged on our loans, which would lead to a reduction in our net interest revenue and net interest margin. Further, an increase in interest rates could negatively affect demand for our loans and credit substitutes and we may not be able to achieve our volume growth, which could adversely affect our net income. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to the repricing of our loans at a pace faster than the rates we pay on our interest-bearing liabilities. The quantum of the changes in interest rates for our assets and liabilities may also be different.

The combination of global disinflationary pressures, better supply management of food items, including prudent food stock management, appropriate monetary policy action, fiscal consolidation and subdued global commodity prices have helped to keep domestic inflation in check in recent years, thereby causing consumer price index inflation to decrease to 3.89 percent in March 2017. Furthermore, headline inflation remained within the RBI's target zone during March 2018 and 2019. However, headline inflation rose to 5.8 percent in March 2020 and increased further to above the RBI's upper tolerance limit of 6 percent between April and November 2020. In June 2021, headline inflation stood at 6.3 percent Food, fuel and "core inflation" (i.e., CPI excluding food and fuel) continued to increase. In June 2021, Food inflation increased by 5.6 percent, fuel inflation increased by 12.7 percent in June 2021 and core inflation increased by 6.2 percent. Going forward, headline inflation is expected to increase and average at 6.0 percent in the fiscal year 2022.

The softening in inflation led the RBI to cut the policy repo rate by 75 basis points in fiscal 2016, by another 50 basis points in fiscal 2017 and by 25 basis points in fiscal 2018. While the repo rate was raised by 50 basis points during the first half of fiscal 2019, the policy rate was again reduced by 25 basis points in the fourth quarter, as inflation started easing. In fiscal 2020, the RBI continued to reduce the policy rate in the first half of the fiscal year. However, as headline inflation started picking up, the central bank paused the easing cycle after decreasing the repo rate by 25 basis points in October 2019.

In March 2020 the RBI again reduced the repo rate by 75 basis points to address pandemic-related disruptions. In May 2020, to address the COVID-19-related economic disruption, the RBI implemented an emergency rate cut of 40 basis points and have held the rate steady since then. The repo rate stood at 4.0 percent as of March 31, 2021. See also "The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation".

To make the liquidity situation more comfortable, the RBI conducted net open market operations ("**OMOs**") with purchases of Rs. 1.1 trillion in fiscal 2017 and sales of Rs. 0.9 trillion in fiscal 2018. In fiscal 2019, the RBI again conducted net OMO of Rs. 3.0 trillion. In addition to open market operations, the RBI injected liquidity using new instruments, such as FX swap operations, long-term repo auctions ("**LTROs**") and targeted long-term repo auctions ("**TLROs**") in fiscal 2020. In fiscal 2021, the RBI conducted net OMO of Rs. 3.1 trillion, special OMO (simultaneous sale and purchase of government securities) of INR 1.9 trillion and targeted long-term repo operation of Rs. 05.5 billion. Furthermore, the RBI actively managed yields by conducting special OMOs and buying government securities in the secondary market in fiscal 2021, as well as providing special credit lines for sectors hit by the pandemic.

Domestically, if the fiscal deficit both federally and for states rises sharply, bond yields are likely to remain volatile and see some upward pressure. However, with RBI's active yield management strategy uptrend in yields is likely to be capped. Any volatility in interest rates could adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance.

On July 27, 2017, the U.K. Financial Conduct Authority announced that it will no longer compel or persuade banks to contribute to LIBOR rate setting after 2021. On December 4, 2020, ICE Benchmark Administration Limited, which administers LIBOR, published a consultation on its intention to cease the publication of most LIBOR settings as of the end of December 2021, except for the publication until June 30, 2023 of certain U.S. dollar LIBOR settings. Therefore, after 2021 most LIBOR settings may cease to be calculated. It has become clear that various jurisdictions are working on a rate or rates as accepted alternatives to LIBOR. For example, in the United States the Alternative Reference Rates Committee, a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York has identified the Secured Overnight Financing Rate ("**SOFR**") as its preferred alternative rate for U.S. Dollar LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. These changes will have effect on the markets for LIBOR-based financial instruments. The nature of potential changes, alternative reference rates or other reforms may adversely affect market liquidity, the pricing of LIBOR-based instruments and the availability and cost of associated hedging instruments and borrowings. Payments under contracts referencing new reference rates may differ from those referencing LIBOR. The transition may change our risk profile and require changes to risk and pricing models, valuation tools, product design and hedging strategies. In addition, we face legal risks arising from potential changes required to documentation for new and existing transactions and operational risks arising from the potential requirement to adapt IT systems, reporting infrastructure and operational processes. Although we are unable to quantify the ultimate impact of the transition from LIBOR given the nature of the potential changes, we continue to monitor the developments related to the future of LIBOR in line with any regulatory or quasi-regulatory guidance. Moreover, the failure to manage any potential transition from LIBOR to a different reference rate, or rates, may adversely affect our reputation, business and financial condition, and results of operations. See "*Selected Statistical Information – Analysis of Changes in Interest Revenue and Interest Expense" and "Selected Statistical Information – Yields, Spreads and Margins*".

Financial and political instability in other countries may cause increased volatility in the Indian financial market.

The Indian market and the Indian economy are influenced by the economic and market conditions in other countries, particularly the emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has affected the Indian economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other markets may cause increased volatility in the Indian financial market and, more generally, in the Indian economy. Any financial instability or disruptions could also have a negative impact on the Indian economy and could harm the Bank's business, its future financial performance and the prices of the Additional Tier 1 Notes.

The global credit and equity markets have experienced substantial dislocations, liquidity disruptions and market corrections in the last few years, most recently due to the impact of the COVID-19 pandemic. In Europe, the impacts of the European sovereign debt crisis, the withdrawal of the U.K. from the European Union, Italian political and economic developments, protests in France, the refugee crisis and the increasing attractiveness to voters of populist and anti-austerity movements have all contributed to political and economic uncertainty. An escalation of political risks could have consequences both for the financial system and the greater economy as a whole, potentially leading to declines in business levels, write-downs of assets and losses across businesses in the U.K. and the European Union, which could lead to adverse consequences for global financial and foreign exchange markets.

The U.K. Government concluded a Trade Cooperation Agreement (the "**TCA**") with the European Union which came into effect on January 1, 2021. Given the ongoing uncertainty over the U.K.'s withdrawal from the European Union, it is difficult to determine the exact impact of the TCA over the long term. However, the U.K.'s economy and those of the Eurozone countries are very tightly linked as a result of EU integration projects (other than the Euro) and any trade disputes between the U.K. and the European Union may have an adverse impact on global financial markets. The currently unsettled future relationship between the EU and the U.K. is also likely to lead to further uncertainty in relation to the regulation of cross-border business activities.

In addition, recurrent or future waves of COVID-19 cases across the globe could adversely affect global financial markets leading to adverse follow-on consequences in India. See also "*– The COVID-19 pandemic may have a material adverse effect on our business, financial condition and results of operation*".

In response to these developments, including the COVID-19 pandemic, as well as past financial and liquidity crises in these markets, legislators and financial regulators in the United States, Europe and other jurisdictions, including India, have implemented several policy measures designed to add stability to the financial markets. However, the overall impact of these and other legislative and regulatory efforts on the global financial markets is uncertain, and they may not have the intended stabilizing effects. In the event that the current adverse conditions in the global credit markets continue or if there is any significant financial disruption, this could cause increased volatility in the Indian financial market and have an adverse effect on our business, future financial performance and the trading price of the Additional Tier 1 Notes.

Our and our customers' exposure to fluctuations in foreign currency exchange rates could adversely affect our operating results.

Foreign currency exchange rates depend on various factors and can be volatile and difficult to predict. We enter into derivative contracts with our borrowers to manage their foreign currency exchange risk exposure. Volatility in these exchange rates may lead to losses in derivative transactions for our borrowers. On maturity or on premature termination of the derivative contracts and under certain circumstances, we may have to bear these losses. The use of derivative financial instruments may also generate obligations for us to make additional cash payments, which would negatively affect our liquidity. Any losses suffered by our customers as a result of fluctuations in foreign currency exchange rates may have a materially adverse effect on our business, financial position or results of operations.

We may not adequately assess, monitor and manage risks inherent in our business, and any failure to manage risks could adversely affect our business, financial position or results of operations.

We are exposed to a variety of risks, including liquidity risk, interest rate risk, credit risk, operational risk (including fraud) and legal risk (including actions taken by our own employees). The effectiveness of our risk management is limited by the quality and timeliness of available data and other factors outside of our control.

For example, our hedging strategies and other risk management techniques may not be fully effective in mitigating risks in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some methods of managing risks are based upon observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be greater than the historical measures indicated. Other risk management methods depend upon an evaluation of information regarding markets, customers or other matters. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. As part of our ordinary decision-making process, we rely on various models for risk and data analysis. These models are based on historical data and supplemented with managerial input and comments. There are no assurances that these models and the data they analyze are accurate or adequate to guide our strategic and operational decisions and protect us from risks. Any deficiencies or inaccuracies in the models or the data might have a material adverse effect on our business, financial condition or results of operation.

Additionally, management of operational, legal or regulatory risk requires, among other things, policies and procedures to ensure certain prohibited actions are not taken and to properly record and verify a number of transactions and events. Although we believe we have established such policies and procedures, they may not be fully effective and we cannot guarantee that our employees will follow these policies and procedures in all circumstances. Unexpected shortcomings in these policies and procedures or a failure to follow them may have a materially adverse effect on our business, financial position or results of operations.

Our future success will depend, in part, on our ability to respond to new technological advances and emerging banking and finance industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. There can be no assurance that we will successfully implement new technologies or adapt its transaction-processing systems to customer requirements or emerging market standards. Failure to properly monitor, assess and manage risks, could lead to losses which may have an adverse effect on our future business, financial position or results of operations.

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

As of March 31, 2021, the RBI requires a minimum capital adequacy ratio of 11.075 percent (including requirements for the capital conservation buffer and due to our Bank's classification as a Domestic Systemically Important Bank (D-SIB)) of our total risk-weighted assets. We adopted the Basel III capital regulations effective April 1, 2013. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 18.79 percent as of March 31, 2021. Our CET-I ratio was 16.85 percent as of March 31, 2021. Our ability to support and grow our business would be limited by a declining capital adequacy ratio. While we anticipate accessing the capital markets to offset declines in our capital adequacy ratio, we may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions.

The Basel Committee on Banking Supervision issued a comprehensive reform package entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" in December 2010. In May 2012, the RBI released guidelines on implementation of the Basel III capital regulations in India and in July 2015, the RBI issued a master circular consolidating all relevant guidelines on Basel III, and time to time amendments. The key items covered under these guidelines include: (i) improving the quality, consistency and transparency of the capital base; (ii) enhancing risk coverage; (iii) grading the enhancement of the total capital requirement; (iv) introducing a capital conservation buffer and countercyclical buffer; and (v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier I capital will predominantly consist of common equity of the banks, which includes common shares, reserves and stock surplus. Innovative instruments and perpetual non-cumulative preference shares will not be considered a part of CET-I capital. Basel III also defines criteria for instruments to be included in Tier II capital to improve their loss absorbency. The guidelines also set out criteria for loss absorption through the conversion or write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-common equity Tier I and Tier II instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity. Additionally, the guidelines have set out criteria for loss absorption through the conversion or write-off of Additional Tier I capital instruments at a pre-specified trigger level. The RBI has deferred the implementation of the last tranche of the capital conservation to October 1, 2021. Consequently, for Additional Tier I instruments issued before October 1, 2021, i.e., before the full implementation of Basel III there would be two pre-specified triggers. A lower pre-specified trigger at CET-I of 5.5 percent of risk-weighted assets ("**RWAs**") will apply and remain effective before October 1, 2021; from this date the trigger will be raised at CET-I of 6.125 percent of RWAs for all such instruments. Additional Tier I instruments issued on or after October 1, 2021 will have only one pre-specified trigger at CET-I of 6.125 percent of RWAs. The capital requirement, including the capital conservation buffer and D-SIB requirements, will be 11.7 percent once these guidelines are fully phased in. D-SIBs are required to maintain additional CET-I capital requirement ranging from 0.2 percent to 1.0 percent of risk-weighted assets. We were classified as a D-SIB from April 1, 2018 onwards and were required to maintain additional CET-I of 0.2 percent with effect from April 1, 2019. See "*Supervision and Regulation – Domestic Systemically Important Banks*". Banks will also be required to have an additional capital requirement towards countercyclical capital buffer ("CCCB") varying between 0 percent and 2.5 percent of the risk-weighted assets as and when implementation is announced by the RBI. The RBI has not yet activated the CCCB and in its notification dated April 19, 2021, has stated that it is not necessary to activate CCCB at this point in time. Additionally, the Basel III LCR, which is a measure of the Bank's high-quality liquid assets compared to its anticipated cash outflows over a 30-day stressed period, began applying in a phased manner that started with a minimum requirement of 60 percent from January 1, 2015 and reached a minimum of 100 percent on January 1, 2019. However, in view of the COVID-19 pandemic, the RBI pursuant to its circular dated April 17, 2020 has reduced the LCR requirement from 100 percent to 80 percent for the period from April 17, 2020 to September 30, 2020. The RBI increased the reduced LCR requirement in two phases: (i) from 80 percent to 90 percent from October 1, 2020 to March 31, 2021 and (ii) from 90 percent to 100 percent from April 1, 2021. In 2020, banks were permitted to avail themselves of funds under the marginal standing facility by dipping into the Statutory Liquidity Ratio ("SLR") up to an additional 1.0 per cent of their net demand and time liabilities ("NDTL") (i.e., cumulatively up to 3.0 percent of their NDTL). This facility, which was initially available until June 30, 2020 was later extended in phases until March 31, 2021, enabling banks to meet their LCR requirements. In February 2021, the RBI announced that banks were permitted to continue with the MSF relaxation until September 30, 2021. See "The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation". These various requirements including requirements to increase capital to meet increasing capital adequacy ratios could require us to forego certain business opportunities. Since, we have been classified as a D-SIB, pursuant to a circular issued by the RBI dated June 2019, under Basel III, we are required to maintain a minimum leverage ratio of 4 percent as compared to 3.5 percent required to be maintained by other scheduled commercial banks, with effect from October 1, 2019.

We believe that the demand for Basel III-compliant debt instruments, such as Tier II capital eligible securities, may be limited in India. In the past, the RBI has reviewed and made amendments in its guidelines on Basel III capital regulations with a view to facilitating the issuance of non-equity regulatory capital instruments by banks under the Basel III framework. It is unclear what effect, if any, these amendments may have on the issuance of Basel III-compliant securities or if there will be sufficient demand for such securities. It is also possible that the RBI could further amend the eligibility criteria of such instruments in the future if the objectives identified by the RBI are not met, which would create additional uncertainty regarding the market for Basel III-compliant securities in India.

If we are unable to meet the new and revised requirements, including both requirements applicable to banks generally and requirements imposed on us as a D-SIB, our business, future financial performance and the price of the Additional Tier 1 Notes could be adversely affected.

We rely on third parties, including service providers, overseas correspondent banks and other Indian banks, who may not perform their obligations satisfactorily or in compliance with law.

Our business leads us to rely on different types of third parties, which exposes us to risks. For example, we enter into outsourcing arrangements with third-party vendors, in compliance with the RBI guidelines on outsourcing. These vendors provide services which include, among others, cash management services, software services, client sourcing, debt recovery services and call center services. However, we cannot guarantee that there will be no disruptions in the provision of such services or that these third-parties will adhere to their contractual obligations. Additionally, we also rely on our overseas correspondent banks to facilitate international transactions, and the Indian banking industry as a whole is interdependent in facilitating domestic transactions. There is no assurance that our overseas correspondent banks or our domestic banking partners will not fail or face financial problems (such as financial problems arising out of or in relation to frauds uncovered in early 2018 at one of India's public sector banks). If there is a disruption in the third-party services, or if the third-party service providers discontinue their service agreement with us, our business, financial condition and results of operations will be adversely affected. In case of any dispute with any of the foregoing parties, we cannot assure you that the terms of our arrangements with such parties will not be breached, which may result in costs such as litigation costs or the costs of entering into agreements with third parties in the same industry, and such costs may materially and adversely affect our business, financial condition and results of operations. We may also suffer from reputational and legal risks if one of these third-parties acts unethically or unlawfully, and if any Bank in India, especially a private bank, or any of our key overseas correspondent banks were to fail, this could materially and adversely affect our business, financial condition, growth prospects or the price of the Additional Tier 1 Notes.

Risks Relating to Our Business

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

We have grown consistently over the last years. Our loan growth rate has been significantly higher than that of the Indian banking industry. Our loans in the three-year period ended March 31, 2020 grew at a compounded annual growth rate of 21.1 percent The compounded annual growth for the Indian Banking Industry for the same period was approximately 8.3 percent The growth in our business is partly attributable to the expansion of our branch network. As at March 31, 2016, we had a branch network comprised of 4,520 branches, which increased to 5,608 branches as at March 31, 2021. Section 23 of the BR Act provides that banks must obtain the prior approval of the RBI to open new banking outlets. Further, the RBI may cancel a license for violations of the conditions under which it was granted. The RBI issues instructions and guidelines to banks on branch authorization from time to time. With the objective of liberalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks, including us, to open banking outlets in Tier 1 to Tier 6 centers, subject to a requirement to report to the RBI and certain other conditions. In May 2017, the RBI has further liberalized the branch authorization policy. See "*Supervision and Regulation – Regulations Relating to the Opening of Banking Outlets*". If we are unable to perform in a manner satisfactory to the RBI in any of these centers or comply with the specified conditions, it may have an impact on the number of banking outlets we will be able to open, which would, in turn, have an impact on our future growth. In addition, our rapid growth has placed, and if it continues, will place, significant demands on our operational, credit, financial and other internal risk controls including:

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

If our internal risk controls are insufficient to sustain our rapid rate of growth, if we fail to properly manage our rapid growth, or if we fail to perform adequately in any of the above areas, our operations would suffer and our business, results of operations and financial position would be materially adversely affected.

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

We are highly dependent on our management team, including the efforts of our Managing Director and Chief Executive Officer, and our Executive Director, as well as other members of our senior management. Our future performance is dependent on the continued service of these persons or similarly skilled and qualified successors Mr. Aditya Puri retired as the Managing Director of the Bank on October 26, 2020 upon reaching 70 years of age, in accordance with the tenure approved by the RBI. Mr. Sashidhar Jagdishan was appointed as the Managing Director and Chief Executive Officer of the Bank for a period of three years with effect from October 27, 2020 in accordance with the terms and conditions approved by the RBI in its communication dated August 3, 2020. In addition, we also face a continuing challenge to recruit and retain a sufficient number of skilled personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may restrict our ability to grow and consequently have a material adverse impact on our results of operations and financial position.

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

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. Short-term deposits are those with a maturity not exceeding one year. Medium-term deposits are those with a maturity of greater than one year but not exceeding three years. See "*Selected Statistical Information – Funding*". However, a portion of our assets have long-term maturities, which sometimes causes funding mismatches. As of March 31, 2021, 35.2 percent of our loans are expected to mature within the next one year and 42.9 percent of our loans are expected to mature between the next one to three years. As of March 31, 2021, 30.8 percent of our deposits are expected to mature within the next year and 39.9 percent of our deposits are expected to mature between the next one to three years. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position will be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which would result in a decline in our net income and have a material adverse effect on our financial condition. We may also face a concentration of deposits by our larger depositors. Any sudden or large withdrawals by such large depositors may impact our liquidity position.

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

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net revenue. Policy rates were successively increased from February 2010 to March 2012 during which period the bout of interest rate tightening in India was faster than in many other economies. The RBI raised key policy rates from 5.25 percent (repo rate) in April 2010 to 8.5 percent in October 2011. However, key policy rates were eased from 8.0 percent (repo rate) in April 2012 to 7.25 percent in May 2013. In July 2013, the RBI increased the rate for borrowings under its marginal standing facility (which was introduced by the RBI in fiscal 2012) from 100 basis points to 300 basis points above the repo rate. This rate was eased from 200 basis points above the repo rate in September 2013 to 100 basis points above repo rate in October 2013. In contrast, the policy rates were tightened from 7.5 percent (repo rate) in September 2013 to 8.0 percent in January 2014. The RBI reduced the policy repo rate again to 7.75 percent in January 2015, further reducing it to 7.5 percent in March 2015, 7.25 percent in June 2015, 6.75 percent in September 2015, 6.5 percent in April 2016, 6.25 percent in October 2016, and 6.0 percent in August 2017, before increasing it to 6.25 percent in June 2018 and 6.5 percent in August 2018. The RBI began decreasing the policy rate again in February 2019 and reduced the policy rate further in April 2019, June 2019, August 2019, October 2019 and February 2020. The RBI reduced the policy rate by 40 basis points in May 2020 to address COVID-19 related disruptions. The rate remains unchanged till date of the Offering Memorandum.

We are, however, more structurally exposed to interest rate risk than banks in many other countries because of certain mandated reserve requirements of the RBI. See "*Supervision and Regulation – Legal Reserve Requirements*". These requirements result in Indian banks, such as ourselves, maintaining (as per RBI guidelines currently in force) a portion of our liabilities in bonds issued by the Government (18.0 percent as of May 2021 computed as per guidelines issued by the RBI. We are also required to maintain 4 percent of our liabilities (computed as per guidelines issued by the RBI) by way of a balance with the RBI. This, in turn, means that we could be adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. A rise in yields on fixed income securities, including government securities, will likely adversely impact our profitability. The aforementioned requirements would also have a negative impact on our net interest income and net interest margins since interest earned on our investments in government issued securities is generally lower than that earned on our other interest earning assets.

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

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

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

As per RBI norms, a bank's capital market exposure is limited to 40 percent of its net worth under Indian GAAP as of March 31 of the previous year, both on a consolidated and non-consolidated basis. Our capital market exposure as of March 31, 2021 was 15.6 percent of our net worth on a non-consolidated basis and 17.4 percent on a consolidated basis, in each case, under Indian GAAP. See "*Supervision and Regulation – Large Exposures Framework*". If we fail to meet these regulatory limits in the future, we may face difficulties in obtaining other regulatory approvals necessary to conduct our normal course of business, which would have a material adverse effect on our business and operations.

Any failure or material weakness of our internal control system could cause significant errors, which may have a materially adverse effect on our reputation, business, financial position or results of operations.

We are responsible for establishing and maintaining adequate internal measures commensurate with our size and complexity of operations. Our internal or concurrent audit functions are equipped to make an independent and objective evaluation of the adequacy and effectiveness of internal controls on an ongoing basis to ensure that business units adhere to our policies, compliance requirements and internal circular guidelines. While we periodically test and update, as necessary, our internal control systems, we are exposed to operational risks arising from the potential inadequacy or failure of internal processes or systems, and our actions may not be sufficient to guarantee effective internal controls in all circumstances. Given our high volume of transactions, it is possible that errors may repeat or compound before they are discovered and rectified. Our systems and internal control procedures that are designed to monitor our operations and overall compliance may not identify every instance of non-compliance or every suspicious transaction. If internal control weaknesses are identified, our actions may not be sufficient to fully correct such internal control weakness. We face operational risks in our various businesses and there may be losses due to deal errors, settlement problems, pricing errors, inaccurate reporting, breaches of confidentiality, fraud and failure of mission critical systems or infrastructure. Any error tampering or manipulation could result in losses that may be difficult to detect. As a result, we may come under additional regulatory scrutiny or be the target of enforcement actions, or suffer monetary losses or adverse reputation effects which, in each case, could be material, and could have a material adverse effect on our business, financial position or results of operation.

For example, pursuant to the media reports during fiscal 2018, certain unpublished price sensitive information ("**UPSI**") relating to our financial results for the quarter ended December 31, 2015 and June 30, 2017 was leaked in a private "group" on the WhatsApp mobile app ahead of the official publication of such results. Following this leak, we received an order from SEBI on February 23, 2018 directing us to (i) strengthen our processes, systems, and controls relating to information security to prevent future leaks, (ii) submit a report on (a) the systems and controls, how they have been strengthened, and at what regular intervals they are monitored, and (b) the details of persons who are responsible for monitoring such systems, and (iii) conduct an internal inquiry into the leakage of UPSI relating to our financial results and submit a report in relation thereto. In accordance with the SEBI order, we filed both reports with SEBI on May 30, 2018. Any additional action by SEBI in connection with its investigation and our respective reports may subject us to further scrutiny or enforcement actions and have a material adverse effect on our reputation, business, financial position or results of operation. SEBI has asked for information from the Bank on the above matter from time to time, which has been provided by the Bank. On August 31, 2020, SEBI passed an Adjudication Order against a customer of the bank in connection with the UPSI matter. There can be no assurance that similar failure of our internal control system may not be repeated in the future, which could adversely affect our business and results of operations.

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

Our business is highly dependent on our ability to efficiently and reliably process a high volume of transactions across numerous locations and delivery channels. We place heavy reliance on our technology infrastructure for processing this data and therefore ensuring the security of this system and its availability is of paramount importance. Our systemic and operational controls may not be adequate to prevent any adverse impact from frauds, errors, hacking and system failures. A significant system breakdown or system failure caused by intentional or unintentional acts would have an adverse impact on our revenue-generating activities and lead to financial loss. For example, over the past two years we have experienced outages in our internet banking, mobile banking and payment utilities. Our reputation could be adversely affected by fraud committed by employees, customers or outsiders, or by our perceived inability to properly manage fraud-related risks. Our inability or perceived inability to manage these risks could lead to enhanced regulatory oversight and scrutiny. Fraud or system failures by other Indian banking institutions (such as frauds uncovered in early 2018 at one of India's public sector banks) could also adversely affect our reputation and revenue-generating activity by reflecting negatively on our industry more generally, and in certain circumstances we could be required to absorb losses arising from intentional or unintentional acts by third-party institutions. We have established a geographically remote disaster recovery site to support critical applications, and we believe that we would be able to restore data and resume processing in the event of a significant system breakdown or failure. However, it is possible the disaster recovery site may also fail or it may take considerable time to make the system fully operational and achieve complete business resumption using the alternate site. Therefore, in such a scenario where the primary site is also completely unavailable, there may be significant disruption to our operations, which would materially adversely affect our reputation and financial condition.

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

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. The reputation of the financial services industry in general has been closely monitored as a result of the financial crisis and other matters affecting the financial services industry. Negative public opinion about the financial services industry generally or us specifically could adversely affect our ability to attract and retain customers, and may expose us to litigation and regulatory action. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions and related disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. For example, over the past two years, we have experienced outages in our internet banking, mobile banking and payment utilities, including an outage in our internet banking and payment system in November 2020 due to a power failure in the primary data center. See "*– A failure, inadequacy or security breach in our information technology and telecommunication systems may adversely affect our business, results of operation or financial condition*." Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

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

As at March 31, 2016, we had 4,520 branches and as at March 31, 2021, we had 5,608 branches, a significant increase in the number of branches. Some of the newly added branches are currently operating at a lower efficiency level as compared with our established branches. While we believe that the newly added branches will achieve the productivity benchmark set for our entire network over time, the success in achieving our benchmark level of efficiency and productivity will depend on various internal and external factors, some of which are not under our control. The sub-optimal performance of the newly added branches, if continued over an extended period of time, would have a material adverse effect on our profitability.

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

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

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

In India, our equity shares are traded on the BSE Limited (the "**BSE**") and National Stock Exchange of India Limited (the "**NSE**"). BSE and NSE rules, in connection with other applicable Indian laws, require us to report our financial results in India in Indian GAAP. Because of the difference in accounting principles and presentation, certain financial information available in our required filings in the United States may be presented differently than in the financial information we provide under Indian GAAP.

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

The Ministry of Corporate Affairs, in its press release dated January 18, 2016, had issued a roadmap for implementation of Indian Accounting Standards ("**IND-AS**") converged with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**") with certain carve-outs for scheduled commercial banks, insurance companies and non-banking financial companies (the "**Roadmap**"). This Roadmap required such institutions to prepare IND-AS-based financial statements for the accounting periods commencing on or after April 1, 2018 and to prepare comparative financial information for accounting periods beginning April 1, 2017 and thereafter. The RBI, in its circular dated February 11, 2016, required all scheduled commercial banks to comply with IND-AS for financial statements for the same periods stated above. The RBI did not permit banks to adopt IND-AS earlier than the above timelines. The RBI circular also stated that the RBI will issue instructions, guidance and clarifications, as and when required, on the relevant aspects of the implementation of IND-AS. In April 2018, the RBI deferred the effective date for implementation of IND-AS by one year, by which point the necessary legislative amendments were expected to have been completed. The legislative amendments recommended by the RBI are under consideration by the Government of India. Accordingly, the RBI, in its circular dated March 22, 2019 deferred the implementation of IND-AS until further notice.

In conjunction with the implementation of IND-AS for our local Indian results, we may adopt IFRS for the purposes of our filings pursuant to Section 13 or 15(d) of, and our reports pursuant to Rule 13a-16 or 15d-16 under, the Exchange Act. Should we choose to do so, our first year of reporting in accordance with IFRS would be same as the accounting period for IND-AS which is dependent on instructions to be issued by the RBI for the implementation of IND-AS. For our first year of reporting in accordance with IFRS, we would be permitted to file two years, rather than three years, of statements of income, changes in shareholders' equity and cash flows prepared in accordance with IFRS.

The new accounting standards are expected to change, among other things, our methodologies for estimating allowances for probable loan losses and classifying and valuing our investment portfolio, as well as our revenue recognition policy. It is possible that our financial condition, results of operations and changes in shareholders' equity may appear materially different under IND-AS or IFRS than under Indian GAAP or U.S. GAAP, respectively. Further, during the transition to reporting under the new standards, we may encounter difficulties in the implementation of the new standards and development of our management information systems. Given the increased competition for the small number of IFRS-experienced accounting personnel in India, it may be difficult for us to employ the appropriate accounting personnel to assist us in preparing IND-AS or IFRS financial statements. Moreover, there is no significant body of established practice from which we may draw when forming judgments regarding the application of the new accounting standards. There can be no assurance that the Bank's controls and procedures will be effective in these circumstances or that a material weakness in internal control over financial reporting will not occur. Further, failure to successfully adopt IND-AS or IFRS could adversely affect the Bank's business, financial condition and results of operations.

Statistical, industry and financial data obtained from industry publications and other third-party sources may be incomplete or unreliable.

We have not independently verified certain data obtained from industry publications and other third-party sources referred to in this document and therefore, while we believe them to be true, we cannot assure you that they are complete or reliable. Such data may also be produced on different bases from those used in the industry publications we have referenced. Therefore, discussions of matters relating to India, its economy and the industries in which we currently operate are subject to the caveat that the statistical and other data upon which such discussions are based may be incomplete or unreliable.

We may be unable to fully capture the expected value from acquisitions, which could materially and adversely affect our business, results of operations and financial condition.

We may from time to time undertake acquisitions as part of our growth strategy, which could subject us to a number of risks, such as: (i) the rationale and assumptions underlying the business plans supporting the valuation of a target business may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) we may fail to successfully integrate any acquired business, including its technologies, products and personnel; (iii) we may fail to retain key employees, customers and suppliers of any acquired business; (iv) we may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) we may fail to discover certain contingent or undisclosed liabilities in businesses that we acquire, or our due diligence to discover any such liabilities may be inadequate; and (vi) it may be necessary to obtain regulatory and other approvals in connection with certain acquisitions and there can be no assurance that such approvals will be obtained and even if granted, that there will be no burdensome conditions attached to such approvals, all of which could materially and adversely affect our business, results of operations and financial conditions.

Credit Risks

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

Our gross non-performing loans and non-performing credit substitutes represented 1.70 percent of our gross customer assets as of March 31, 2021. Our management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, remedial management and the overall architecture for managing credit risk. In the case of our secured loan portfolio, the frequency of the valuation of collateral may vary based on the nature of the loan and the type of collateral. A decline in the value of collateral or an inappropriate collateral valuation increases the risk in the secured loan portfolio because of inadequate coverage of collateral. As of March 31, 2021, 66.1 percent of our loan book was partially or fully secured by collateral. Our risk mitigation and risk monitoring techniques may not be accurate or appropriately implemented and we may not be able to anticipate future economic and financial events, leading to an increase in our non-performing loans. See "*Note 9 – Loans*" in our consolidated financial statements. As a result of the COVID-19 pandemic, the Government and the RBI implemented various regulatory measures, including those aimed at alleviating financial pressure on borrowers. These measures included a moratorium on debt repayments and temporary permission to classify certain distressed loans as "Standard" if the cause of the distress was related to the pandemic. See "*– The COVID-19 pandemic may have a material adverse effect on our business, financial condition and results of operation*".

Provisions are created by a charge to expense, and represent our estimate for loan losses and risks inherent in the credit portfolio. See "*Selected Statistical Information – Non-performing Loans*". The determination of an appropriate level of loan losses and provisions required inherently involves a degree of subjectivity and requires that we make estimates of current credit risks and future trends, all of which may undergo material changes. Our provisions may not be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. Further, as part of its supervision process, the RBI assesses our asset classification and provisioning requirements. In the event that additional provisioning is required by the RBI, our net income, balance sheet and capital adequacy could be affected, which could have a material adverse impact on our business, future financial performance, shareholders' equity and the price of the Additional Tier 1 Notes. If we are not able to continue to reduce our existing non-performing loans, or if there is a significant increase in the amount of new loans classified as non-performing loans as a result of a change in the methodology of non-performing loans classification mandated by the RBI or otherwise, our asset quality may deteriorate, our provisioning for probable losses may increase and our business, future financial performance and the trading price of the Additional Tier 1 Notes could be adversely affected. In addition, we are a relatively young bank operating in a growing economy and we have yet not experienced a significant and prolonged downturn in the economy.

A number of factors outside of our control affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, domestic or global turmoil, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to regulations requiring us to lend to certain sectors identified by the RBI or the Government of India and COVID-19 related regulatory changes, including those on the classification of non-performing loans and repayment moratoriums. For example, recently, certain state governments have announced waiver of amounts due under agricultural loans provided by the banks. Demands for similar waivers have been raised by farmers in other states as well. Also, in the past, the central and state governments have waived farm loans from time to time to provide some respite to the debt-ridden agricultural sector. It is unclear when the governments will compensate the banks for the waivers so announced. Further, such frequent farm waivers may create expectations of future waivers among the farmers and lead to a delay in or cessation of loan repayments, which may lead to a rise in our non-performing loans. These factors, coupled with other factors such as volatility in commodity markets, declining business and consumer confidence and decreases in business and consumer spending, could impact the operations of our customers and in turn impact their ability to fulfill their obligations under the loans granted to them by us. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. If our non-performing loans further increase, we will be required to increase our provisions, which would result in our net income being less than it otherwise would have been and would adversely affect our financial condition.

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

As of March 31, 2021, our largest single customer exposure, based on the higher of the outstanding balances of, or limit on, funded and non-funded exposures, calculated based on our Indian GAAP financial statements, was Rs. 303.4 billion, representing 14.3 percent of our capital funds which comprised of Tier I and Tier II capital. Similarly our 10 largest customer exposures totaled Rs. 1,599.6 billion, representing

75.3 percent of our capital funds. None of our 10 largest customer exposures was classified as non-performing as of March 31, 2021. However, if any of our 10 largest customer exposures were to become non-performing, our net income would decline and, due to the magnitude of the exposures, our ability to meet capital requirements could be jeopardized. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for a detailed discussion on customer exposures. The RBI released guidelines on the LEF in December 2016 and April 2019, and further revised these guidelines by its circulars dated June 2019 and September 2019. The guidelines govern exposure of banks to a single counterparty and a group of connected counterparties. Under this framework, the sum of all the exposure values of a bank to a single counterparty must not be higher than 20 percent of the bank's available eligible capital base at all times and the sum of all the exposure values of a bank to a group of connected counterparties (as defined in the guidelines) must not be higher than 25 percent of the bank's available eligible capital base at all times. The eligible capital base for this purpose is the effective amount of Tier I capital fulfilling the criteria mentioned in the Basel III guidelines issued by RBI as per the last audited balance sheet. Most of the guidelines under this framework have been implemented with effect from April 1, 2019 and the extant exposure norms applicable for credit exposure to individual borrowers or to groups of companies under the same management control will no longer be applicable from that date. As of March 31, 2021, there were no exposures which exceeded the ceiling permitted under the LEF guidelines.

As a result of the COVID-19 pandemic, the RBI in its circular dated May 23, 2020, increased the permitted exposure of a bank to a group of connected counterparties from 25 percent to 30 percent of the eligible capital base of a bank. The increased limit will apply to June 30, 2021. See also "*The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

The RBI in its circular from February 2021 exempted from the framework lending by foreign sovereigns or their central banks that are (i) subject to a 0.0 percent risk weight under the Basel III guidelines; and (ii) where such lending is denominated in the domestic currency of that sovereign and met out of resources of the same currency. Further, through its circular issued in March 2021, the RBI determined that non-centrally cleared derivatives exposures will continue to be outside the purview of exposure limits until 30 September 2021.

Further, in June 2019, the RBI issued the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019. These directions replace the framework for resolution of stressed assets (including the framework for revitalizing distressed assets, joint lenders forum mechanism, strategic debt restructuring, and the scheme of sustainable structuring of stressed assets). In accordance with the circular, lenders must recognize developing stress in loan accounts, immediately on default. Lenders must put in place policies approved by their board of directors for the resolution of stressed assets, including the timelines for such resolution and they are expected to initiate implementation of the resolution plan even before default occurs. If a default occurs, however, lenders have a review period of 30 days within which their resolution strategy is to be decided. The directions provide the timelines within which the banks are required to implement the resolution plan, depending on the aggregate exposure of the borrower to the lender. For large accounts with the aggregate exposure of the lenders being Rs. 20.0 billion or more, the RBI has specified that the resolution plan must be implemented within 180 days from the end of the review period. If there is a delayed implementation of the resolution plan, lenders are required to make an additional provision of 20 percent of the total amount outstanding in addition to the provisions already held and provisions required to be made as per asset classification status of the borrower's account, subject to a total provisioning of 100 percent of the total amount outstanding. Lenders are required to make appropriate disclosures of resolution plans implemented in their financial statements under "*Notes on Accounts*".

As a result of the COVID-19 pandemic, the RBI in its circulars dated April 17, 2020 and May 23, 2020 temporarily relaxed the review period, as well as the timeline for the resolution of distressed assets for lenders. With respect to accounts which fell within the review period as of March 1, 2020, the period from March 1, 2020 to August 31, 2020 were excluded from the calculation of the 30-day review period. With respect to all such accounts, the residual review period resumed from September 1, 2020, upon expiry of which the lenders will have the usual 180 days for resolution. Further, with respect to the accounts where the review period was complete, but the 180-day resolution period had not expired by March 1, 2020, the timeline for resolution was extended by 180 days from the date on which the 180-day period was originally set to expire. Consequently, the requirement to make an additional provision of 20 percent for delays in implementing the resolution plan would only be triggered once the extended resolution period expires.

As a result of the impact of the COVID-19 pandemic, the RBI through its circulars from August 2020 and September 2020 issued certain guidelines in relation to the resolution of distressed assets, with the intent to facilitate the revival of real sector activities and mitigate the impact on the ultimate borrowers. The RBI provided a window under the prudential framework described above to enable lenders to implement a resolution plan in respect of (i) eligible corporate exposures without a change in ownership and (ii) personal loans, while classifying such exposures as "Standard", subject to specified conditions. The lending institutions are permitted to provide resolution under such a facility only to borrowers who are experiencing financial distress as a result of COVID-19. The RBI also provided specific thresholds (ceilings or floors, as the case may be) for certain key ratios that should be considered by the lending institutions in the resolution assumptions with respect to an eligible borrower. In May 2021, on account of the resurgence of the COVID-19 pandemic in India, the RBI issued an additional set of measures broadly in line with the circulars referred to above. The RBI permitted lending institutions to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as 'Standard' upon implementation of the resolution plan, subject to certain specified conditions. In respect of individuals who have availed themselves of business loans and small businesses where resolution plans had been implemented under the guidelines set out in the circular from August 2020 described above, lending institutions are permitted until September 30, 2021, as a one-time measure, to review the working capital sanctioned limits and/or drawing power based on a number of factors, including a reassessment of the borrower's working capital cycle, a reduction in the borrower's margins, without such review being treated as restructuring. By March 31, 2022, the margins and working capital limits will be restored to the levels set by the resolution plan implemented under the circular from August 2020. The circular also lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented. In August 2020 and May 2021, the RBI also issued guidelines for the restructuring of existing loans to micro, small and medium enterprises classified as "Standard", without a downgrade in the asset classification, subject to certain conditions. See also "*The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

As of March 31, 2021, our largest industry concentrations, based on RBI guidelines, were as follows: power (5.2 percent), financial institutions (4.0 percent), retail trade (3.9 percent), and NBFC (3.7 percent). In addition, as of March 31, 2021, 23.7 percent of our exposures were consumer loans. Industry-specific difficulties in these or other sectors may increase our level of non-performing customer assets. If we experience a downturn in an industry in which we have concentrated exposure, our net income will likely decline significantly and our financial condition may be materially adversely affected. As of March 31, 2021, our non-performing loans and credit substitutes as a percentage of total non-performing customer assets in accordance with U.S. GAAP were concentrated in the following industries: agriculture production-food (9.8 percent), road transportation (8.6 percent), retail trade (8.1 percent) and agriculture-allied (5.1 percent). In addition, 22.0 percent of our non-performing customer assets were consumer loans.

We are required to undertake directed lending under RBI guidelines. Consequently, we may experience a higher level of non-performing loans in our directed lending portfolio, which could adversely impact the quality of our loan portfolio, our business and the price of the Additional Tier 1 Notes. Further, in the case of any shortfall in complying with these requirements, we may be required to invest in deposits of Indian development banks as directed by the RBI. These deposits yield low returns, thereby impacting our profitability.

The RBI prescribes guidelines on PSL in India. Under these guidelines, banks in India are required to lend 40.0 percent of their adjusted net bank credit ("**ANBC**") or the credit equivalent amount of off-balance sheet exposures ("**CEOBE**"), whichever is higher, as defined by the RBI and computed in accordance with Indian GAAP figures, to certain eligible sectors categorized as priority sectors. The priority sector requirements must be met with reference to the higher of the ANBC and the CEOBE as of the corresponding date of the preceding year. PSL achievement is to be evaluated at the end of the fiscal based on the average of priority sector target/sub-target achievement as at the end of each quarter of that fiscal. See "*Supervision and Regulation – Directed Lending*". Under the guidelines, scheduled commercial banks having any shortfall in lending to the priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund ("**RIDF**") established with the National Bank for Agriculture and Rural Development ("**NABARD**") and other Funds with NABARD, National Housing Bank ("**NHB**"), Small Industries Development Bank of India ("**SIDBI**") or Micro Units Development and Refinance Agency Limited ("**MUDRA**"), as decided by the RBI from time to time. The interest rates on such deposits may be lower than the interest rates which the Bank would have obtained by investing these funds at its discretion.

Further, the RBI has directed banks to maintain direct lending to non-corporate farmers at the banking system's average level for the last three years, which would be notified by the RBI at the beginning of each year. The target for fiscal 2021 was 12.14 percent. Failure to maintain these lending levels to non-corporate farmers will attract penalties. The RBI has also directed banks to continue to pursue the target of 13.5 percent of ANBC towards lending to borrowers who constituted the direct agriculture lending category under the earlier guidelines. If we fail to adhere to the RBI's policies and directions, we may be subject to penalties, which may adversely affect our results of operations. Furthermore, the RBI can make changes to the types of loans that qualify under the PSL scheme. Changes that reduce the types of loans that can qualify toward meeting our PSL targets could increase shortfalls under the overall target or under certain sub-targets. In September 2020, the RBI issued new guidelines through which it increased the target for lending to small and marginal farmers and economically weaker sectors in a phased manner over next three years and assigned an increased weighting for credit provision in specific geographic districts.

Our total PSL achievement for fiscal 2021 stood at 39.88 percent with a shortfall of Rs. 11.4 billion as against a requirement of 40 percent and our achievement of direct lending to non-corporate farmers stood at 7.18 percent for fiscal 2021 as against a requirement of 12.14 percent. Our achievement of lending to micro enterprises stood at 7.5 percent in line with the target. Lending to the total agricultural sector stood at 10.32 percent as against a requirement of 18 percent and lending to small and marginal farmers stood at 2.11 percent, against the requirement of 8.0 percent Advances to sections termed "weaker" by the RBI were 4.20 percent against the requirement of 10.0 percent Our achievement stood at 7.71 percent compared to a target of 13.5 percent towards lending to borrowers, who constituted the direct agriculture lending category under the earlier guidelines. The foregoing position factors the Government of India's decision of July 2021 and the clarifications received by the Bank in this regard to reinstate retail and wholesale trade as micro, small and medium enterprises ("**MSMEs**") for priority sector lending. See "*Supervision and Regulation – Directed Lending*".

We may experience a higher level of non-performing assets in our directed lending portfolio, particularly in loans to the agricultural sector, small enterprises and weaker sections, where we are less able to control the portfolio quality and where economic difficulties are likely to affect our borrowers more severely. Our gross non-performing assets in the directed lending sector as a percentage to gross loans were 0.43 percent as of March 31, 2021 (0.5 percent as of March 31, 2020). Further increases in the above mentioned targets of the specified PSL categories could result in an increase in non-performing assets due to our limited ability to control the portfolio quality under the directed lending requirements.

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

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

Although we typically lend on a cash-flow basis, many of our loans are secured by collateral, which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities). As of March 31, 2021, 66.1 percent of our loans were partially or fully secured by collateral. We may not be able to realize the full value of the collateral, due to, among other things, stock market volatility, changes in economic policies of the Indian government, obstacles and delays in legal proceedings, borrowers and guarantors not being traceable, our records of borrowers' and guarantors, addresses being ambiguous or outdated and defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India, which negatively impacted the value of our collateral.

The RBI has introduced various mechanisms, from time to time, to enable the lenders to timely resolve and initiate recovery with regards to stressed assets. In June 2019, the RBI issued the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019, which replaced the framework for the resolution of stressed assets (including the framework for revitalizing distressed assets, joint lenders forum mechanism, strategic debt restructuring, and the scheme of sustainable structuring of stressed assets). See "*Supervision and Regulations – Resolution of Stressed Assets*".

The Insolvency and Bankruptcy Code was introduced in December 1, 2016, with the aim to provide for the efficient and timely resolution of insolvency of all persons, including companies, partnership firms, limited liability partnerships and individuals. For further details, see "*Supervision and Regulation – The Insolvency and Bankruptcy Code, 2016*". However, given the limited experience of this framework, there can be no assurance that we will be able to successfully implement the above-mentioned mechanisms and recover the amounts due to us in full. Furthermore, in order to provide relief to corporate entities, which may be facing financial distress as a result of the COVID-19 pandemic, the Insolvency and Bankruptcy Code was amended with effect from June 5, 2020. Pursuant to the amendment, no application for the initiation of a corporate insolvency resolution process of a corporate debtor can be filed under the Insolvency and Bankruptcy Code, in relation to a default arising on or after March 25, 2020, for a period of six months or such further period, not exceeding one year from such date, as may be notified. Recently, the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021 has been promulgated which among others things, provides for a pre-packaged insolvency resolution process for corporate debtors which are classified as micro, small or medium enterprises. The objective of this amendment is to provide an efficient alternative insolvency resolution process for micro, small and medium enterprises which is efficient and cost effective. The inability to foreclose on such loans due or otherwise liquidate our collateral may result in failure to recover the expected value of such collateral security, which may, in turn, give rise to increased losses and a decline in net income. See also "*The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

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

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

Risks Relating to Our Industry

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

RBI guidelines prescribe a policy framework for the ownership and governance of private sector banks. Under Section 12 of the BR Act, effective from January 18, 2013 through the Banking Laws Amendment Act, 2012, no person holding shares in a financial institution shall, in respect of any shares held by such person, exercise voting rights in excess of 10 percent of the total voting rights of all the shareholders of such financial institution, provided that the RBI may increase, in a phased manner, such ceiling on voting rights from 10 to 26 percent The notification dated July 21, 2016 issued by RBI and published in the Gazette of India dated September 17, 2016 states that the current ceiling voting rights is at 26 percent These guidelines prescribe requirements regarding shareholding and voting rights in relation to all private sector banks licensed by the RBI to operate in India. The guidelines specify the following ownership limits for shareholders based on their categorization:

(i) In the case of individuals and non-financial entities (other than promoters/a promoter group), 10 percent of the paid-up capital. However, in the case of promoters being individuals and non-financial entities in existing banks, the permitted promoter/promoter group shareholding shall be as prescribed under the February 2013 guidelines, i.e.,15 percent.

(ii) In the case of entities from the financial sector, other than regulated or diversified or listed, 15 percent of the paid-up capital.

(iii) In the case of "regulated, well diversified, listed entities from the financial sector" shareholding by supranational institutions, public sector undertaking or governments, up to 40 percent of the paid-up capital is permitted for both promoters/a promoter group and non-promoters.

In June 2020, the RBI set up an internal working group to examine and review the extant licensing and regulatory guidelines relating to ownership and control, corporate structure of private sector banks and other related issues. The group submitted its report in October 2020, and some of the key recommendations are as follows: (i) the cap on promoters' stakes over the course of 15 years may be raised from the current level of 15.0 percent to 26.0 percent of the paid-up voting equity share capital of the bank; (ii) the RBI may introduce regulations in relation to the issuance of ADRs and GDRs by banks, which ensure that such issuances are not used by dominant shareholders to indirectly enhance their voting power, including mandating prior approval by the RBI before entering into agreements with depositories, requiring a provision in the depository agreement assigning no voting rights to depositories; and a mechanism for disclosure of the details of the ultimate depository receipt holders so that indirect holdings can be disclosed along with direct holdings; (iii) large corporate/industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulations Act, 1949; (iv) non-operative financial holding companies ("**NOFHCs**") should continue to be the preferred structure for all new licenses to be issued for Universal Banks. However, NOFHC structures should be mandatory only in cases where the individual promoters, promoting entities and converting entities have other group entities; and (v) listing requirements for small finance banks, payments banks and universal banks. If some, or all, of the recommendations in this report are implemented, a change of control or business combination of the Bank may be discouraged or prevented, which could restrict the growth of our business and operations.

The RBI may permit an increase of its stake beyond the limits mentioned above on a case-to-case basis under circumstances such as relinquishment by existing promoters, rehabilitation, restructuring of problems, weak banks, entrenchment of existing promoters or in the interest of the bank or in the interest of consolidation in the banking sector.

Such restrictions could discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. The RBI's approval is required for the acquisition or transfer of a bank's shares, which will increase the aggregate holding (direct and indirect, beneficial or otherwise) of an individual or a group to the equivalent of 5 percent or more of its total paid-up capital under the Master Directions on "Prior approval for acquisition of shares or voting rights in private sector banks" issued by the RBI in November 2015. Under the directions, every person who intends to make an acquisition, or to make an agreement for an acquisition, which will, or is likely to, take the aggregate holding of such person together with shares, voting rights, compulsorily convertible debentures, bonds held by him, his relatives, associate enterprises and persons acting in concert with him, to 5 percent or more of the paid-up share capital of the relevant bank or entitles him to exercise 5 percent or more of the total voting rights of the relevant bank, shall seek prior approval of RBI. Existing major shareholders who have already obtained prior approval of the RBI for being a major shareholding in a bank prior to making a new acquisition are exempt, subject to certain conditions. The RBI, when considering whether to grant an approval, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests, as prescribed by the RBI. The RBI has accorded its approval for HDFC Limited to hold more than 10 percent of our stock. HDFC Limited's substantial stake in us could discourage or prevent another entity from exploring the possibility of a combination with us. These obstacles to potentially synergistic business combinations could negatively impact our share price and have a material adverse effect on our ability to compete effectively with other large banks and consequently our ability to maintain and improve our financial condition.

Additionally, under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "**SEBI Listing Regulations**"), all related party transactions will require approval from the audit committee. Further, all material related party transactions (based on the threshold provided under the SEBI Listing Regulations) will require shareholders' approval. Further, pursuant to the SEBI Listing Regulations, no related party shall vote to approve such transactions. For transactions with HDFC Limited, shareholder approvals have been obtained for fiscal 2021. However, if we are unable to obtain the necessary shareholder approvals for transactions with HDFC Limited in the future, we would be required to forego certain opportunities, which could have a material adverse effect on our financial performance.

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

Aggregate foreign investment from all sources in a private sector bank is permitted up to 49 percent of the paid-up capital under the automatic route. This limit can be increased to 74 percent of the paid-up capital with prior approval from the Government of India. Pursuant to a letter dated February 4, 2015, the Foreign Investment Promotion Board has approved foreign investment in the Bank up to 74 percent of its paid-up capital. The approval is subject to examination by the RBI for compounding on the change of foreign shareholding since April 2010. If the Bank is subject to any penalties or an unfavorable ruling by the RBI, this could have an adverse effect on the Bank's results of operation and financial condition. The RBI had previously imposed a restriction on the purchase of equity shares of the Bank by foreign investors, under its circular dated March 19, 2012. On February 16, 2017, the RBI lifted such restriction since the foreign shareholding in the Bank was below the maximum prescribed percentage of 74 percent.

Thereafter the RBI notified by press release on February 17, 2017, and by separate letter to us dated February 28, 2017, that the foreign shareholding in all forms in the Bank crossed the said limit of 74 percent again. This was due to secondary market purchases of the Bank's equity shares during this period. Consequently, the RBI re-imposed the restrictions on the purchase of the Bank's equity shares by foreign investors. Further, SEBI also enquired regarding the measures that the Bank has taken and will take in respect of breaches of the maximum prescribed percentage of foreign shareholding in the Bank, by its letter dated March 9, 2018. As of March 31, 2021, foreign investment in the Bank, including the shareholdings of HDFC Limited and its subsidiaries, constituted 72.25 percent, respectively of the paid-up capital of the Bank. The restrictions on the purchases of the Bank's equity shares could negatively, affect the price of the Bank's shares and could limit the ability of investors to trade the Bank's shares in the market. These limitations and any consequent regulatory actions may also negatively affect the Bank's ability to raise additional capital to meet its capital adequacy requirements or to fund future growth through future issuances of additional equity shares, which could have a material adverse effect on our business and financial results. See "*Supervision and Regulation – Foreign Ownership Restriction*".

Further competition and the development of advanced payment systems by our competitors would adversely impact our cash float and decrease fees we receive in connection with cash management services.

The Indian market for CMS is marked by some distinctive characteristics and challenges such as a vast geography, a large number of small business-intensive towns, a large unorganized sector in various business supply chains and infrastructural limitations for accessibility to many parts of the country. Over the years, such challenges have made it a daunting task for CMS providers in the country to uncover the business potential and extend suitable services and product solutions to the business community.

We have been able to retain and increase our share of business in cash management services through traditional product offerings as well as by offering new age electronic banking services. With new entrants in the payment space such as new payment banks now being granted licenses to conduct business and certain financial technology companies, the competition in the payments landscape is likely to increase. Any increased competition within the payment space, any introduction of a more advanced payment system in India or an inability for us to sustain our technology investments, may have a material adverse effect on our financial condition.

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

We face strong competition in all areas of our business, and some of our competitors are larger than we are. We compete directly with large public and private sector banks, some of which are larger than we are based on certain metrics such as customer assets and deposits, branch network and capital. These banks are becoming more competitive as they improve their customer services and technology. In addition, we compete directly with foreign banks, which include some of the largest multinational financial companies in the world. See "*– We may face increased competition as a result of revised guidelines that relax restrictions on foreign ownership and participation in the Indian banking industry, and the entry of new banks in the private sector which could cause us to lose existing business or be unable to compete effectively for new business*". In addition, new entrants into the financial services industry, including companies in the financial technology sector, may further intensify competition in the business environments, especially in the digital business environment, in which we operate, and as a result, we may be forced to adapt our business to compete more effectively. There can be no assurance that we will be able to respond effectively to current or future competition or that the technological investments we make in response to such competition will be successful. Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services (whether current or new offerings) at reasonable returns and this may adversely impact our business. If we are unable to retain and attract new customers, our revenue and net income will decline, which could materially adversely affect our financial condition. See "*Business – Competition*".

We may face increased competition as a result of revised guidelines that relax restrictions on foreign ownership and participation in the Indian banking industry, and the entry of new banks in the private sector which could cause us to lose existing business or be unable to compete effectively for new business.

The Government of India regulates foreign ownership in private sector banks. Foreign ownership up to 49 percent of the paid-up capital is permitted in Indian private sector banks under the automatic route and this limit can be increased up to 74 percent with prior approval of the Government of India. However, under the BR Act, read together with the Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016, a shareholder cannot exercise voting rights in excess of 10 percent of the total voting rights of all the shareholders of a financial institution. The RBI may increase the ceiling on voting rights in a phased manner up to 26 percent. The notification dated July 21, 2016 issued by RBI and published in the Gazette of India on September 17, 2016 states that the current ceiling on voting rights is at 26 percent. The RBI has also from time to time issued various circulars and regulations regarding ownership of private banks and licensing of new private sector banks in India. See "*Supervision and Regulation – Entry of new banks in the private sector*". Reduced restrictions on foreign ownership of Indian banks could increase the presence of foreign banks in India, increased competition in the industry in which we operate.

In February 2013, the RBI released guidelines for the licensing of new banks in the private sector. The RBI permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned NOFHC route, subject to compliance with certain specified criteria. Such a NOFHC was permitted to be the holding company of a bank as well as any other financial services entity, with the objective that the holding company ring-fences the regulated financial services entities in the group, including the bank, from other activities of the group. Pursuant to these guidelines, in fiscal 2016 IDFC Bank and Bandhan Bank commenced banking operations.

In November 2014, the RBI released guidelines for the licensing of payments banks ("**Payments Banks Guidelines**") and small finance banks ("**Small Finance Banks Guidelines**") in the private sector. This has led to the establishment of new payments banks and small finance banks, which have increased competition in the markets in which we operate. In December 2019, the RBI released guidelines for continuous licensing of small finance banks (the "**December 2019 Guidelines**"), lowering regulatory burdens for new market entrants, which may further increase competition in this segment of the market. The December 2019 Guidelines stated that a Standing External Advisory Committee ("**SEAC**") comprising persons with experience in banking, the financial sector and other relevant areas, will evaluate the applications and that the constituent members of the SEAC will be announced by the RBI. In March 2021, the RBI announced the constituent members of the SEAC, which will have a tenure of three years. The RBI in its circular dated March 28, 2020 issued modifications to Payments Bank Guidelines and the Small Finance Banks Guidelines to harmonize them with the December 2019 Guidelines.

In August 2016, the RBI released final guidelines for "on-tap" Licensing of Universal Banks in the Private Sector. The guidelines aim at moving from the current "stop and go" licensing approach (wherein the RBI notifies the licensing window during which a private entity may apply for a banking license) to a continuous or "on-tap" licensing regime. Among other things, the new guidelines specify conditions for the eligibility of promoters, corporate structure and foreign shareholdings. One of the key features of the new guidelines is that, unlike the February 2013 guidelines (mentioned above), the new guidelines make the NOFHC structure non-mandatory in the case of promoters being individuals or standalone promoting/converting entities which do not have other group entities. As of April 15, 2021, four entities had applied for licenses to set up universal banks, pursuant to these guidelines.

In May 2016, the RBI issued the Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016. These guidelines prescribe requirements regarding shareholding and voting rights in relation to all private sector banks licensed by the RBI to operate in India. See "*Supervision and Regulation – Entry of new banks in the private sector*".

Any growth in the presence of foreign banks or new banks in the private sector may increase the competition that we face and, as a result, have a material adverse effect on our business and financial results.

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

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

Risks Relating to Our Ownership Structure

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

HDFC Group owned 21.1 percent of our equity as of March 31, 2021. As per our Articles, so long as HDFC Limited, its subsidiary or any other company promoted by HDFC Limited, either singly or in the aggregate, holds not less than 20 percent of the paid-up equity share capital in the Bank, the Board of Directors of the Bank shall with the approval of the shareholders, appoint the non-retiring directors from persons nominated by HDFC Limited. HDFC Limited shall be entitled to nominate the part-time Chairman and the Managing Director or the full-time Chairman as the case may be, subject to the approval of the Board of Directors of the Bank and the shareholders.

Renu Karnad, the Managing Director of HDFC Limited is a Non- Executive Director of the Bank and was nominated by HDFC Limited. While we are professionally managed and overseen by an independent board of directors, HDFC Limited can exercise influence over our board and over matters subject to a shareholder vote, which could result in decisions that favor HDFC Limited or result in us foregoing opportunities to the benefit of HDFC Limited. Such decisions may restrict our growth or harm our financial condition.

In the past, there have been reports in the Indian media suggesting that we may merge with financial institutions, including HDFC Limited. We consider business combination opportunities as they arise. At present, we are not actively considering a business combination with any financial institution. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals.

Additionally, on July 15, 2014, the RBI issued guidelines in relation to the issuance of long-term bonds with a view to encouraging financing of infrastructure and affordable housing. Regulatory incentives in the form of an exemption from the reserve requirements and a relaxation in PSL norms are stipulated as being restricted to bonds that are used to incrementally finance long-term infrastructure projects and loans for affordable housing. Any incremental infrastructure or affordable housing loans acquired from other financial institutions, such as those that could be involved in a business combination with HDFC Limited, to be reckoned for regulatory incentives will require the prior approval of the RBI. We cannot predict the impact any potential business combination would have on our business, financial condition, growth prospects or the prices of our equity shares.

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

HDFC Limited is primarily engaged in financial services, including home loans, property-related lending and deposit products. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life and other insurance and mutual funds. Although we have no agreements with HDFC Limited or any other HDFC Group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC Group companies and may effectively prevent us from taking advantage of business opportunities. See Note 27 "*Related Party Transactions*" in our consolidated financial statements for a summary of transactions we have engaged in with HDFC Limited during fiscal 2021. We currently distribute products of HDFC Limited and its group companies. If we stop distributing these products or forego other opportunities because of our relationship with HDFC Limited, it could have a material adverse effect on our financial performance.

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

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

Legal and Regulatory Risks

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

The RBI is empowered under the BR Act to impose penalties on banks and their employees in order to enforce applicable regulatory requirements. The Financial Intelligence Unit (India) (the "**FIU-IND**"), in January 2015, levied a fine on us of Rs. 2.6 million relating to our failure to detect and report attempted suspicious transactions which appeared in media during financial year 2013. We filed an appeal against the order before the appellate tribunal stating that there were only enquiries made by the reporters of the media and there were no instances of any attempted suspicious transactions. In June 2017, the appellate tribunal dismissed the penalty levied by the FIU-IND and observed that the prescribed matter fell within the provisions of Section 13(2)(a) of the Prevention of Money Laundering Act, 2002 ("PMLA"), 2002 (pursuant to which a warning was required to be given to the Bank), and that the matter did not fall within Section 13(2)(d) of the PMLA (pursuant to which monetary penalties can be imposed on failure to comply with certain obligations under the PMLA) as mentioned by the FIU-IND. However, the FIU-IND challenged the appellate tribunal's order in the Delhi High Court. Subsequently, through its order dated September 4, 2019, the Delhi High Court held that the violation of the reporting obligations on the part of the respondent banks warranted issuance of a warning in writing under Section 13(2)(a) of the Act, instead of a monetary penalty as imposed under Section 13(2)(d) of the Act, and disposed of the case filed by the FIU-IND. In February 2020, the FIU-IND challenged the decision and filed a special leave petition ("SLP") against the bank in the Supreme Court. On April 30, 2021 the Supreme Court heard the request filed by the FIU-IND and affirmed the appellate tribunal's earlier ruling that the applicable provision was 13(2)(a) and not 13(2)(d) of the PMLA. Accordingly, the Supreme Court dismissed the SLP.

In October 2015, there were media reports about irregularities in advance import remittances in various banks, further to which the RBI had conducted a scrutiny of the transactions carried out by us. In April 2016, the RBI issued a show cause notice to us to which we submitted our detailed response. After considering our submissions, the RBI imposed a penalty of Rs. 20.0 million on us in July 2016, which we paid, on account of pendency in receipt of bills of entry relating to advance import remittances made and lapses in adhering to KYC and Anti-Money Laundering ("**AML**") guidelines in this respect. During 2019 we received two separate fines for non-compliance with certain RBI directives. In its order dated February 4, 2019, the RBI imposed a monetary penalty of Rs. 2.0 million on us for failing to comply with the RBI's KYC and AML standards, as set out in their circulars dated November 29, 2004 and May 22, 2008. In its order dated June 13, 2019, the RBI imposed a monetary penalty of Rs. 10 million on us for failing to comply with the KYC, AML and fraud reporting standards, following an investigation into bills of entry submitted by certain importers. The penalties were imposed under Section 47A(1)(c) and Section 46(4)(i) of the BR Act. We have since implemented corrective action to strengthen our internal control mechanisms so as to ensure that such incidents do not repeat themselves. See "*Supervision and Regulation – Penalties*". In 2020, the Bank received one fine for non-compliance with RBI regulations. In its order dated January 29, 2020, the RBI imposed a monetary penalty in the amount of Rs. 10 million on the Bank for failure to undertake ongoing due diligence with respect to 39 current accounts which had been opened by customers of the Bank to participate in an initial public offering, but where the transactions effected were disproportionate to the declared income and profile of the customers. This penalty was imposed by the RBI using the powers conferred under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the BR Act. The Bank has since strengthened its internal control mechanisms so as to ensure that such incidents are not repeated.

On May 27, 2021, the RBI levied a penalty of Rs. 100 million against the Bank for the marketing and sale of third-party non-financial products to the Bank's auto loan customers, after concluding that this was in contravention of Section 6(2) and Section 8 of the Banking Regulation Act, 1949. The penalty, which was imposed by the RBI using the powers conferred under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act 1949, has been paid by us. In May 2020, following an internal inquiry arising from a whistle-blower complaint, we determined that certain employees received unauthorized commissions from a third-party vendor of GPS products, with whom we had an agreement to offer GPS devices to our auto loan customers. The personal misconduct of these employees was in violation of our code of conduct and governance standards. We have taken disciplinary action with respect to the employees involved, including separation of services of certain employees, discontinued the sale of such third-party non-financial products and taken certain other remedial actions.

During fiscal 2021, the RBI, through its letter dated December 4, 2020, imposed a monetary penalty of Rs. 1.0 million on the Bank for the failure to settle transactions in Government securities in the of Subsidiary General Ledger which led to a shortage in the balance of certain securities in the Bank's Constituent Subsidiary General Ledger account on November 19, 2020. The Bank has since enhanced its review mechanism to ensure that such incidents do not recur.

We cannot predict the initiation or outcome of any further investigations by other authorities or different investigations by the RBI. The penalties imposed by the RBI have generated adverse publicity for our business. Such adverse publicity, or any future scrutiny, investigation, inspection or audit which could result in fines, public reprimands, damage to our reputation, significant time and attention from our management, costs for investigations and remediation of affected customers, may materially adversely affect our business and financial results.

Transactions with counterparties in countries designated as state sponsors of terrorism by the United States State Department, the Government of India or other countries, or with persons targeted by United States, Indian, EU or other economic sanctions may cause potential customers and investors to avoid doing business with us or investing in our securities, harm our reputation or result in regulatory action which could materially and adversely affect our business.

We engage in business with customers and counterparties from diverse backgrounds. In light of United States, Indian, EU and other sanctions, it cannot be ruled out that some of our customers or counterparties may become the subject of sanctions. Such sanctions may result in our inability to gain or retain such customers or counterparties or receive payments from them. In addition, the association with such individuals or countries may damage our reputation or result in significant fines. This could have a material adverse effect on our business, financial results and the prices of our securities.

These laws, regulations and sanctions or similar legislative or regulatory developments may further limit our business operations. If we were determined to have engaged in activities targeted by certain United States, Indian, EU or other statutes, regulations or executive orders, we could lose our ability to open or maintain correspondent or payable-through accounts with United States financial institutions, among other potential sanctions. In addition, depending on socio-political developments, even though we take measures designed to ensure compliance with applicable laws and regulations, our reputation may suffer due to our association with certain restricted targets. The above circumstances could have a material adverse effect on our business, financial results and the prices of our securities.

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

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending, reserve requirements and other areas. For example, the RBI could change its methods of enforcing directed lending standards so as to require more lending to certain sectors, which could require us to change certain aspects of our business. In addition, we could be subject to other changes in laws and regulations, such as those affecting the extent to which we can engage in specific business, those that reduce our income through a cap on either fees or interest rates chargeable to our customers, or those affecting foreign investment in the banking industry, as well as changes in other government policies and enforcement decisions, income tax laws, foreign investment laws and accounting principles. Laws and regulations governing the banking sector may change in the future and any changes may adversely affect our business, our future financial performance and the price of the Additional Tier 1 Notes.

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

Legal proceedings, including lawsuits, investigations by regulatory authorities and other inspections or audits, could result in judgments, fines, public reprimands, damage to our reputation, significant time and attention from our management, costs for investigations and remediation of affected customers, or other adverse effects on our business and financial results. For example, on September 3, 2020, a securities class action lawsuit was filed against the Bank and certain of its current and former directors and officers in the United States District Court for the Eastern District of New York. The complaint was amended on February 8, 2021. The amended complaint alleges that the Bank, its former managing director, Mr. Aditya Puri, and the present managing director and CEO, Mr. Sashidhar Jagdishan made materially false and misleading statements regarding certain aspects of the Bank's business and compliance policies, which the complaint alleges resulted in the Bank's ADS price declining on July 13, 2020 and thereby allegedly causing damage to the Bank's investors. The Bank, on July 23, 2021, through its legal counsel, has filed the reply memorandum of law in further support of the motion to dismiss the securities class action suit. The Bank intends to continue to vigorously defend against the allegations.

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

We may breach third party intellectual property rights.

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

Technology Risks

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

We offer internet banking services to our customers. Our internet banking channel includes multiple services such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements, and requesting check books. We are therefore exposed to various cyber threats related to these services or to other sensitive Bank information, with such threats including: (a) phishing and trojans targeting our customers, whereby fraudsters send unsolicited mails to our customers seeking account-sensitive information or infecting customer computers in an attempt to search and export account-sensitive information; (b) hacking, whereby attackers seek to hack into our website with the primary intention of causing reputational damage to us by disrupting services; (c) data theft whereby cyber criminals attempt to intrude into our network with the intention of stealing our data or information or to extort money; and (d) leaking, whereby sensitive internal Bank data or customer information is inappropriately disclosed by parties entitled to access it. Attempted cyber threats fluctuate in frequency but are generally increasing in frequency, and while certain of the foregoing events have occurred in the past, we cannot guarantee they will not reoccur in the future. As the sophistication of cyber-incidents continues to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. In addition, cyber incidents may remain undetected for an extended period.

There is also the risk of our customers incorrectly blaming us and terminating their accounts with us for a cyber-incident which might have occurred on their own system or with that of an unrelated third-party. Any cyber security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and related financial liability.

A failure, inadequacy or security breach in our information technology and telecommunication systems may adversely affect our business, results of operation or financial condition.

Our ability to operate and remain competitive depends in part on our ability to maintain and upgrade our information technology systems and infrastructure on a timely and cost-effective basis, including our ability to process a large number of transactions on a daily basis. Our operations also rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Our financial, accounting or other data processing systems and management information systems or our corporate website may fail to operate adequately or become disabled as a result of events that may be beyond our control or may be vulnerable to unauthorized access, computer viruses or other attacks. See "– *We face cyber threats, such as hacking, phishing and trojans, attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal Bank data or customer information. This may cause damage to our reputation and adversely impact our business and financial results*".

Over the past two years, we have experienced outages in our internet banking, mobile banking and payment utilities, including an outage in our internet banking and payment system in November 2020 due to a power failure in the primary data center. In response to these outages, the RBI issued an order on December 2, 2020, (the "**December 2020 Order**"), advising us to temporarily stop (a) all launches of the digital business generating activities under our planned – Digital 2.0 program and other proposed business-generating IT applications and (b) the sourcing of new credit card customers. The December 2020 Order also stated that these measures may be considered for lifting upon the satisfactory compliance by the Bank with the major critical observations as identified by the RBI. The RBI also appointed a third party auditor to conduct an audit of the Bank's systems. The audit has been completed and the auditor has submitted its report to the RBI. We await further communication in connection with this matter. We have adopted preventive measures to strengthen our technology infrastructure and mitigate against the risks of outages. Some of the key initiatives undertaken include the migration of core data centres in Bengaluru and Mumbai to state-of-the-art facilities which has reinforced our capability to switchover in less than 45 minutes when needed. The capacity for unified payment interface ("**UPI**") has been tripled, Net Banking and Mobile Banking capacity has been doubled to manage 90,000 users concurrently (a significant step as most of our customers now rely on our digital channels for banking needs), disaster recovery drills have been completed for all critical payment systems and significant upgrades in network and security have been carried out.

Furthermore, the information available to, and received by, our management through its existing systems may not be timely and sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in our operations. If any of these systems are disabled or if there are other shortcomings or failures in our internal processes or systems, including further outages in our digital business in the future, it may disrupt our business or impact our operational efficiencies, and render us liable to regulatory intervention or damage to its reputation. The occurrence of any such events may adversely affect our business, results of operation and financial condition.

Risks Relating to India

Any adverse change in India's credit rating, or the credit rating of any country in which our foreign banking outlets are located, by an international rating agency could adversely affect our business and profitability.

While the Bank is rated BBB- by Standard & Poor's ("**S&P**"), Moody's downgraded the Bank's rating to Baa3 from Baa2, in line with the downgrade in India's sovereign rating in fiscal 2021. International rating agencies have pegged the ratings of all Indian banks at the sovereign rating (that is, BBB- by S&P and Baa3 by Moody's). However, domestically the Bank is rated AAA by CRISIL, CARE and India Ratings (the Indian arm of Fitch Ratings), which are the highest credit ratings assigned on the domestic scale.

A significant deterioration in the Bank's existing financial strength and business position may also pose a rating downgrade risk. The Bank's rating may also be revised when the rating agencies undertake changes to their rating methodologies. For instance, in April 2015, Moody's revised its Bank rating methodology and the assessment of government support to banks, following which the ratings of several banks globally, including Indian banks, were revised. Following this methodology change, the Bank's rating was revised to Baa3 from Baa2 so as to cap it at the Indian sovereign rating.

In addition, the rating of our foreign banking outlets may be impacted by the sovereign rating of the country in which those banking outlets are located, particularly if the sovereign rating is below India's rating. Pursuant to applicable ratings criteria published by S&P, the rating of any bond issued in a jurisdiction is capped by the host country rating. Accordingly, any revision to the sovereign rating of the countries in which our banking outlets are located to below India's rating could impact the rating of our foreign banking outlets and any securities issued from those banking outlets. For example, in fiscal 2016, declining oil prices caused the credit ratings of many oil exporting countries to be downgraded and we had outstanding bonds issued from a branch in such a country which were negatively affected by such downgrade.

Going forward, the risk of a sovereign rating downgrade remains low at present, but it is likely that the sovereign ratings outlook may be revised down, given the slowdown in economic growth. No assurance can be given that a further sovereign rating downgrade will not occur. However, any further downgrade in India's credit rating, or the credit rating of any country in which our foreign banking outlets are located by international rating agencies may adversely impact our business financial position and liquidity, limit our access to capital markets, and increase our cost of borrowing.

If there is any change in tax laws or regulations, or their interpretation, such changes may significantly affect our financial statements for the current and future years, which may have a material adverse effect on our financial position, business and results of operations.

Any change in Indian tax laws, including the upward revision to the currently applicable normal corporate tax rate of 25.17 percent which includes applicable surcharge and health and education cess, could affect our tax burden. Other benefits such as an exemption for interest received in respect of tax-free bonds, a lower tax rate on long-term capital gains on equity shares and any other tax benefits or concessions which the Bank may be availing or may avail, if withdrawn in the future, may no longer be available to us. Any adverse order passed by the appellate authorities, tribunals or courts would have an impact on our profitability.

The General Anti-Avoidance Rules ("**GAAR**") have come into effect from April 1, 2017. The tax consequences of the GAAR provisions being applied to an arrangement could result in denial of tax benefit, amongst other consequences. If the GAAR provisions are made applicable to us, they may have an adverse tax impact on the Bank.

Effective July 1, 2017, GST replaced most indirect taxes levied by the Central Government and State Governments, providing a unified tax regime in respect of goods and services for all of India.

There continue to be several challenges to the successful implementation of GST, making compliance with the tax law difficult. These include uncertain legal positions, complex return filings, certain reconciliation issues, input tax credit issues, and IT infrastructure issues. The GST law continues to evolve and the authorities have been trying to address public concerns by issuing a series of notifications, clarifications, press releases and FAQs to resolve a wide range of issues. We expect challenges to certain aspects of the GST law to continue until the remaining issues, particularly those related to technical aspects of the law, are settled. Any such changes and the related uncertainties with respect to GST may have a material adverse effect on our business, financial condition and results of operations.

The Bank cannot predict whether any tax laws or regulations impacting its products will be enacted, what the nature and impact of the specific terms of any such laws or regulations will be or whether, if at all, any laws or regulations would have a material adverse effect on its business, financial condition and results of operations.

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

Capital flows picked up substantially in recent years, reflecting a reassessment of investor expectations about future domestic growth prospects following the election of a pro-reform government in 2019. The rise in oil prices over the last few years has led to an increased current account deficit, which as a percentage of GDP was 2.1 percent in fiscal 2019. The current account deficit narrowed to 0.9 percent in fiscal 2020 as a result of a pickup in remittances and an improvement in the trade balance. In fiscal 2021, due to the COVID-19 pandemic's impact on demand, imports declined by 16.6 percent compared to the prior year However, due to an improvement in the balance for the trade in goods and services later in the year, India recorded a rare current account surplus of 0.9 percent of GDP. For fiscal 2022, we estimate India's current account deficit will be 1.2 percent of GDP.

In fiscal 2019, the rupee depreciated by 6.3 percent against the United States dollar as a result of rising oil prices, a slowdown in global trade volumes and a general risk aversion towards emerging market currencies (as a result of tariffs and trade war risks). The rupee further depreciated by 8.0 percent in fiscal 2020 due to investor risk aversion amid weak global demand, weak domestic growth and foreign investment outflows. In fiscal 2020, the rupee ranged between a high of Rs. 76.37 per U.S.$1.00 and a low of Rs. 68.40 per U.S.$1.00. The rupee appreciated by 2.8 percent in fiscal 2021, supported by a weakened U.S. Dollar and robust foreign capital inflows. In fiscal 2021, the rupee traded in the range of 75.08-73.14 per US $1.00.

Going forward, a rise in commodity prices, a higher current account deficit and a further strengthening in the U.S. Dollar in the second half of 2021 are likely to keep the rupee weaker against the U.S. Dollar. Some support for the rupee could result from foreign inflows due to expected initial public offerings in the remainder of 2021 as the Governments' infrastructure construction push and the production linked incentive scheme attract FDI flows.

Moving ahead, global risk aversion, in particular in the event the COVID-19 pandemic further escalates, could mean a shift of global fund flows from emerging markets to developed markets over the medium term. Nevertheless, it remains a possibility that the RBI will intervene in the foreign exchange markets to remove excess volatility in the exchange rate in the event of potential shocks, such as a rise in protectionist tendencies creating panic in emerging market economies or excess financial market volatility in the event of another wave. Any such intervention by the RBI may result in a decline in India's foreign exchange reserves and, subsequently, reduce the amount of liquidity in the domestic financial system, which could, in turn, cause domestic interest rates to rise.

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

Political instability or changes in the Government could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which would impact the Bank's financial results and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments as producers, consumers and regulators remain significant factors in the Indian economy. The election of a pro-business majority government in May 2019 marked a distinct increase in expectations for policy and economic reforms among certain sectors of the Indian economy. There can be no assurance that the Government's reforms will work as intended or that any such reforms would continue or succeed if there were a change in the current majority leadership in the Government or if a different government were elected in the future. Any future government may reverse some or all of the policy changes introduced by the current Government and may introduce reforms or policies that adversely affect the Bank. The speed of economic liberalization is subject to change and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in the Bank's securities continue to evolve. Other major reforms that have been implemented are a goods and services tax and the demonetization of certain banknotes. Any significant change in India's economic liberalization plans, deregulation policies or other major economic reforms could adversely affect business and economic conditions in India generally and therefore adversely affect the Bank's business, results of operation and financial condition.

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

Terrorist attacks, such as those in Mumbai in November 2008 and in Pulwana in February 2019, and other acts of violence or war may negatively affect the Indian markets on which our equity shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and, as a result, ultimately adversely affect our business. In addition, any deterioration in relations between India and Pakistan or between India and China might result in investor concern about stability in the region, which could adversely affect the price the Additional Tier 1 Notes.

India has also witnessed civil disturbances in recent years and future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Such incidents also create a greater perception that investment in Indian companies involves a higher degree of risk, which could have an adverse impact on our business and the price of the Additional Tier 1 Notes.

Natural calamities, climate change and health epidemics could adversely affect the Indian economy, or the economy of other countries where we operate, our business and the price of the Additional Tier 1 Notes.

India has experienced natural calamities such as earthquakes, floods and droughts in the past few years. The extent and severity of these natural disasters determine their impact on the Indian economy. In particular, climatic and weather conditions, such as the level and timing of monsoon rainfall, impact the agricultural sector, which constituted approximately ~20 percent of India's GDP in fiscal 2021 (in current prices terms). Prolonged spells of below or above normal rainfall or other natural calamities, or global or regional climate change, could adversely affect the Indian economy and our business, especially our rural portfolio. Similarly, global or regional climate change in India and other countries where we operate could result in change in weather patterns and frequency of natural calamities like droughts, floods and cyclones, which could affect the economy of India, the countries where we operate and our operations in those countries.

Health epidemics could also disrupt our business. In fiscal 2010, there were outbreaks of swine flu, caused by the H1N1 virus, in certain regions of the world, including India and several countries in which we operate. After hurting business prospects in fiscal 2021, restrictions related to the second wave are posing challenges to business operations, such as nationwide lockdowns, travel restrictions and social distancing. While some state governments have started easing restrictions, in the event of another wave of infections, economic growth may slow more than expectations. This could in turn adversely affect our business and the price of the Additional Tier 1 Notes.

The COVID-19 pandemic has materially impacted our business, and the continuance of this pandemic or any future similar outbreak may have a material adverse effect on our business, financial condition and results of operations.

Public health crises such as the COVID-19 pandemic or similar outbreaks have, and may continue to, adversely impact our business. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the WHO and led to the implementation of various responses, including government-imposed quarantines, travel restrictions, "stay-at-home" orders and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations.

India, our main place of business, is in the group of countries most affected by the COVID-19 pandemic. Since March 2021, India has been experiencing a "second wave" of COVID-19, including a significant surge of COVID-19 cases following the discovery of a "double mutant" coronavirus variant in the country. The surge appears to be ascending faster than previous outbreaks in the country, while vaccination rates remain low. The new variant appears to be significantly more virulent than other coronavirus variants, resulting in a significant increase in COVID-19 cases and related deaths. There continues to be significant uncertainty relating to the further progression of the second wave.

Due to the COVID-19 pandemic, all major central banks, including the United States Federal Reserve implemented bond purchase programs and decreased interest rates in 2020. However, as a result of the availability of vaccines in certain countries and an improvement in economic conditions, market participants have begun discussing the possibility of central bank monetary support being reversed. In particular, given the recent sharp increase in inflation in the United States, the United States Federal Reserve's potential shift in monetary policy has been a focus for many investors. As a result of the interconnectedness of global asset markets, any change in the monetary policy stance by the United States Federal Reserve could impact the Indian domestic market over the coming year. See also "*– Financial instability in other countries may cause increased volatility in the Indian financial market*".

To reduce the impact of the pandemic on Indian borrowers, on March 27, 2020 the RBI announced COVID-19 related regulations, which included permission for financial institutions to extend a three-month moratorium on term loan repayments due between March 1, 2020 and May 31, 2020. This was later renewed for a second period from June 1, 2020 to August 31, 2020. In May 2021, as a result of the resurgence of the COVID-19 pandemic in India, the RBI issued an additional set of measures, permitting lending institutions to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as "Standard", and therefore not in default, subject to certain specified conditions. With respect to individuals who have availed themselves of business loans and small businesses where resolution plans were implemented in accordance with the terms of the circular dated August 2020 described above, lending institutions are permitted, as a one-time measure and until September 30, 2021, to review the working capital sanctioned limits and/or drawing power based on a reassessment of the working capital cycle and reduction of margins, without being classified as a restructuring. In August 2020 and May 2021, the RBI also issued guidelines for the restructuring of existing loans to micro, small and medium enterprises classified as "Standard", without resulting in a downgrade in the asset classification, subject to certain conditions. During fiscal 2020 and fiscal 2021, the Bank implemented the loan restructuring packages announced by RBI on account of the COVID-19 situation which grant temporary extensions in repayment obligations to the borrowers without any interest or financial concessions. The total balance outstanding of such restructured loans as of March 31, 2021 was Rs. 138.4 billion. Interest on the term loans continues to accrue during the moratorium and the resulting increase in the interest-burden may adversely affect our customers' ability to repay their loans, which could adversely affect our profitability. Similarly, the RBI permitted financial institutions to grant deferments with respect to interest payments on working capital facilities between March 31, 2020 and August 31, 2020. At the financial institutions' discretion, the interest accumulated during the deferment period may be converted to a funded interest term loan ("FITL"). Furthermore, the RBI also announced that with respect to non-performing loans, for which a lender's 180-day resolution period had not expired by March 1, 2020, an additional 180-day resolution period would begin from the date on which the original resolution period was set to expire. There can be no assurance that customers who are granted a moratorium will be able to resume their regular repayment schedule following the end of the moratorium. In accordance with RBI guidelines, we have also waived certain fees for customers. In addition, in response to the pandemic the RBI also reduced the repo rate by 40 basis points to 4.0 percent in May 2020. See also "*Our business is particularly vulnerable to interest rate risk and volatility in interest rates could adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance*". In its circulars dated April 17, 2020 and December 4, 2020, the RBI notified banks that they should continue to conserve capital to support the economy and absorb any potential losses and accordingly, directed banks to not make any further dividend payouts from the profits pertaining to the financial year ended March 31, 2020. On April 22, 2021, the RBI permitted commercial banks to again pay dividends relating to the profits for the financial year ended March 31, 2021, subject to the quantum of the dividend not exceeding fifty percent of the amount determined in accordance the dividend payout ratio prescribed by the RBI. The RBI has also directed all banks to ensure they continue to meet the applicable minimum regulatory capital requirements following any dividend payments. When declaring the dividend, the board of directors of the bank is required to consider the current and projected capital position of the bank compared to the applicable capital requirements and the adequacy of provisions, taking into account the economic environment and the outlook for profitability.

The impact of COVID-19, including changes in customer behavior and pandemic fears and restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activity. This may persist even after the restrictions related to the COVID-19 outbreak are lifted. While there has been a gradual pickup in economic activity since the easing of lockdown measures, the continued slowdown in economic activity has led to a decrease in loan originations, sale of third-party products, use of credit and debit cards by customers, and the efficiency of our debt collection efforts and the waiver of certain fees. The slowdown in economic activity has also significantly affected the business of many of our customers and could result in financial distress for our customer base. Moreover, the continued volatility in global and Indian financial and capital markets could adversely affect our corporate customers' ability to access debt markets, their cost of funds and other terms of any new debt, which, alongside the economic slowdown, may lead to a rise in the number of customer defaults and consequently an increase in provisions for credit losses. See also "*We have high concentrations of exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected and our ability to meet capital requirements could be jeopardized*".

Similarly, such market volatility, or a downgrade in our credit rating, may negatively affect our ability to access capital. We have implemented remote working arrangements for the majority of our employees, which may result in decreased employee productivity and efficiency and exacerbate certain IT-related risks, including an increased risk of cybersecurity attacks and the unauthorized dissemination of confidential information about us or our customers. COVID-19 may also lead to significant increases in employee absenteeism, including due to illness, quarantines and other restrictions related to the pandemic. Even where such restrictions are eased, we may still elect to continue our remote working arrangements, for example in the event of an outbreak of COVID-19 among our employees, as a preventive measure to contain the spread of the virus and protect the health of our workforce, or as a strategic measure.

The extent to which the COVID-19 pandemic will continue to impact our business, financial condition and results of operation, as well as our regulatory capital and liquidity ratios, will depend on future developments, including additional mutations of the virus and the availability and roll-out of vaccines in India, which are highly uncertain. Subsequent outbreaks that necessitate lockdown measures could prolong the economic impact of the COVID-19 pandemic. Even if the number of new COVID-19 cases were to significantly decrease, the negative effects on Indian and global economic conditions may persist into the future. The level of economic activity may not fully recover in the short term, or at all, due to changes in social norms, changes in customer and corporate client behavior and the macroeconomic business environment. The post-COVID-19 environment may also undergo unexpected developments or experience changes in financial markets and the fiscal, tax and regulatory environments. India, where a substantial portion of our operations are located, continues to be subject to regulatory, social, and political uncertainties in connection with the "second wave" of COVID-19.

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

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

In addition, India is not a party to any multilateral international treaty in relation to the recognition or enforcement of foreign judgments. Recognition and enforcement of foreign judgments is provided for under Section 13 and Section 44A of the Indian Code of Civil Procedure, 1908 (the "**Civil Procedure Code**"). Section 44A of the Civil Procedure Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India that the Government has, by notification, declared to be a reciprocating territory, that judgment may be enforced in India by proceedings in execution as if it had been rendered by the relevant court in India. However, Section 44A of the Civil Procedure Code is applicable only to monetary decrees other than those in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty and is not applicable to arbitration awards, even if such awards are enforceable as a decree or judgment. Furthermore, the execution of a foreign decree under Section 44A of the Civil Procedure Code is also subject to the exception under Section 13 of the Civil Procedure Code, as discussed below.

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

Risks Relating to an Investment in the Additional Tier 1 Notes

The Additional Tier 1 Notes are subordinated.

The Additional Tier 1 Notes will constitute unsecured and subordinated obligations of the Bank. The Additional Tier 1 Notes will rank *pari passu* and without preference among themselves and other subordinated debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines, whether currently outstanding or issued at any time in the future. The Additional Tier 1 Notes are not deposits and are not insured by the Bank or guaranteed or insured by any party related or unrelated to the Bank, including the Deposit Insurance and Credit Guarantee Corporation, and they may not be used as collateral for any loan made by the Bank. In the event of a liquidation or winding up of the Bank, claims in respect of the Additional Tier 1 Notes will rank: (a) senior to the claims of investors in equity shares and perpetual non-cumulative preference shares (if any) of the Bank, whether currently outstanding or issued at any time in the future; (b) subordinate to the claims of depositors, general creditors and holders of subordinated debt of the Bank other than any subordinated debt qualifying as Additional Tier 1 Capital (as defined in the Conditions) of the Bank; and (c) *pari passu* and without preference among themselves and other subordinated debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines, whether currently outstanding or issued at any time in the future. As a consequence of these subordination provisions, in the event of a winding-up of the Bank's operations, the holders of the Subordinated Notes may recover proportionately less than the holders of more senior-ranking liabilities, including the Bank's deposit liabilities and other unsubordinated liabilities.

As a result, in the event of a winding-up of the Bank's operations, the holders of the Additional Tier 1 Notes may recover proportionately less than the holders of more senior-ranking liabilities, including the Bank's deposit liabilities and other unsubordinated liabilities. As at June 30, 2021, all of the Bank's outstanding liabilities (including deposits, borrowings, call money and other liabilities, but excluding provisions), save for Rs.134.8 billion of its outstanding subordinated debt and perpetual debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines, would rank senior to the Additional Tier 1 Notes. In the event of the Bank's winding-up or liquidation, holders of the Additional Tier 1 Notes may claim for the Outstanding Nominal Amount of their Additional Tier 1 Notes (that is, the amount of such Additional Tier 1 Notes following any Write-Down or Reinstatements) plus any accrued but unpaid interest. Furthermore, if the Bank's indebtedness were to be accelerated, its assets may be insufficient to repay in full borrowings under all such debt instruments, including the Additional Tier 1 Notes.

The Additional Tier 1 Notes may be subject to write off on the occurrence of a PONV Trigger Event or a CET1 Trigger Event.

The Basel Committee recommended a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the "**Basel III Reforms**"). The principal elements of the Basel III Reforms are set out in the Basel Committee paper dated 16 December 2010 (as revised on 1 June 2011) and in a press release dated 13 January 2011. The Basel III Reforms were implemented in India, through RBI the Basel III Guidelines, with effect from 1 April 2013, and are subject to a series of transitional arrangements to be phased in over a period of time. The capital ratios specified in the Basel III Guidelines have been implemented in India and as per the RBI Circular No. RBI/2020-21/93 DOR.CAP.BC.No.34/21.06.201/2020-21 dated 5 February 2021, the capital conservation buffer requirement specified in the RBI Basel III Guidelines is expected to be fully implemented with effect from October 1, 2021. In order to ensure smooth migration to Basel III without aggravating any near term stress, appropriate grandfathering and transitional arrangements were made by the Basel Committee on Banking Supervision ("**BCBS**") in terms of which national implementation of Basel III began on 1 January 2013.

The Basel III Reforms include a requirement for all Additional Tier 1 instruments (such as the Additional Tier 1 Notes) to be written off or converted into ordinary shares upon the occurrence of a PONV Trigger Event (the "**PoNV rule**"). The PoNV rule may be met contractually (by inclusion of appropriate provisions in the terms and conditions of the instrument) or by the existence of laws in a jurisdiction that give relevant authorities appropriate powers. In India, the PoNV rule has been implemented as a requirement for appropriate provisions to be included in the terms and conditions of the instrument. A "**PONV Trigger Event**" under the Indian regulations means in respect of the Issuer, the earlier of: (a) a decision that a write-down, without which the Issuer would become non-viable, is necessary, as determined by the RBI; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined by the RBI. The Additional Tier 1 Notes will be permanently written-down on the occurrence of such PONV Trigger Event (see Condition 5(a)). In the event of a Write-Down (as defined in the Conditions), investors may lose the entire amount of their investment in any Additional Tier 1 Notes. In the event that a PONV Trigger Event or that the Issuer's Common Equity Tier 1 Ratio (as defined in the Conditions) is at or below the applicable CET1 Trigger Event Threshold (a "**CET1 Trigger Event**") occurs, all or some of the rights of holders of the Additional Tier 1 Notes shall be subject to a Write-Down (see Condition 5(b)). This may not result in the same outcome for the Noteholders as would have occurred upon the occurrence of any winding-up proceedings of the Bank.

Furthermore, upon the occurrence of a Write-Down of any Additional Tier 1 Notes, the right to receive interest on any portion of nominal amount Written-Down will cease and all interest amounts that were accrued, unpaid and payable prior to the Write-Down shall be cancelled. Consequently, Noteholders will not be entitled to receive any interest that has accrued on such portion of nominal amount of Additional Tier 1 Notes Written Down from (and including) the last Interest Payment Date falling on or prior to the Loss Absorption Event Notice. In the case of a Write-Down in respect of a PONV Trigger Event only, any such Write-Down will be permanent and the Noteholders will, upon the occurrence of such Write-Down, not receive any shares or other participation rights of the Bank or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Bank, or be entitled to any subsequent write-up or any other compensation in the event of a recovery of the Bank.

It will be difficult to predict when, if at all, a principal Write-Down of Additional Tier 1 Notes will occur. The RBI has provided limited guidance as to how it would determine non-viability. Under RBI regulations, non-viability could result from the Bank's financial and other difficulties likely to result in financial losses and affect its ability to continue as a going concern in the opinion of RBI. Non-viability may be declared by RBI in order to implement an augmentation of equity to restore depositors' and investors' confidence or improve the rating and creditworthiness of the Bank. However, it is possible that the RBI's position on these matters may change over time. Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of the Bank. For instance, systemic and non-systemic macroeconomic, environmental and operational factors, domestically or globally, may affect the viability of the Bank. Accordingly, trading behaviour in respect of any Additional Tier 1 Notes may not follow the trading behaviour associated with other types of securities. Potential investors in any Additional Tier 1 Notes should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such regulatory loss absorption measures are acted upon.

Furthermore, there can be no assurance that the Basel Committee will not propose further amendments to the Basel Accords or that the relevant authorities in India will not impose requirements on banks that are more onerous than those contained in the Basel III Reforms. Further changes in law after the date hereof may affect the rights of holders of the Additional Tier 1 Notes as well as the market value of the Additional Tier 1 Notes.

In addition, the Additional Tier 1 Notes will be Written-Down upon the occurrence of a CET1 Trigger Event. If the Bank's or the Group's Common Equity Tier 1 Ratio is at or below 5.5 percent (in the period prior to 1 October 2021) or 6.125 percent (thereafter), accrued and unpaid interest on the Additional Tier 1 Notes will be cancelled and the Outstanding Nominal Amount of the Additional Tier 1 Notes may be reduced (see Condition 5(b) of the Conditions). Holders may lose all or some of their investment as a result of a Write-Down. Following a Write-Down on occurrence of PONV Trigger Event, the principal amount so written down will be cancelled, and interest will continue to accrue only on the Outstanding Nominal Amount of the Additional Tier 1 Notes, which shall be lower than their Issued Nominal Amount.

Following a Write-Down pursuant to a CET1 Trigger Event, the Outstanding Nominal Amount of the relevant Additional Tier 1 Notes may be increased up to the Maximum Reinstatement Amount (each as defined in the Conditions). However, such Reinstatement is at the discretion of the Issuer and is subject to any conditions specified in (i) the Terms and Conditions of the Additional Tier 1 Notes or (ii) the RBI Basel III Guidelines, or as are otherwise notified to the Issuer by the RBI, from time to time. There can be no assurance that the Issuer will, or will be able to, exercise its discretion to reinstate any principal amount of Additional Tier 1 Notes which has been Written-Down.

The market price of the Additional Tier 1 Notes is expected to be affected by fluctuations in the Bank's and/or the Group's Core Equity Tier 1 Capital Ratio. Any indication that the Bank's and/or the Group's Core Equity Tier 1 Capital Ratio is trending towards 5.5 percent (in the period prior to 1 October 2021) or 6.125 percent (thereafter) may have an adverse effect on the market price of the Additional Tier 1 Notes. The level of the Bank's and/or the Group's Core Equity Tier 1 Capital Ratio may significantly affect the trading price of the Additional Tier 1 Notes.

The Bank may vary the terms of Additional Tier 1 Notes.

The Bank may, without the consent or approval of the Noteholders or the Trustee, but subject to the prior approval of the RBI, vary the terms of any Additional Tier 1 Notes, so that they remain or, as appropriate, become Qualifying Additional Tier 1, subject to certain conditions. The terms of such varied Additional Tier 1 Notes may contain one or more provisions that are substantially different from the terms of the original Additional Tier 1 Notes, provided that the Additional Tier 1 Notes remain Qualifying Additional Tier 1 Notes in accordance with the Conditions. While the Bank cannot make changes to the terms of the Additional Tier 1 Notes that would result in the varied securities having terms and conditions materially less favourable to a Noteholder than the Additional Tier 1 Notes, the Bank will determine whether such terms and conditions are materially less favourable and will not be required to take into account the tax treatment of the varied securities in the hands of all or any holder of Additional Tier 1 Notes. Furthermore, the Trustee has no obligation or ability to verify whether the requirements for such variations have been satisfied and will have no discretion in determining whether any such variation results in terms that are materially less favourable to the holders of Additional Tier 1 Notes. Accordingly, the tax and stamp duty consequences of holding such varied Additional Tier 1 Notes could be different for some categories of Noteholder from the tax and stamp duty consequences for them of holding the Additional Tier 1 Notes prior to such variation.

The terms of the Additional Tier 1 Notes contain no limitation on issuing debt or senior or pari passu securities.

The Additional Tier 1 Notes, the Trust Deed and the Agency Agreement do not limit the amount of liabilities ranking senior to the relevant Additional Tier 1 Notes which may be hereafter incurred or assumed by the Bank. Pursuant to Conditions 1(b) and 1(c) of the Conditions respectively, the Additional Tier 1 Notes will rank *pari passu* with the claims of subordinated obligations of the Bank which rank, or are expressed to rank, *pari passu* with the claims in respect of the Additional Tier 1 Notes, and any subordinated obligations of the Bank that were eligible for inclusion in hybrid Tier 1 capital under the Basel II guidelines, only to the extent permitted by the RBI guidelines at the relevant time. As at the date of this Offering Memorandum, the interpretation of the RBI guidelines on this point is unclear. Accordingly, investors should be aware that a particular series of the Additional Tier 1 Notes may rank junior to other Additional Tier 1 Notes and any outstanding instrument that qualified as hybrid tier I capital under the Basel II Guidelines in any winding-up proceedings of the Bank.

Upon the occurrence of a PONV Trigger Event or a CET1 Trigger Event, clearance and settlement of the Additional Tier 1 Notes will be suspended and there may be a delay in updating the records of the relevant clearing system to reflect the amount Written-Down.

Following the receipt of a Loss Absorption Event Notice upon the occurrence of a PONV Trigger Event or a CET1 Trigger Event, all clearance and settlement of the Additional Tier 1 Notes will be suspended. As a result, Noteholders will not be able to settle the transfer of any Additional Tier 1 Notes during the closed periods (as described in Condition 2(f)) and any sale or other transfer of the Additional Tier 1 Notes that a Noteholder may have initiated prior to the commencement of the closed periods (as described in Condition 2(f)) that is scheduled to settle during the closed periods (as described in Condition 2(f)) will be rejected by the relevant clearing system and will not be settled within the relevant clearing systems. The update process of the relevant clearing system may only be completed after the date on which the Write-Down is scheduled. Notwithstanding such delay, holders of the Additional Tier 1 Notes may lose the entire value of their investment in the Additional Tier 1 Notes on the date on which the Write-Down occurs. No assurance can be given as to the period of time required by the relevant clearing system to complete the update of their records or the availability of procedures in the relevant clearing systems to effect any Write-Down. Furthermore, the conveyance of notices and other communications by the relevant clearing system to their respective participants, by those participants to their respective indirect participants, and by the participants and indirect participants to beneficial owners of interests in the Global Note Certificate will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Interest amounts on the Additional Tier 1 Notes are not cumulative, may be cancelled at the Bank's discretion and must not be paid in certain circumstances.

Interest amounts on the Additional Tier 1 Notes are discretionary and non-cumulative. The Bank may elect at its full discretion not to pay and, in the circumstances outlined below, must not pay, all or some of the interest falling due on the Additional Tier 1 Notes on any Interest Payment Date. Any interest not so paid on any such Interest Payment Date shall be cancelled and shall no longer be due and payable by the Bank. A cancellation of interest pursuant to Condition 3(c) of the Conditions does not constitute a default under the Additional Tier 1 Notes for any purpose.

Further, pursuant to Condition 3(c) of the Conditions, the Bank may only pay interest on the Additional Tier 1 Notes to the extent that such payment of interest is permitted to be paid under the RBI Basel III Guidelines. Where the current year's profits are not sufficient and such payment needs to be made out of prescribed reserves, such payments are subject to the Bank meeting its minimum regulatory capital requirements at all times including the requirements of capital buffer frameworks (i.e., capital conservation buffer, countercyclical capital buffer and domestic systemically important banks ("**D-SIBs**") buffers) as set out in the RBI Basel III Guidelines. A failure to meet these requirements will result in a mandatory cancellation of interest payments.

Condition 3(c) of the Conditions sets out the circumstances in which the Bank is required to cancel interest payments on the Additional Tier 1 Notes pursuant to the RBI Basel III Guidelines. Investors should be aware that any change to the RBI Basel III Guidelines requiring the Bank to cancel interest payments in other or additional circumstances could be complied with by the Bank through its general discretion to cancel interest payments under Condition 3(c).

In addition, if the Bank's total Common Equity Tier 1 capital does not exceed the amount required to fulfil its capital buffer requirement (including the capital conservation buffer and any countercyclical capital buffer and D-SIBs buffer), the Bank will be required to conserve a percentage of its earnings (including through cancellation of interest payments on Tier 1 capital instruments such as the Additional Tier 1 Notes) in accordance with the following table:

Minimum capital conservation standards for individual bank[(1)]

Common Equity Tier 1 Ratio after including the current periods retained earnings	
As of March 31, 2021	**Minimum Capital Conservation Ratios**[(2)]
(%)	
5.50 – 6.125	100.00
>6.125 – 6.75	80.00
>6.75 – 7.375	60.00
>7.375 – 8.00	40.00
>8.00	0.00

Additional Tier 1

Notes:

(1) These exclude D-SIBs. As a D-SIB, the applicable ratio of Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets on the Bank is 0.2 percent as of 19 January 2021. The RBI, by its circular dated 17 April 2020, on the 'Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR)', has stated that while banks are required to maintain liquidity coverage ratio ("LCR") of 100 percent with effect from 1 January 2019, in order to accommodate the burden on the banks' cash flows on account of the COVID-19 pandemic, banks are permitted to maintain LCR as follows: (i) 80 percent from 17 April 2020 to 30 September 2020, 90 percent from 1 October 2020 to 31 March 2021 and (iii) 100 percent with effect from 1 April 2021.

(2) Expressed as a percentage of earnings.

Any actual or anticipated cancellation of interest on the Additional Tier 1 Notes will likely have an adverse effect on the market price of the Additional Tier 1 Notes. In addition, as a result of the interest cancellation provisions of the Additional Tier 1 Notes, the market price of the Additional Tier 1 Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Bank's financial condition.

The Additional Tier 1 Notes have no fixed maturity date and investors have no right to call for redemption of the Additional Tier 1 Notes.

The Additional Tier 1 Notes are perpetual unless the Bank elects to redeem the Additional Tier 1 Notes to the extent allowed by the Conditions. Accordingly, the Additional Tier 1 Notes have no fixed final redemption date. Although the Bank may redeem the Additional Tier 1 Notes at its option on the Issuer Call Date or at any time following the occurrence of certain tax and regulatory events, there are limitations on redemption of the Additional Tier 1 Notes, including the replacement of such instrument with capital of the same or better quality at conditions which are sustainable for the income capacity of the Bank, obtaining the prior written approval of the RBI and satisfaction of any conditions that the RBI and other relevant Indian authorities may impose at the time of such approval. During any period when the Bank may elect to redeem or vary the terms of the Additional Tier 1 Notes, the market value of the Additional Tier 1 Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. As such, the optional redemption feature that the Bank has upon the occurrence of certain tax and regulatory events prior to the Issuer Call Date may result in the Additional Tier 1 Notes not being redeemed at their market value.

There can be no assurance that the holders of the Additional Tier 1 Notes will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Additional Tier 1 Notes. During any period when the Bank may redeem the Additional Tier 1 Notes, the market value of the Additional Tier 1 Notes generally will not rise substantially above the redemption payable. Potential investors should consider re-investment risk in light of other investments available at that time.

Investors will have limited rights under the Additional Tier 1 Notes.

Holders of the Additional Tier 1 Notes will not be entitled to receive notice of, or attend or vote at, any meeting of shareholders of the Bank or participate in the management of the Bank. Investors will have no right to accelerate payments on the Additional Tier 1 Notes in the event of any default in payment on the Additional Tier 1 Notes. The Additional Tier 1 Notes will, subject to the prior approval of the RBI having been obtained and in accordance with Condition 8, only become due or repayable at their Outstanding Nominal Amount, together with accrued but unpaid interest, if any order of the Government is made for the winding up, liquidation or dissolution of the Issuer (as determined pursuant to the Companies Act and the BR Act), save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of the Noteholders.

The strict threshold of Basel III Guidelines may have an adverse effect on the Bank and the position of the Noteholders.

The Basel III Guidelines require, among other things, higher levels of tier I capital, including common equity, capital conservation buffers, deductions from common equity tier I capital for investments in subsidiaries (with minority interest), changes in the structure of debt instruments eligible for inclusion in tier I and tier II capital and preference shares in tier II capital, criteria for classification as common shares, methods to deal with credit risk and reputational risk, capital charges for credit risks, introduction of a leverage ratio and criteria for investments in capital of banks, financial and insurance entities (including where ownership is less than 10 percent). The Basel III Guidelines also stipulate that non-equity tier I and tier II capital should have loss absorbency characteristics, which require them to be written down or be converted into common equity upon the occurrence of a pre-specified trigger event.

In addition, the Basel Committee published a guidance report titled "Principles for Sound Liquidity Risk Management and Supervision" in September 2008 to address the deficiencies that were witnessed in liquidity risk management during the recent global financial crisis. This was followed by the publication of "Basel III: International framework for liquidity risk measurement, standards and monitoring" in December 2010 which introduced two minimum global regulatory standards, namely the LCR and the net stable funding ratio ("**NSFR**") and a set of monitoring tools. The LCR promotes short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid assets to survive an acute stress scenario lasting for 30 days. The NSFR promotes resilience over longer-term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. On 7 November 2012, the RBI issued guidelines to consolidate the various instructions or guidance on liquidity risk management and to harmonise and enhance these instructions or guidance in line with the Principles for Sound Liquidity Risk management and Supervision as well as the Basel III Guidelines. They include enhanced guidance on liquidity risk governance, the measurement, monitoring and reporting of liquidity positions to the RBI and minimum global regulatory standards of LCR and NSFR.

The RBI and/or any other relevant authority, including the relevant regulatory authorities in the jurisdictions where the Bank's branches are located, may implement the package of reforms, including the terms which capital securities are required to have, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements. Although the Bank's current capitalization levels are in line with these requirements, unless it is able to access the necessary amount of additional capital, any incremental increase in the capital requirement may adversely impact the Bank's ability to grow its business or may require the Bank to withdraw from or curtail some of its current business operations. There can be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favourable to it or at all.

The interest rate on the Additional Tier 1 Notes will be reset on each Reset Date, which may affect the market value of the Additional Tier 1 Notes.

The Additional Tier 1 Notes will initially bear interest at the fixed rate of 3.70 percent per annum to, but excluding the First Reset Date (as defined in the Conditions). However, from and including the First Reset Date to, but excluding, the next Reset Date (as defined in the Conditions), the interest rate will be reset to a rate per annum which will be equal to the sum of the 5 year US Treasury Rate in relation to that Reset Period (as defined in the Conditions) plus 2.925 percent per annum. Any reset rate could be less than the initial interest rate and could therefore adversely affect the market value of an investment in the Additional Tier 1 Notes.

A downgrading of the ratings of the Additional Tier 1 Notes may affect their market price.

The Additional Tier 1 Notes are expected to be rated "Ba3" by Moody's Investors Service Limited. The ratings may not fully reflect the potential impact of all risks relating to the structure, market and other factors in relation to the Additional Tier 1 Notes as discussed above, and there may be other factors that may affect the value of the Additional Tier 1 Notes.

A rating is not a recommendation to buy, sell or hold the Additional Tier 1 Notes and may be subject to revision and withdrawal at any time by the rating agency. The rating agency may also amend or fully replace the method it uses for assigning credit ratings.

The Bank's rating may be affected by changes in its results of operations, capital structure or other factors, which will mean certain risks for the investors. In addition, the Bank can give no assurance that a rating will remain unchanged during a specific range of time, or the rating agency will not downgrade or withdraw a rating based on its assessment of the future developments or as a result of the adoption of a different rating methodology. Such risks may affect the market price and liquidity of the Additional Tier 1 Notes.

Noteholders' rights to receive payments on the Additional Tier 1 Notes are junior to certain tax and other liabilities preferred by law.

The Additional Tier 1 Notes will be subordinated to certain liabilities preferred by law such as claims of the Government on account of taxes, and certain liabilities incurred in the ordinary course of the Bank's trading or banking transactions.

In particular, in the event of bankruptcy, liquidation or winding up, the Bank's assets will be available to pay obligations on the Additional Tier 1 Notes only after all of those liabilities of the Bank that rank senior to such Additional Tier 1 Notes have been paid. In the event of bankruptcy, liquidation or winding up, there may not be sufficient assets remaining, after paying amounts relating to these proceedings, to pay amounts due on the Additional Tier 1 Notes.

The Additional Tier 1 Notes are subject to transfer restrictions.

The Additional Tier 1 Notes have not been and will not be registered under the Securities Act or the securities laws of any of the United States or other jurisdictions and the securities may not be offered or sold except in accordance with an applicable exemption from the registration requirements of the Securities Act or in a transaction not subject to the registration requirements of the Securities Act and the applicable state or local securities laws. Accordingly, the Additional Tier 1 Notes are being offered and sold only (a) to QIBs (as defined in Rule 144A) in compliance with Rule 144A, and (b) outside the United States in offshore transactions in reliance upon Regulation S. For a further discussion of the transfer restrictions applicable to the Additional Tier 1 Notes, see "*Transfer Restrictions*".

The Additional Tier 1 Notes do not restrict the Bank's ability to incur additional debt, repurchase the Bank's Additional Tier 1 Notes or to take other actions which could negatively impact holders of the Additional Tier 1 Notes.

The Bank is not restricted under the terms of the Additional Tier 1 Notes from incurring additional debt, including secured debt, or from repurchasing the Bank's Additional Tier 1 Notes (except to the extent as set out in Condition 4(h)). In addition, the covenants applicable to the Additional Tier 1 Notes do not require the Bank to achieve or maintain any minimum financial results relating to the Bank's financial position or results of operations. The Bank's ability to recapitalize, incur additional debt and take other actions are not limited by the terms of the Additional Tier 1 Notes and could have the effect of diminishing the Bank's ability to make payments on the Additional Tier 1 Notes when due.

Payments under the Additional Tier 1 Notes may be subject to RBI guidelines regarding remittances of funds outside India.

Remittance of funds outside India by the Issuer pursuant to indemnity clauses under the Conditions, the Trust Deed or any other agreements in relation to the Additional Tier 1 Notes requires prior RBI approval under RBI regulations. If the Bank is unable to make payments with respect to the Additional Tier 1 Notes from its overseas branches and instead makes payments from India, such payments shall be subject to RBI regulations governing the remittance of funds outside India. The Bank is under no obligation to maintain liquidity at its overseas branches to make interest payments due on the Additional Tier 1 Notes. Any approval, if and when required, for the remittance of funds outside India is at the discretion of the RBI and the Bank can give no assurance that it will be able to obtain such approvals.

Redemption of the Additional Tier 1 Notes requires the prior approval of the RBI.

Any redemption of the Additional Tier 1 Notes will be subject to limitations on the ability of the Issuer to redeem the Additional Tier 1 Notes, including obtaining the prior written approval of the RBI or other approval, and compliance with any conditions that the RBI or other relevant Indian authorities may impose at the time of such approval. The RBI, while considering the request of the Issuer to so redeem any Additional Tier 1 Notes, may take into consideration, amongst other things, the Issuer's capital adequacy position both at the time of the proposed redemption and thereafter. Prior approval of the RBI may be required by the Issuer for the payment of withholding tax in any jurisdiction other than India in a foreign currency. There can be no assurance that the RBI or other relevant Indian authorities will provide such approval in a timely manner, or at all.

The Additional Tier 1 Notes may have limited liquidity.

The Additional Tier 1 Notes constitute a new issue of securities for which there is no existing market. Application will be made to list the Additional Tier 1 Notes on the GSM of the India INX. Although the Joint Lead Managers have advised the Bank that they currently intend to make a market in the Additional Tier 1 Notes, they are not obligated to do so, and any market-making activity with respect to the Additional Tier 1 Notes, if commenced, may be discontinued at any time without notice in their sole discretion. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Additional Tier 1 Notes. If an active trading market for the Additional Tier 1 Notes does not develop or is not maintained, the market price and liquidity of the Additional Tier 1 Notes may be adversely affected. If such a market were to develop, the Additional Tier 1 Notes could trade at prices that may be higher or lower than the price at which the Additional Tier 1 Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting India;
- the market conditions for similar securities; and
- the financial condition and stability of the Indian financial sector.

Definitive Additional Tier 1 Notes may not be available in certain denominations.

In relation to any issue of Additional Tier 1 Notes which are tradable in clearing systems in amounts other than integral multiples of the relevant minimum or specified denomination, should definitive Additional Tier 1 Notes be required to be issued, a holder who does not have such integral multiple in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Additional Tier 1 Notes unless and until such time as his holding becomes an integral multiple thereof.

Decisions may be made on behalf of all Noteholders that may be adverse to the interests of individual Noteholders.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Investment in the Additional Tier 1 Notes may subject investors to foreign exchange risks.

The Additional Tier 1 Notes are denominated and payable in U.S. dollars. If an investor measures its investment returns by reference to a currency other than U.S. dollars, an investment in the Additional Tier 1 Notes entails foreign exchange-related risks, including possible significant changes in the value of the U.S. dollar relative to the currency by reference to which an investor measures its investment returns, due to, among other things, economic, political and other factors over which the Bank has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Additional Tier 1 Notes below their stated coupon rates and could result in a loss when the return on the Additional Tier 1 Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign exchange gains resulting from any investment in the Additional Tier 1 Notes.

There are certain restrictions under the BR Act which may affect or restrict the rights of investors under the Additional Tier 1 Notes.

Under Sections 35A and 36 of the BR Act (which apply to the Issuer), the RBI is empowered to give directions to the Issuer, prohibit the Issuer from entering into any transactions, and advise the Issuer generally. Consequently, the performance of obligations by the Issuer under the Additional Tier 1 Notes, the Subscription Agreement, agency agreement and the trust deed in relation to the Additional Tier 1 Notes may be restricted by the directions given by the RBI under the aforesaid provisions. Further, under Section 50 of the BR Act, no person shall have a right, whether in contract or otherwise, to any compensation for any loss incurred by reason of operation of certain provisions of the BR Act, including Sections 35A and 36 of the BR Act. Therefore, holders of the Additional Tier 1 Notes may not be able to claim any compensation for a failure by the Issuer to perform its obligations under the Additional Tier 1 Notes, consequent to the operation of the aforesaid provisions.

USE OF PROCEEDS

The gross proceeds from the sale of the Additional Tier 1 Notes is U.S.$1,000,000,000. Subject to compliance with applicable laws and regulations, we intend to use the proceeds after the deduction of fees to strengthen our capital structure and ensure adequate capital to support growth and expansion, including enhancing our solvency and capital adequacy ratio.

EXCHANGE RATES

Although certain Indian Rupee amounts in this Offering Memorandum have been translated into U.S. dollars for convenience, this does not mean that the Indian Rupee amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, at the rates stated below, or at all. Unless otherwise stated, all translations from Indian Rupees to United States dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at U.S.$1.00 = Rs. 73.14 on March 31, 2021. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 09, 2021 was Rs. 74.53 per U.S.$1.00.

The following table sets forth, for the periods indicated, certain information concerning the exchange rates between Indian Rupees and U.S. dollars. The exchange rates reflect the rates as reported by the Federal Reserve Bank of New York based on the noon buying rate in the City of New York for cable transfers.

Exchange Rate – Rs. per U.S.$

Period	End[(1)]	Average[(2)]	High	Low
Year ended March 31, 2018	65.1100	64.4574	65.7100	63.3800
Year ended March 31, 2019	69.1600	69.8694	74.3300	64.9200
Year ended March 31, 2020	75.3900	70.8945	76.3700	68.4000
Year ended March 31, 2021	73.1400	74.2496	76.9500	72.3700
April 2021	74.0000	74.5186	75.4200	73.2900
May 2021	72.4200	73.2065	73.8200	72.4200
June 2021	74.3300	73.5782	74.3700	72.8000

Source: https://www.federalreserve.gov/releases/h10/hist/dat00_in.htm

Notes:

(1) The exchange rate at each period end and the average rate for each period differ from the exchange rates used in the preparation of the Bank's financial statements and financial information.

(2) For full year averages, represents the average of the exchange rate on the last day of each month during the period; for month averages, represents the daily exchange rate average.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the non-consolidated indebtedness and capitalisation of the Bank as at June 30, 2021. This table should be read in conjunction with the Bank's June Financial Results and the notes related thereto.

	As at June 30, 2021			
	Actual		As Adjusted	
	(Rs. in millions)	(U.S.$ in millions)[1]	(Rs. in millions)	(U.S.$ in millions)[1]
Indebtedness				
Deposits	13,458,293.4	181,061.4	13,458,293.4	181,061.4
Borrowings excluding subordinated debt and perpetual debt	1,177,980.2	15,848.0	1,177,980.2	15,848.0
Subordinated debt	54,770.0	736.8	54,770.0	736.8
Perpetual debt	80,000.0	1,076.3	80,000.0	1,076.3
Additional Tier 1 Notes to be issued	–	–	74,330.0[3]	1,000.0
Total indebtedness (A)	14,771,043.6	198,722.5	14,845,373.6	199,722.5
Shareholders' Funds				
Capital[2]	5,526.7	74.4	5,526.7	74.4
Reserves and surplus	2,119,352.7	28,512.7	2,119,352.7	28,512.7
Total shareholders' funds (B)	2,124,879.4	28,587.1	2,124,879.4	28,587.1
Total Capitalisation (A+B)	16,895,923.0	227,309.6	16,970,253.0	228,309.6
Capital Adequacy Ratio (percentage)				
Tier I		17.9%		18.5%
Tier II		1.2%		1.2%
Total		19.1%		19.7%

Notes:

(1) The Indian Rupee amounts herein have been translated to U.S. Dollars using the exchange rate of U.S.$1.00 = Rs. 74.33 based on the noon buying rate in the City of New York for cable transfers in Indian rupees on June 30, 2021.

(2) As at June 30, 2021, there were 5,526,719,098 equity shares of par value Rs. 1 each outstanding.

(3) For the purposes of this Capitalization and Indebtedness table, the gross proceeds of the Offering have been translated using the exchange rate of U.S.$1.00 = Rs. 74.33 based on the noon buying rate in the City of New York for cable transfers in Indian rupees on June 30, 2021.

Non-consolidated contingent liabilities (as per Accounting Standard 29 – Provisions, Contingent Liabilities & Contingent Assets and the requirements of Schedule 3 of the BR Act) as at June 30, 2021 amounted to Rs. 9,963,168.2 million.

SELECTED FINANCIAL INFORMATION

The following tables set forth our selected financial and other data. The selected financial information below are derived from our audited financial statements included elsewhere in this Offering Memorandum.

For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2021 have been translated into U.S. dollars at the rate on such date of Rs. 73.14 per U.S.$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

By an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a sub division (stock split) of the Bank's equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share and American Depositary Shares ("**ADS**") and per share and ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

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

	As of or for the year ended March 31,				
	2018	2019	2020	2021	2021
	(in millions, except per equity share data and ADS data)				
Selected income statement data:					
Interest and dividend revenue	Rs.843,465.3	Rs.1,041,714.9	Rs.1,211,982.9	Rs.1,275,967.6	U.S.$17,445.6
Interest expense	420,314.7	534,209.3	618,455.5	592,281.1	8,097.8
Net interest revenue	423,150.6	507,505.6	593,527.4	683,686.5	9,347.8
Provisions for credit losses[(1)]	59,397.8	72,279.3	117,621.9	154,233.4	2,108.7
Net interest revenue after provisions for credit losses	363,752.8	435,226.3	475,905.5	529,453.1	7,239.1
Non-interest revenue, net	144,607.0	160,122.2	198,219.0	252,975.7	3,458.7
Net revenue	508,359.8	595,348.5	674,124.5	782,428.8	10,697.8
Non-interest expense	231,253.4	255,389.5	308,280.5	342,602.3	4,684.2
Income before income tax expense	277,106.4	339,959.0	365,844.0	439,826.5	6,013.6
Income tax expense	98,272.5	119,393.5	105,480.0	113,820.1	1,556.2
Net income before non controlling interest	178,833.9	220,565.5	260,364.0	326,006.4	4,457.4
Less: Net income attributable to shareholders of non controlling interest	319.0	461.7	94.1	29.3	0.4
Net income attributable to HDFC Bank Limited	Rs.178,514.9	Rs.220,103.8	Rs.260,269.9	Rs.325,977.1	U.S.$4,457.0
Per equity share data:					
Earnings per equity share, basic	Rs.34.59	Rs.41.07	Rs.47.59	Rs.59.27	U.S.$0.81
Earnings per equity share, diluted	34.15	40.66	47.27	59.02	0.80
Dividends per share	6.50	7.50	2.50	6.50	0.09
Book value[(2)]	226.23	299.74	345.25	391.75	5.36
Equity share data:					
Equity shares outstanding at end of period	5,190.2	5,446.6	5,483.3	5,512.8	5,512.8
Weighted average equity shares outstanding–basic	5,161.0	5,360.0	5,468.8	5,499.6	5,499.6
Weighted average equity shares outstanding–diluted	5,227.8	5,413.6	5,505.8	5,523.5	5,523.5
ADS data (where one ADS represents three shares):					
Earnings per ADS–basic	103.77	123.21	142.77	177.81	2.43
Earnings per ADS–diluted	102.45	121.98	141.81	177.06	2.40

	As of March 31,				
	2018	2019	2020	2021	2021
	(in millions)				
Selected balance sheet data:					
Cash and due from banks, and restricted cash	Rs.574,151.0	Rs.734,872.6	Rs.611,961.0	Rs.930,694.7	U.S.$12,724.8
Loans, net of allowance[1]	7,263,671.8	8,963,232.6	10,425,022.4	11,700,189.2	159,969.8
Investments:					
Investments held for trading	167,513.9	265,516.1	304,962.9	99,620.2	1,362.0
Investments available for sale, debt securities	2,221,443.3	2,633,348.4	3,406,289.2	4,275,449.9	58,455.7
Total	2,388,957.2	2,898,864.5	3,711,252.1	4,375,070.1	59,817.7
Total assets[3]	Rs.11,367,308.8	Rs.13,280,073.6	Rs.15,961,889.1	Rs.17,979,782.0	U.S.$245,826.9
Long-term debt	932,906.3	1,044,553.0	1,026,518.3	1,174,758.2	16,061.8
Short-term borrowings	779,201.7	654,058.0	377,417.6	239,264.1	3,271.3
Total deposits	7,883,751.5	9,225,026.9	11,462,071.3	13,337,230.2	182,352.1
Of which:					
Interest-bearing deposits	6,693,649.3	7,804,717.5	9,730,481.3	11,226,467.8	153,492.9
Non-interest bearing deposits	1,190,102.2	1,420,309.4	1,731,590.0	2,110,762.4	28,859.2
Total liabilities[3]	10,190,815.5	11,644,449.0	14,065,395.3	15,816,377.2	216,248.0
Noncontrolling interest	2,329.7	3,049.3	3,411.4	3,776.4	51.6
HDFC Bank Limited shareholders' equity	1,174,163.6	1,632,575.3	1,893,082.4	2,159,628.4	29,527.3
Total liabilities and shareholders' equity	Rs.11,367,308.8	Rs.13,280,073.6	Rs.15,961,889.1	Rs.17,979,782.0	U.S.$245,826.9

	Year ended March 31,				
	2018	2019	2020	2021	2021
	(in millions)				
Period average[4]					
Interest-earning assets	Rs.9,052,769.4	Rs.11,082,789.8	Rs.12,882,466.7	Rs.15,385,116.2	U.S.$210,351.6
Loans, net of allowance	6,507,446.5	8,012,985.1	9,342,363.0	10,589,490.6	144,783.8
Total assets	9,634,335.7	11,774,471.6	13,797,721.6	16,396,029.4	224,173.2
Interest-bearing deposits	5,849,539.4	7,131,163.3	8,684,183.5	10,628,807.9	145,321.4
Non-interest bearing deposits	946,157.4	1,029,226.1	1,202,574.5	1,430,913.3	19,564.0
Total deposits	6,795,696.8	8,160,389.4	9,886,758.0	12,059,721.2	164,885.4
Interest-bearing liabilities	7,260,929.1	8,926,793.0	10,306,283.8	12,287,815.7	168,004.0
Long-term debt	881,556.7	1,015,061.9	1,023,425.5	1,109,959.9	15,175.8
Short-term borrowings	529,833.0	780,567.8	598,674.8	549,047.9	7,506.8
Total liabilities	8,553,295.8	10,355,177.0	12,069,459.7	14,368,425.0	196,451.0
Total shareholders' equity	1,081,039.9	1,419,294.6	1,728,261.9	2,027,604.4	27,722.2

	As of or for the year ended March 31,			
	2018	2019	2020	2021
	(in percentages)			
Profitability:				
Net income attributable to HDFC Bank Limited as a percentage of:				
Average total assets	1.9	1.9	1.9	2.0
Average total shareholders' equity	16.5	15.5	15.1	16.1
Dividend payout ratio[5]	18.9	18.6	5.3	11.0
Spread[6]	4.2	4.0	4.0	4.0
Net interest margin[7]	4.7	4.6	4.6	4.4
Cost-to-net revenue ratio[8]	45.5	42.9	45.7	43.8
Cost-to-average assets ratio[9]	2.4	2.2	2.2	2.1
Capital:				
Total capital adequacy ratio[10]	14.82	17.11	18.52	18.79
Tier I capital adequacy ratio[10]	13.25	15.78	17.23	17.56
Tier II capital adequacy ratio[10]	1.57	1.33	1.29	1.23
Average total shareholders' equity as a percentage of average total assets	11.2	12.1	12.5	12.4

	As of or for the year ended March 31,			
	2018	2019	2020	2021
	(in percentages)			
Asset quality:				
Gross non-performing customer assets as a percentage of gross customer assets(11)	1.4	1.5	1.4	1.7
Total allowance for credit losses as a percentage of gross non-performing credit assets	103.5	105.6	126.3	160.7

(1) With effect from April 1, 2020 the Bank adopted FASB ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326)" using the modified retrospective method for reporting periods beginning after April 1, 2020. Prior period amounts continue to be reported in accordance with previously applicable GAAP.

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

(3) With effect from April 1, 2019, the Bank adopted FASB ASU 2016-02 "Leases (Topic 842)" using the modified retrospective method.

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

(5) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends declared each year are typically paid in the following fiscal year. With effect from April 1, 2020, dividend distribution tax on dividends distributed has been abolished. The dividend for fiscal 2020 represents the special interim dividend paid during that year.

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

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

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

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

(10) Calculated in accordance with RBI guidelines (Basel III Capital Regulations, generally referred to as "Basel III"). See also "*Supervision and Regulation*".

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

SELECTED STATISTICAL INFORMATION

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

Average Balance Sheet

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

	Year ended March 31,								
	2019			2020			2021		
	Average balance	Interest revenue/ expense	Average yield/cost	Average balance	Interest revenue/ expense	Average yield/cost	Average balance	Interest revenue/ expense	Average yield/cost
	(Rs. in millions, except percentages)								
Assets:									
Interest-earning assets:									
Due from banks[1]	148,277.5	7,221.5	4.9%	431,461.7	18,665.8	4.3%	822,620.6	24,169.1	2.9%
Investments available for sale debt securities	2,617,688.2	190,992.5	7.3	2,811,228.3	198,383.2	7.1	3,751,942.6	226,690.9	6.0
Investments held for trading	165,237.5	8,892.9	5.4	160,667.5	7,392.1	4.6	81,621.3	3,373.8	4.1
Loans, net:									
Retail loans	5,655,160.9	626,359.1	11.1	6,465,548.5	736,290.1	11.4	6,975,006.4	757,784.4	10.9
Wholesale loans	2,357,824.2	201,323.9	8.5	2,876,814.5	245,504.7	8.5	3,614,484.2	259,263.4	7.2
Other assets	138,601.5	6,925.0	5.0	136,746.2	5,747.0	4.2	139,441.1	4,686.0	3.4
Total interest-earning assets:	11,082,789.8	1,041,714.9	9.4%	12,882,466.7	1,211,982.9	9.4%	15,385,116.2	1,275,967.6	8.3%
Non-interest-earning assets:									
Cash and due from banks, and restricted cash	415,721.0			490,459.0			474,736.0		
Property and equipment	40,943.0			45,124.2			50,822.3		
Other assets	235,017.8			379,671.7			485,354.9		
Total non-interest earning assets	691,681.8			915,254.9			1,010,913.2		
Total assets	11,774,471.6	1,041,714.9	8.8%	13,797,721.6	1,211,982.9	8.8%	16,396,029.4	1,275,967.6	7.8%
Liabilities:									
Interest-bearing liabilities:									
Savings account deposits	2,226,287.0	80,630.0	3.6%	2,552,856.0	92,813.0	3.6%	3,392,406.0	108,107.0	3.2%
Time deposits	4,904,876.3	329,396.4	6.7	6,131,327.5	415,075.8	6.8	7,236,401.9	393,153.2	5.4
Short-term borrowings[2]	780,567.8	39,101.8	5.0	598,674.8	27,366.2	4.6	549,047.9	12,659.4	2.3
Long-term debt	1,015,061.9	85,081.1	8.4	1,023,425.5	83,200.5	8.1	1,109,959.9	78,361.5	7.1
Total interest-bearing liabilities	8,926,793.0	534,209.3	6.0%	10,306,283.8	618,455.5	6.0%	12,287,815.7	592,281.1	4.8%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	1,029,226.1			1,202,574.5			1,430,913.3		
Other liabilities	399,157.9			560,601.4			649,696.0		
Total non-interest-bearing liabilities	1,428,384.0			1,763,175.9			2,080,609.3		
Total liabilities	10,355,177.0	534,209.3	5.2%	12,069,459.7	618,455.5	5.1%	14,368,425.0	592,281.1	4.1%
Total shareholders' equity	1,419,294.6			1,728,261.9			2,027,604.4		
Total liabilities and shareholders' equity	11,774,471.6	534,209.3	4.5%	13,797,721.6	618,455.5	4.5%	16,396,029.4	592,281.1	3.6%

(1) Includes securities purchased under agreements to resell.

(2) Includes securities sold under repurchase agreements.

Analysis of Changes in Interest Revenue and Interest Expense

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

	Fiscal 2020 vs. Fiscal 2019 Increase (decrease)(1) due to			Fiscal 2021 vs. Fiscal 2020 Increase (decrease)(1) due to		
	Net change	Change in Average balance	Change in Average rate	Net change	Change in Average balance	Change in Average rate
	(Rs. in millions)					
Interest revenue:						
Cash and due from banks, and restricted cash	11,444.3	13,791.8	(2,347.5)	5,503.3	16,922.2	(11,418.9)
Investments available for sale debt securities	7,390.7	13,736.0	(6,345.3)	28,307.7	66,384.5	(38,076.8)
Investments held for trading	(1,500.8)	(246.0)	(1,254.8)	(4,018.3)	(3,636.8)	(381.5)
Loans, net:						
Retail loans	109,931.1	89,757.6	20,173.5	21,494.2	58,016.6	(36,522.4)
Wholesale loans	44,180.7	44,314.2	(133.5)	13,758.8	62,952.0	(49,193.2)
Other assets	(1,178.0)	(92.7)	(1,085.3)	(1,061.0)	113.3	(1,174.3)
Total interest-earning assets	170,268.0	161,260.9	9,007.1	63,984.7	200,751.8	(136,767.1)
Interest expense:						
Savings account deposits	12,183.0	11,827.4	355.6	15,294.0	30,523.1	(15,229.1)
Time deposits	85,679.4	82,364.7	3,314.7	(21,922.6)	74,810.8	(96,733.4)
Short-term borrowings	(11,735.6)	(9,111.8)	(2,623.8)	(14,706.8)	(2,268.5)	(12,438.3)
Long-term debt	(1,880.6)	701.0	(2,581.6)	(4,839.0)	7,034.9	(11,873.9)
Total interest-bearing liabilities	84,246.2	85,781.3	(1,535.1)	(26,174.4)	110,100.3	(136,274.7)
Net interest revenue	86,021.8	75,479.6	10,542.2	90,159.1	90,651.5	(492.4)

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

Yields, Spreads and Margins

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

	Year ended March 31,		
	2019	2020	2021
	(Rs. in millions, except percentages)		
Interest and dividend revenue	1,041,714.9	1,211,982.9	1,275,967.6
Average interest-earning assets	11,082,789.8	12,882,466.7	15,385,116.2
Interest expense	534,209.3	618,455.5	592,281.1
Average interest-bearing liabilities	8,926,793.0	10,306,283.8	12,287,815.7
Average total assets	11,774,471.6	13,797,721.6	16,396,029.4
Average interest-earning assets as a percentage of average total assets	94.1%	93.4%	93.8%
Average interest-bearing liabilities as a percentage of average total assets	75.8%	74.7%	74.9%
Average interest-earning assets as a percentage of average interest-bearing liabilities	124.2%	125.0%	125.2%
Yield	9.4%	9.4%	8.3%
Cost of funds(1)	5.2%	5.1%	4.1%
Spread(2)	4.0%	4.0%	4.0%
Net interest margin(3)	4.6%	4.6%	4.4%

(1) Excludes total shareholders' equity.

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

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

Return on Equity and Assets

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

	Year ended March 31,		
	2019	2020	2021
	(Rs. in millions, except percentages)		
Net income	220,103.8	260,269.9	325,977.1
Average total assets	11,774,471.6	13,797,721.6	16,396,029.4
Average total shareholders' equity	1,419,294.6	1,728,262.0	2,027,604.3
Net income as a percentage of average total assets	1.9%	1.9%	2.0%
Net income as a percentage of average total shareholders' equity	15.5%	15.1%	16.1%
Average total shareholders' equity as a percentage of average total assets	12.1%	12.5%	12.4%
Dividend payout-ratio*	18.6%	5.3%	11.0%

*See note (5) to the table under "*Selected Financial And Other Data*".

Investment Portfolio

Available for Sale Debt Investments

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

	At March 31,											
	2019				2020				2021			
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair Value
	(Rs. in millions)											
Government securities	2,292,568.3	26,746.0	10,310.6	2,309,003.7	2,814,520.3	63,967.7	1,491.6	2,876,996.4	3,507,972.9	39,198.3	22,895.4	3,524,275.8
Government securities outside India	7,201.6	3.3	–	7,204.9	8,367.0	48.4	0.0	8,415.4	5,932.2	3.8	–	5,936.0
Other debt securities	277,475.7	930.8	1,570.1	276,836.4	390,452.4	2,522.3	1,086.9	391,887.8	570,646.1	13,775.6	385.6	584,036.1
Total debt securities	2,577,245.6	27,680.1	11,880.7	2,593,045.0	3,213,339.7	66,538.4	2,578.5	3,277,299.6	4,084,551.2	52,977.7	23,281.0	4,114,247.9
Others*	40,259.7	166.3	122.6	40,303.4	127,392.6	1,747.0	150.0	128,989.6	157,430.4	4,083.3	311.7	161,202.0
Total	2,617,505.3	27,846.4	12,003.3	2,633,348.4	3,340,732.3	68,285.4	2,728.5	3,406,289.2	4,241,981.6	57,061.0	23,592.7	4,275,449.9

* Includes asset and mortgage backed securities.

Held for Trading Investments

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

	At March 31,											
	2019				2020				2021			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(Rs. in millions)											
Government securities	134,084.9	163.2	0.1	134,248.0	207,131.4	592.9	17.2	207,707.1	15,076.0	85.8	2.6	15,159.2
Other debt securities	33,990.6	15.8	1.1	34,005.3	4,495.9	7.1	32.5	4,470.5	34,803.9	43.3	0.4	34,846.8
Total debt securities	168,075.5	179.0	1.2	168,253.3	211,627.3	600.0	49.7	212,177.6	49,879.9	129.1	3.0	50,006.0
Non-debt securities	96,935.6	327.2	–	97,262.8	92,683.9	101.40	–	92,785.3	52,912.2	110.9	3,408.9	49,614.2
Total	265,011.1	506.2	1.2	265,516.1	304,311.2	701.4	49.7	304,962.9	102,792.1	240.0	3,411.9	99,620.2

Residual Maturity Profile

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

	At March 31, 2021							
	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Rs. in millions, except percentages)							
Government securities	794,709.4	3.4%	889,097.7	4.3%	1,125,855.5	6.4%	714,613.2	4.4%
Government securities outside India	5,936.1	0.0	–	–	–	–	–	–
Other debt securities	48,630.2	4.5	499,225.6	5.3	19,493.7	7.3	16,686.3	6.1
Total debt securities, fair value	849,275.7	3.5%	1,388,323.3	4.6%	1,145,349.2	6.4%	731,299.5	4.4%
Total amortized cost	847,885.7		1,362,628.4		1,133,763.6		740,273.5	

Funding

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 77 percent and 80 percent of total deposits, as of March 31, 2020 and March 31, 2021. Wholesale banking deposits represented 23 percent and 20 percent of total deposits, as of March 31, 2020 and March 31, 2021.

Total Deposits

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of the daily balance for the relevant period) of savings deposits was 3.6 percent in fiscal 2019 and fiscal 2020, and 3.2 percent in fiscal 2021. The average cost of time deposits was 6.7 percent in fiscal 2019, 6.8 percent in fiscal 2020 and 5.4 percent in fiscal 2021. The average deposits for the periods set forth are as follows:

	Year ended March 31,					
	2019		2020		2021	
	Amount	% of total	Amount	% of total	Amount	% of total
	(Rs. in millions, except percentages)					
Current deposits	1,029,226.1	12.6%	1,202,574.5	12.2%	1,430,913.3	11.9%
Savings deposits	2,226,287.0	27.3	2,552,856.0	25.8	3,392,406.0	28.1
Time deposits	4,904,876.3	60.1	6,131,327.5	62.0	7,236,401.9	60.0
Total	8,160,389.4	100.0%	9,886,758.0	100.0%	12,059,721.2	100.0%

As of March 31, 2021, individual time deposits in excess of Rs. 0.1 million had a balance to maturity profile as follows:

	At March 31, 2021			
	Up to three months	Three to six months	Six to twelve months	More than one year
	(Rs. in millions)			
Balance to maturity for time deposits exceeding Rs. 0.1 million each	2,052,519.8	1,506,875.6	2,158,637.9	1,251,186.9

Short-term Borrowings

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

	Years ended March 31,		
	2019	2020	2021
	(Rs. in millions, except percentages)		
Period end	828,058.0	885,399.6	595,323.3
Average balance during the period	780,567.8	598,674.8	549,047.9
Maximum outstanding	1,112,780.5	971,364.0	1,149,499.8
Average interest rate during the period[(1)]	5.0%	4.6%	2.3%
Average interest rate at period end[(2)]	5.6%	1.6%	2.6%

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

(2) Represents the weighted average rate of short-term borrowings outstanding as of March 31, 2019, 2020 and 2021.

Subordinated Debt

We also obtain funds from the issuance of unsecured subordinated debt securities, which qualify as Tier I or Tier II capital as per the eligibility criteria under the RBI's Basel III capital regulations. Subordinated debt and Perpetual Debt Instruments with face value outstanding as of March 31, 2021 were Rs. 126.28 billion (previous year: Rs. 133.76 billion) and Rs. 85.00 billion (previous year: 85.00 billion), respectively. The breakup of the same is shown hereunder:

Type	Currency	Year of issue	Year of maturity	Average tenor (years)	Interest rate (%)	Year of call	Face value (Rupees in billions)
Tier II	INR	2011-12	2026-27	15.0	9.48	2021-22	36.50
Tier II	INR	2012-13	2027-28	15.0	9.45	2022-23	34.77
Tier II	INR	2012-13	2022-23	10.0	10.20	–	2.50
Tier II	INR	2012-13	2022-23	10.0	9.70	–	1.50
Tier II	INR	2012-13	2022-23	10.0	9.60	–	2.00
Tier II	INR	2013-14	2023-24	10.0	10.20	–	1.00
Tier II	INR	2013-14	2023-24	10.0	10.05	–	0.50
Tier II	INR	2013-14	2023-24	10.0	10.19	–	0.80
Tier II	INR	2014-15	2024-25	10.0	9.70	–	2.00
Tier II	INR	2014-15	2024-25	10.0	9.55	–	1.00
Tier II	INR	2014-15	2024-25	10.0	9.55	–	2.00
Tier II	INR	2016-17	2026-27	10.0	8.79	–	2.20
Tier II	INR	2016-17	2026-27	10.0	8.05	–	1.70
Tier II	INR	2017-18	2027-28	10.0	7.56	–	20.00
Tier II	INR	2017-18	2027-28	10.0	8.42	–	1.50
Tier II	INR	2017-18	2027-28	10.0	8.45	–	1.30
Tier II	INR	2018-19	2028-29	10.0	9.05	–	2.50
Tier II	INR	2018-19	2028-29	10.0	9.70	–	3.50
Tier II	INR	2019-20	2029-30	10.0	8.85	–	3.15
Tier II	INR	2019-20	2029-30	9.4	8.36	–	2.29
Tier II	INR	2020-21	2030-31	10.0	7.35	–	3.57
Perpetual Bond	INR	2017-18			8.85	2022-23	80.00
Perpetual Bond	INR	2018-19			9.40	2028-29	2.00
Perpetual Bond	INR	2018-19			9.15	2028-29	1.00
Perpetual Bond	INR	2019-20			9.70	2029-30	1.00
Perpetual Bond	INR	2019-20			8.84	2029-30	1.00

We have a right to redeem certain of the issuances as noted above under "year of call".

Asset Liability Gap

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

	As of March 31, 2021[1]								
	0-30 days	31-90 days	91-180 days	6-12 months	Total within one year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
	(Rs. in millions, except percentages)								
Cash and due from banks, and restricted cash[2][3]	503,650.2	35,287.5	29,898.5	33,583.4	602,419.6	186,373.7	5,059.0	136,842.4	930,694.7
Investments held for trading[4]	68,161.5	31,458.7	–	–	99,620.2	–	–	–	99,620.2
Investments available for sale debt securities[5][6]	1,611,045.8	155,404.8	165,217.4	236,619.8	2,168,287.8	1,414,563.1	81,717.2	610,881.8	4,275,449.9
Securities purchased under agreement to resell	270,060.0	–	–	–	270,060.0	–	–	–	270,060.0
Loans, net[7][8]	886,055.3	1,016,354.9	1,036,377.0	1,174,364.1	4,113,151.3	5,021,998.7	1,374,504.9	1,190,534.3	11,700,189.2
Accrued interest receivable	118,762.9	–	–	–	118,762.9	–	–	–	118,762.9
Other assets[13]	2,536.8	9,891.5	12,474.3	23,769.6	48,672.2	272,796.6	22,191.0	52,973.2	396,633.0
Total financial assets	3,460,272.5	1,248,397.4	1,243,967.2	1,468,336.9	7,420,974.0	6,895,732.1	1,483,472.1	1,991,231.7	17,791,409.9
Deposits[9][10]	1,546,320.5	871,613.8	783,361.1	917,959.3	4,119,254.7	5,316,370.9	147,012.7	3,754,591.9	13,337,230.2
Debt[11]	81,302.7	139,259.9	150,251.7	149,173.1	519,987.4	621,337.8	93,031.5	179,665.6	1,414,022.3
Securities sold under repurchase agreements	356,059.2	–	–	–	356,059.2	–	–	–	356,059.2
Other Liabilities[12][13]	269,413.3	56,571.2	51,084.0	8,439.0	385,507.5	323,558.0	–	–	709,065.5
Total financial liabilities	2,253,095.7	1,067,444.9	984,696.8	1,075,571.4	5,380,808.8	6,261,266.7	240,044.2	3,934,257.5	15,816,377.2
Asset/(liability) gap	1,207,176.8	180,952.5	259,270.4	392,765.5	2,040,165.2	634,465.4	1,243,427.9	(1,943,025.8)	1,975,032.7
Cumulative gap	1,207,176.8	1,388,129.3	1,647,399.7	2,040,165.2	2,040,165.2	2,674,630.6	3,918,058.5	1,975,032.7	1,975,032.7
Cumulative gap as a percentage of total financial assets	34.9%	29.5%	27.7%	27.5%	27.5%	18.7%	24.8%	11.1%	11.1%

(1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.

(2) Cash on hand is classified in the"0-30"days category.

(3) Cash and due from banks, and restricted cash include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances as part of the applicable maturity categories on a basis proportionate to the classification of related deposits.

(4) Securities in the trading book are classified based on the expected time of realization for such investments. Units of open ended mutual funds, if any, are classified in"0-30"days category.

(5) Securities held towards satisfying the statutory liquidity requirement prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.

(6) Units of open ended mutual funds, if any, are classified in"0-30"days category.

(7) Includes non-performing loans which are classified in the "Over 3 years to 5 years" and "Over 5 years" categories.

(8) Ambiguous maturity overdrafts are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such advances.

(9) Current and savings deposits are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.

(10) Time deposits under Rs. 20 million are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits taking into account rollovers and premature withdrawals. The rest have been classified under various maturity categories based on the residual maturity.

(11) Includes short-term borrowings and long-term debt.

(12) Cash floats are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such floats.

(13) Other assets and other liabilities are classified under various maturity categories based on historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such other assets and other liabilities.

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

Loan Portfolio and Credit Substitutes

As of March 31, 2021, our gross loan portfolio amounted to Rs. 12,043.7 billion. As of that date, our gross credit substitutes outstanding were Rs. 547.3 billion. Almost all our gross loans and credit substitutes are to borrowers in India and approximately 90 percent are denominated in rupees. For a description of our retail and wholesale loan products, see "Business – Retail Banking – Retail Loans and Other Asset Products" and "Business – Wholesale Banking – Commercial Banking Products – Commercial Loan Products and Credit Substitutes".

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

	March 31,			
	2018	2019	2020	2021
	(Rs. in millions)			
Retail loans	5,213,364.6	6,237,903.6	7,040,800.4	7,828,832.6
Wholesale loans	2,162,814.4	2,873,561.0	3,583,055.2	4,214,885.3
Gross loans	7,376,179.0	9,111,464.6	10,623,855.6	12,043,717.9
Credit substitutes (at fair value)	324,031.5	272,886.8	362,373.7	547,276.9
Gross loans plus credit substitutes	Rs.7,700,210.5	Rs.9,384,351.4	Rs.10,986,229.3	Rs.12,590,994.8

Maturity and Interest Rate Sensitivity of Loans and Credit Substitutes

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

	At March 31, 2021		
	Due in one year or less	Due in one to five years	Due after five years
	(Rs, in millions)		
Retail loans	2,235,330.0	4,955,833.2	637,669.4
Wholesale loans	1,877,821.3	1,475,971.2	861,092.8
Gross loans	4,113,151.3	6,431,804.4	1,498,762.2
Credit substitutes (at fair value)	45,481.7	488,770.3	13,024.9
Gross loans plus credit substitutes	4,158,633.0	6,920,574.7	1,511,787.1

	At March 31, 2021		
	Due in one year or less	Due in one to five years	Due after five years
	(Rs. in millions)		
Interest rate classification of loans by maturity:			
Variable rates	1,328,204.8	3,163,595.7	1,343,117.3
Fixed rates	2,784,946.5	3,268,208.7	155,644.9
Gross loans	4,113,151.3	6,431,804.4	1,498,762.2
Interest rate classification of credit substitutes by maturity:			
Variable rates	–	–	–
Fixed rates	45,481.7	488,770.3	13,024.9
Gross credit substitutes	45,481.7	488,770.3	13,024.9
Interest rate classification of loans and credit substitutes by maturity:			
Variable rates	1,328,204.8	3,163,595.7	1,343,117.3
Fixed rates	2,830,428.2	3,756,979.0	168,669.8
Gross loans and credit substitutes	4,158,633.0	6,920,574.7	1,511,787.1

Concentration of Loans and Credit Substitutes

As of March 31, 2021, our 10 largest exposures based on the higher of the outstanding balances of, or limits on, funded and non-funded exposures, computed based on our Indian GAAP financial statements, totaled Rs. 1,599.6 billion and represented 75.3 percent of our capital funds comprised of Tier 1 and Tier II capital, and similarly the largest group of companies under the same management control accounted for 21.7 percent of our capital funds.

The following table sets forth, for the periods indicated, our gross loans and fair value of credit substitutes outstanding by the borrower's industry or economic activity and as a percentage of our gross loans and fair value of credit substitutes (where such percentage exceeds 2.0 percent of the total). For the purpose of industry-wise classification of retail loans, the end use (i.e. business purpose or personal use) is taken into consideration. Accordingly, exposures to individual and non-individual borrowers, where the credit facilities are for business purposes, are being reported under the industry relating to the activity of the borrower. Where the credit facilities are for personal use, the exposure to the individual borrower is classified under Consumer Loans. From fiscal 2018, Agri produce trade is added by classifying certain sub-segments from Wholesale Trade – Industrial, Wholesale Trade – Non Industrial and Retail Trade. From fiscal 2020, Non-Banking Financial Companies/Financial Intermediaries are classified under the following two sub segments: Non-Banking Financial Companies and Financial Intermediaries. Similarly, from fiscal 2020 Banks and Financial Institutions are classified under the following two sub segments: Banks and Financial Institutions.

	At March 31,							
	2018		2019		2020		2021	
	(Rs. in millions, except percentages)							
Consumer Loans	1,948,328.2	25.3%	2,477,945.6	26.4%	2,961,194.3	27.0%	3,241,292.9	25.7%
Power	193,978.4	2.5	288,358.1	3.1	507,625.8	4.6	706,638.5	5.6
Retail trade	386,399.2	5.0	446,928.5	4.8	533,499.0	4.9	540,350.3	4.3
Non-Banking Financial Companies	–	–	–	–	394,310.2	3.6	499,384.1	4.0
Financial Institutions	–	–	–	–	278,536.3	2.5	464,404.4	3.7
Consumer Services	311,794.7	4.0	358,017.7	3.8	401,061.5	3.7	426,813.4	3.4
Automobile & Auto Ancillary	312,786.0	4.1	363,393.0	3.9	349,030.4	3.2	400,119.6	3.2
Road Transportation	310,740.7	4.0	376,547.1	4.0	376,829.5	3.4	368,388.5	2.9
Coal & Petroleum Products	–	–	–	–	–	–	363,447.2	2.9
Food and Beverage	211,367.5	2.7	233,798.9	2.5	262,299.2	2.4	342,813.9	2.7
Agriculture Production-Food	319,141.4	4.1	330,092.5	3.5	313,143.6	2.9	337,904.8	2.7
Wholesale Trade-Non Industrial	183,081.2	2.4	200,337.7	2.1	238,436.5	2.2	303,573.8	2.4
Real Estate & Property Services	235,683.0	3.1	259,035.6	2.8	285,179.9	2.6	303,149.3	2.4
Textiles & Garments	164,476.1	2.1	191,963.6	2.0	–	–	264,460.1	2.1
Iron & Steel	–	–	201,003.0	2.1	232,669.6	2.1	261,256.8	2.1
Housing Finance Companies	171,780.2	2.2	203,904.2	2.2	–	–	259,048.0	2.1
Wholesale Trade-Industrial	167,357.3	2.2	192,776.2	2.1	–	–	258,854.1	2.1
Agriculture-Allied	163,496.3	2.1	191,132.7	2.0	223,443.8	2.0	253,095.5	2.0
Engineering	–	–	–	–	252,451.3	2.3	–	–
Telecom	–	–	267,561.0	2.9	243,344.6	2.2	–	–
Business Services	208,815.4	2.7	237,102.9	2.5	246,307.2	2.2	–	–
Non-Banking Financial Companies/Financial Intermediaries	341,744.3	4.4	409,751.1	4.4	–	–	–	–
Agriculture Production – Non food	199,451.2	2.6	192,657.8	2.1	–	–	–	–
Others (including unclassified retail)	1,869,789.4	24.5	1,962,044.2	20.8	2,886,866.6	26.2	2,995,999.6	23.7
Total	7,700,210.5	100.0%	9,384,351.4	100.0%	10,986,229.3	100.0%	12,590,994.8	100.0%

Pursuant to the RBI's LEF guidelines, the exposure-ceiling limit for a single borrower is 20 percent of our available eligible capital base. We may, as permitted in the LEF and in exceptional circumstances, with the approval of the Board, consider further increasing the exposure to a single counterparty by up to five percent of our available eligible capital base. Tier I capital that fulfils the criteria set out in the RBI's Basel III guidelines must be considered as eligible capital base for this purpose. See "Supervision and Regulation – Credit Exposure Limits". As of March 31, 2021, there were no exposures which exceeded the ceiling under the LEF guidelines.

Directed Lending

The RBI has established guidelines requiring Indian banks to lend 40.0 percent of their ANBC, as computed in accordance with RBI guidelines, or the credit equivalent amount of off balance sheet exposures, whichever is higher, as of the corresponding date of the preceding year, to certain sectors called "priority sectors". Priority sectors are broadly comprised of agriculture, micro enterprises and other PSL, which includes small and medium enterprises, residential mortgages, education, renewal energy and social infrastructure, among others, subject to satisfying certain criteria.

We are required to comply with the PSL requirements as of March 31 of each fiscal year, a date specified by the RBI for reporting. The assessment of whether we have achieved the PSL requirements is made at the end of the fiscal year based on the average of priority sector target/sub-target achievement as at the end of each quarter. On the basis of the quarterly average, the Bank was slightly short of its total priority sector lending ("**PSL**") requirement in fiscal 2021. The Bank's total PSL achievement for fiscal 2021 stood at 39.9 percent Lending to micro enterprises stood at 7.5 percent in line with the requirement.

Advances to the agriculture sector were 10.3 percent of ANBC compared to the requirement of 18.0 percent and agricultural advances made to small and marginal farmers were 2.1 percent of ANBC, compared to the requirement of 8.0 percent. The foregoing position factors the Government of India's decision of July 2021 and the clarifications received by the Bank in this regard to reinstate retail and wholesale trade as MSME for priority sector lending. See "*Supervision and Regulation – Directed Lending*".

The PSL master circular mentions that Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the RIDF established with NABARD and other Funds with NABARD, NHB, SIDBI or MUDRA Ltd., as decided by the RBI from time to time.

We may be required by the RBI to deposit with the Indian Development Banks certain amounts as specified by the RBI in the coming year due to the shortfall in the above-mentioned sub-categories of priority sector lending targets. As of March 31, 2021, our total investments as directed by RBI in such deposits were Rs. 93.2 billion yielding returns ranging from 2.3 percent to 7.0 percent.

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

	As of March 31,			
	2018	2019	2020	2021
	(Rs. in millions)			
Directed lending:				
Agriculture	735,135.0	742,724.9	823,267.2	929,039.3
Micro small and medium enterprises	814,006.9	1,168,199.9	1,438,145.6	1,767,746.8
Other	205,145.0	295,582.8	321,819.3	326,168.7
Total directed lending	1,754,286.9	2,206,507.6	2,583,232.1	3,022,954.8

Non-Performing Loans

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

	As at March 31,			
	2018	2019	2020	2021
	(Rs. in millions, except percentages)			
Non-performing loans:				
Retail loans	75,904.5	102,268.8	122,003.5	173,602.9
Wholesale loans	32,812.8	38,153.7	35,423.4	40,179.5
Gross non-performing loans	108,717.3	140,422.5	157,426.9	213,782.4
Allowances for credit losses	112,507.2	148,232.0	198,833.2	343,528.7
Gross loan assets	7,376,179.0	9,111,464.6	10,623,855.6	12,043,717.9
Net loan assets	7,263,671.8	8,963,232.6	10,425,022.3	11,700,189.2
Gross non-performing loans as a percentage of gross loans	1.5%	1.5%	1.5%	1.8%
Gross unsecured non-performing loans as a percentage of gross non-performing loans	27.9%	25.5%	15.3%	24.9%
Gross unsecured non-performing loans as a percentage of gross unsecured loans	1.5%	1.3%	0.7%	1.3%
Total allowances for credit losses as a percentage of gross loans	1.5%	1.6%	1.9%	2.9%

Recognition of Non-Performing Loans

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

	At March 31,			
	2018	2019	2020	2021
	(Rs. in millions)			
Performing	7,267,461.7	8,971,042.1	10,466,428.7	11,829,935.5
Non-performing:				
On accrual status	–	–	–	–
On non-accrual status	108,717.3	140,422.5	157,426.9	213,782.4
Total non-performing	108,717.3	140,422.5	157,426.9	213,782.4
Total	7,376,179.0	9,111,464.6	10,623,855.6	12,043,717.9

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

Analysis of Non-Performing Loans by Industry Sector

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

	As of March 31,											
Industry	2018			2019			2020			2021		
	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry
	(Rs. in millions except percentages)											
Capital Market Intermediaries	–	–	–	46,092.7	9.2	0.0%	26,869.3	4,767.2	17.7%	13,037.0	3,877.4	29.7%
Agriculture Production – Food	318,643.5	12,227.0	3.8	330,092.5	18,915.0	5.7	313,143.6	22,546.3	7.2	337,904.8	21,028.5	6.2
Agriculture Production – Non Food	199,451.2	4,156.8	2.1	192,657.8	5,492.5	2.9	171,869.3	5,857.2	3.4	165,146.5	8,348.7	5.1
Road Transportation	310,740.7	3,313.8	1.1	376,547.1	5,536.7	1.5	376,334.2	13,067.6	3.5	368,388.5	18,344.8	5.0
Airlines	–	–	–	–	–	–	–	–	–	791.2	36.8	4.7
Agriculture-Allied	163,496.3	6,184.0	3.8	191,132.7	6,641.6	3.5	223,443.8	7,542.7	3.4	253,095.5	10,829.6	4.3
Plastic & Products	41,665.0	155.6	0.4	51,589.9	205.9	0.4	54,140.2	2,472.2	4.6	68,201.1	2,519.2	3.7
Infrastructure Development	109,841.9	3,366.7	3.1	128,273.5	3,652.2	2.8	165,578.8	4,911.0	3.0	167,416.1	5,356.2	3.2
Retail Trade	385,217.8	6,279.0	1.6	445,757.8	7,767.0	1.7	533,155.3	8,823.1	1.7	540,350.3	17,242.8	3.2
Animal Husbandry	28,038.2	466.6	1.7	19,849.3	508.4	2.6	23,605.4	4.1	0.0	27,321.2	786.5	2.9
Business Services	207,868.8	2,224.1	1.1	236,853.7	3,074.9	1.3	244,028.7	3,216.2	1.3	251,243.1	6,275.9	2.9
Consumer Services	308,333.2	2,754.2	0.9	354,060.4	3,771.1	1.1	399,046.4	5,667.6	1.4	424,765.4	9,965.6	2.3
FMCG & Personal Care	26,273.4	117.8	0.4	31,209.3	221.1	0.7	32,285.3	314.3	1.0	28,406.5	607.5	2.1
Housing Finance Companies	–	–	–	–	–	–	163,359.7	3,962.7	2.4	234,937.3	4,912.8	2.1
Automobile & Auto Ancillary	299,680.3	2,608.6	0.9	352,979.1	4,262.9	1.2	330,632.5	6,150.1	1.9	381,562.7	7,969.6	2.1
Media & Entertainment	16,414.6	76.7	0.5	19,190.2	96.5	0.5	29,495.0	310.4	1.1	22,725.5	429.0	1.9
Information Technology	40,074.1	117.8	0.3	33,414.7	176.5	0.5	44,115.4	281.4	0.6	41,209.3	776.0	1.9
Food and Beverage	210,780.7	7,007.4	3.3	233,798.9	8,577.3	3.7	260,907.9	8,137.5	3.1	342,573.5	6,233.6	1.8
Wood & Products	14,782.7	201.8	1.4	19,098.5	165.1	0.9	17,449.8	1.0	0.0	22,191.6	387.9	1.7

Industry	As of March 31,											
	2018			2019			2020			2021		
	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry	Gross Loans	Non performing	% of loans in industry
	(Rs. in millions except percentages)											
Wholesale Trade – Non Industrial	180,841.8	15,239.0	8.4	200,089.4	15,856.7	7.9	238,436.5	3,893.0	1.6	301,508.2	4,958.9	1.6
Other Industries	334,256.9	3,028.6	0.9	376,953.2	4,730.1	1.3	504,075.6	8,497.9	1.7	524,941.2	8,520.7	1.6
Textiles & Garments	159,873.4	2,531.5	1.6	187,527.5	2,544.7	1.4	210,558.2	2,587.7	1.2	257,577.9	3,991.0	1.5
Agriculture Produce Trade	97,396.9	1,522.9	1.6	122,512.2	2,816.6	2.3	93,403.7	3,742.4	4.0	145,999.2	2,241.5	1.5
Mining and Minerals	49,165.3	303.0	0.6	65,879.6	1,220.4	1.9	67,326.2	1,942.5	2.9	129,538.5	1,894.8	1.5
Consumer Loans	1,948,328.2	15,236.4	0.8	2,477,945.6	22,513.7	0.9	2,958,437.7	21,718.9	0.7	3,241,292.9	47,028.8	1.5
Engineering	133,216.6	983.1	0.7	159,462.7	2,962.3	1.9	240,196.0	2,431.7	1.0	189,952.7	2,631.4	1.4
Rubber & Products	8,311.6	4.4	0.1	11,059.7	5.6	0.1	12,038.7	1.0	0.0	14,641.7	202.6	1.4
Wholesale Trade – Industrial	167,253.4	3,469.0	2.1	192,708.4	3,657.1	1.9	211,849.6	3,880.9	1.8	258,854.1	3,525.4	1.4
Consumer Durables	47,822.9	205.9	0.4	59,776.8	296.9	0.5	71,659.2	529.4	0.7	84,103.3	1,073.1	1.3
Fishing	8,653.5	11.5	0.1	11,384.5	31.8	0.3	12,802.4	0.9	0.0	13,847.3	169.0	1.2
Financial Intermediaries	–	–	–	–	–	–	8,797.2	69.3	0.8	12,376.3	151.0	1.2
Non-ferrous Metals	40,081.6	119.2	0.3	64,986.2	190.7	0.3	82,217.4	716.7	0.9	80,348.8	845.2	1.1
Tobacco & Products	–	–	–	867.4	0.1	0.0	–	–	–	4,460.4	42.7	1.0
Real Estate & Property Services	233,700.5	4,015.9	1.7	257,056.8	4,175.1	1.6	280,870.4	5,165.5	1.8	298,277.1	2,686.1	0.9
Paper, Printing and Stationery	38,025.5	1,592.8	4.2	41,926.3	1,881.6	4.5	46,067.4	637.2	1.4	65,089.7	483.3	0.7
Power	159,239.8	92.8	0.1	251,169.4	82.9	0.0	458,628.1	103.7	0.0	630,189.4	3,973.4	0.6
Other Non-metallic/ Mineral Products	17,680.8	57.0	0.3	20,375.4	14.7	0.1	24,427.1	0.2	0.0	33,380.1	198.0	0.6
Gems and Jewelry	85,017.9	1,255.4	1.5	100,642.9	1,083.6	1.1	78,029.6	488.4	0.6	124,802.2	576.6	0.5
Leather & Products	11,298.2	80.9	0.7	15,806.2	99.6	0.6	19,426.2	4.2	0.0	22,743.1	104.8	0.5
Iron and Steel	135,431.1	4,196.0	3.1	195,488.6	3,943.2	2.0	231,524.9	1,295.0	0.6	248,140.2	1,095.0	0.4
Drugs and Pharmaceuticals	54,444.1	410.2	0.8	57,963.6	359.8	0.6	74,475.8	409.5	0.5	93,248.4	313.9	0.3
Coal & Petroleum Products	53,206.1	135.6	0.3	92,504.7	187.8	0.2	136,531.9	211.2	0.2	172,989.4	414.4	0.2
Cement & Products	74,435.8	121.0	0.2	115,169.4	83.8	0.1	126,169.7	128.4	0.1	110,502.3	262.7	0.2
Glass & Glass Products	10,877.3	1,962.2	18.0	14,017.0	1,785.3	12.7	11,765.4	3.9	0.0	8,262.9	18.2	0.2
Chemical and Products	58,460.5	193.2	0.3	71,892.6	166.4	0.2	87,466.3	185.2	0.2	108,517.7	192.5	0.2
Shipping	3,838.3	2.0	0.1	7,709.1	2.0	0.0	–	–	–	13,939.9	17.0	0.1
Telecom	125,842.1	576.3	0.5	246,272.4	530.0	0.2	232,932.0	66.0	0.0	162,837.3	149.3	0.1
NBFC	–	–	–	–	–	–	317,450.0	637.4	0.2	415,787.6	61.1	0.0
Fertilisers & Pesticides	81,113.1	1.9	0.0	91,942.1	41.7	0.0	114,574.6	46.2	0.0	104,239.9	12.9	0.0
Financial Institutions	–	–	–	–	–	–	–	–	–	443,257.3	18.7	0.0
NBFC/Financial Intermediaries	231,249.9	111.7	0.0	311,477.1	84.4	0.0	–	–	–	–	–	–
Total		108,717.3			140,422.5			157,426.9			213,782.4	

As of March 31, 2021, our gross non-performing loan as a percentage of gross loans in the respective industries was the highest in Capital Market Intermediaries, Agriculture Production – Food and Agriculture Production – Non food.

Capital Market Intermediaries

Exchanges in the capital markets segment offer a platform to their broker members (capital market intermediaries) for trading in the cash, derivatives, currency derivatives and commodity segments. Exchanges appoint banks to clear and settle trade obligations. The Bank has had a presence in the stock & commodity exchange segment since the late 1990s as a clearing bank in the Indian capital markets. As a clearing bank, the Bank has been offering various transactional services and credit facilities in the form of fund and non-fund based exposures, primarily to brokers in the capital market segments who hold their primary or secondary settlement accounts with the Bank. This acts as a key relationship point as well as a risk mitigant, as all payments to and from the exchanges are required by the relevant exchange to only be settled through these exchanges. The segment is highly regulated. As on March 31, 2021, high NPAs were the result of borrower specific issues.

Agriculture Production – Food

Agriculture production in India is largely dependent on the monsoon season and is impacted by weather conditions which result in uncertainty in crop yields and wide swings in farm income. Government policy on food grain pricing and procurement, prevalent market conditions and Government debt waiver declarations impact farm income, which in turn impact recoveries in harvest cycles, and therefore may result in delinquencies.

Agriculture Production – Non Food

Non-food agricultural production (including, amongst others, cotton, jute plantations and rubber trees) in India is impacted by changes in the monsoon season, other weather conditions, as well as, recently, the economic slowdown due to the COVID-19 pandemic, which led to reduced demand for such non-food agricultural products by industrial consumers. This decline in demand directly impacted marginal farmers and related supply chains, resulting in a significant decrease in farm incomes and an increase in defaults.

Top Ten Non-Performing Loans

As of March 31, 2021 our top 10 non-performing loans represented 10.3 percent of our gross non-performing loans and 0.2 percent of our gross loan portfolio.

The following table sets forth information regarding our 10 largest non-performing loans. The table also sets forth our share of collateral value. We periodically obtain details of collateral from borrowers and external valuation reports and carry out certain procedures for updating and assessing fair values of collateral, however these procedures may not be conclusive to determine the precise net realizable values of any such collateral, which may be substantially less. None of the loans is collateral dependent (i.e. the borrower has no means of repaying the impaired loan other than the collateral). Interest payments not being serviced as of fiscal 2021 for these loans is because of specific factors which have temporarily resulted in inadequate cash flows. The fair value of the collateral and our share thereof and the present value of expected future cash flows from these loans are adequate to cover the principal outstanding net of allowances for credit losses.

	At March 31, 2021					
	Industry	**Type of banking arrangement**	**Gross principal outstanding**	**Principal outstanding net of allowance for credit losses**	**Our share in Collateral value**	**Currently servicing all Interest payments**
			(Rs. in millions)			
Borrower 1..........	Power	Consortium	3,862.8	2,397.9	4,757.0	No
Borrower 2..........	Housing Finance Companies	Consortium	3,496.1	–	1,796.8	No
Borrower 3..........	Agriculture Production-Food	Consortium	3,397.2	762.1	1,713.3	No
Borrower 4..........	Capital Market Intermediaries	Multiple	3,283.9	–	3,375.9	No
Borrower 5..........	Plastic & Products	Consortium	2,169.0	–	17,368.2	No
Borrower 6..........	Housing Finance Companies	Consortium	1,416.8	–	1,825.5	Yes
Borrower 7..........	Retail Trade	Consortium	1,316.2	–	–	No
Borrower 8..........	Infrastructure Development	Consortium	1,125.3	–	578.0	No
Borrower 9..........	Retail Trade	Consortium	1,079.3	–	203.6	Yes
Borrower 10........	Food and Beverage	Sole	827.7	–	826.9	No
			21,974.3	3,160.0		

Restructuring of Loans

Our loans are restructured on a case-by-case basis after our management has determined that restructuring is the best means of maximizing realization of the loan.

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

	At March 31,			
	2018	**2019**	**2020**	**2021**
	(Rs. in millions, except percentages)			
Gross restructured loans	3,012.9	3,013.0	1,490.5	1,854.4
Gross restructured loans as a percentage of gross non-performing loans	2.8%	2.1%	0.9%	0.9%

If there is a failure to meet payment or other terms of a restructured loan, it may be considered a failed restructuring, in which case it is no longer classified as a restructured loan. See "*Supervision and Regulation – Restructured Assets*" and "*Supervision and Regulation – Resolution of Stressed Assets*."

Additionally, during fiscal 2020 and fiscal 2021, the Bank implemented the loan-restructuring packages announced by the RBI on account of the COVID-19 situation, which grant temporary extension in repayment obligations to borrowers without any interest or financial concession. While the moratorium allowed customers (from March to August 2020) to temporarily freeze loan repayments, the loan restructuring packages eased the burden of monthly repayments. The total balance outstanding of such restructured loans as of March 31, 2021 was Rs. 138.4 billion which includes retail loans and wholesale loans of Rs. 137.8 billion and Rs. 0.6 billion respectively. As stipulated by regulatory guidance, the Bank does not place loans with deferrals granted due to the COVID-19 situation on nonaccrual status where such loans are not otherwise reportable as nonaccrual and thus considered in the allowance for loan losses.

Remediation Strategy for Non-Performing Loans

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

Allowance for Credit Losses on Loans

With effect from April 1, 2020 the Bank adopted FASB ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326)" using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures including undrawn commitments not cancellable, Investments including AFS Securities and other financial assets measured at amortized cost. This framework requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions.

The Banks allowance for credit losses comprises:

- the allowance for loan losses, which covers the Bank's loan portfolios and is presented separately on the balance sheet in Loans,
- the allowance for lending-related commitments, which is recognized on the balance sheet in Accrued expenses and other liabilities,
- the allowance for credit losses on investment securities, which covers the Bank's AFS debt securities and is recognized on the balance sheet in Investments available for sale debt securities on the balance sheet and,
- the allowance for credit losses on other financial assets measured at amortized cost, and other off-balance sheet credit exposures, which is recognized on the balance sheet in Accrued expenses and other liabilities.

All changes in the allowance for credit losses is recognized in the income statement.

Determining the appropriateness of the allowance for credit losses is complex and requires significant judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of credit exposures, considering the macroeconomic conditions, forecasts and other factors then prevailing, may result in significant changes in the allowance for credit losses in future periods.

The Bank's policies used to determine its allowance for credit losses and its allowance for lending-related commitments are described in the following paragraphs.

The Bank's portfolio is bifurcated into Retail and Wholesale portfolios, wherein the Retail portfolio is segmented into homogenous pools using various factors such as nature of product, delinquencies, and other demographic and behavioral variables of the borrowers. The wholesale portfolio is segmented into various risk grades on the basis of host of quantitative and qualitative factors including financial performance, industry risk, business risk and management quality. The allowance for loan-related losses and allowance for lending-related commitments represents expected credit losses over the remaining expected life of outstanding loans and lending-related commitments that are not unconditionally cancellable. The Bank does not record an allowance for future draws on unconditionally cancellable lending-related commitments (e.g., credit cards). The Bank does not record an allowance on accrued interest receivables on the balance sheet due to its policy to reverse interest income on loans more than 90 days past due and in case of agricultural loans more than 365 days past due, and also on any loans classified as non-performing. The expected life for retail loans and wholesale loans is determined by considering its contractual term and expected prepayments. The expected life of funded credit card loans is generally estimated by considering expected future payments on the credit card account. The Bank has Unconditionally Cancellable Clause (UCC) for credit card lines and as allowed by the Current Expected Credit Loss ("**CECL**") accounting guidance, the Bank makes an allowance only for debt drawn at the time of expected loss measurement. The Bank applies expected principal payments to the credit card receivable balances existing at the reporting date until the balance is exhausted.

The estimate of expected credit losses includes expected recoveries of amounts previously charged off or expected to be charged off, even if such recoveries result in a negative allowance. The Retail loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans, credit card receivables, and 180 days for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. The wholesale Loans are charged off against the allowance when management believes that the loan balance may not be recovered including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

Wholesale loans are considered non-performing when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining non-performance include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due. Wholesale loans that experienced insignificant payment delays and payment shortfalls are generally not classified as non-performing but are placed on a surveillance watch list and closely monitored for deterioration.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed. These factors are considered by the Bank for selection of loans for credit reviews and assessment of allowance.

In order to estimate the allowance, the Bank primarily relies on its risk-segmentation models, which are also an integral part of the Bank's risk management framework. Risk segmentation aims to group homogenous exposures together to allow for collective assessment of expected losses. Expected Loss estimation under collective assessment, is primarily based on Probability of Default (PD), Loss given Default (LGD), Exposure at Default (EAD) estimates. The Bank has modeled its probability of default (PD) estimates at the aforementioned granularity for its retail and wholesale portfolios and has also created the tenor structure of the same for computation of credit losses.

The Bank's off-balance sheet credit exposures include unfunded loan commitments, financial guarantees, including standby letters of credit, and other similar instruments. For off-balance sheet credit exposures, the Bank recognizes an allowance for credit loss (ACL) associated with the unfunded amounts. The Bank does not recognize an ACL for commitments that are unconditionally cancelable at Bank's discretion. ACL for off-balance sheet credit exposures are reported as a liability in accrued expenses and other liabilities on the consolidated balance sheet. ACL is in such cases is measured for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts.

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

	For the years ended March 31,			
	2018	2019	2020	2021[(1)]
	(Rs. in millions)			
Allowance for credit losses at the beginning of the period	78,496.9	112,507.2	148,232.0	198,833.2
Impact of Adoption of ASC 326	–	–	–	81,013.0
Net Allowance for credit losses for the period				
Retail	64,831.3	80,641.9	127,065.5	174,427.8
Wholesale	7,157.3	8,414.5	16,215.3	8,725.4
Allowances no longer required on account of write-offs	(37,978.3)	(53,331.6)	(92,679.6)	(119,470.7)
Allowance for credit losses at the end of period	112,507.2	148,232.0	198,833.2	343,528.7

Allowances for credit losses for the periods presented have been disclosed net of recoveries.

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

	As of March 31,			
	2018	2019	2020	2021[(1)]
	(Rs. in millions)			
Wholesale	23,082.3	29,741.1	39,628.3	71,599.3
Retail	89,424.9	118,490.9	159,204.9	271,929.4
Allowance for credit losses	112,507.2	148,232.0	198,833.2	343,528.7

(1) Results for reporting periods beginning after April 1, 2020 are presented under ASC 326.

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

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

Introduction

Overview

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

Certain Factors Affecting our Results of Operations

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

Two important measures of our results of operations are net interest revenue, which is equal to our interest and dividend revenue net of interest expense, and net interest revenue after allowance for credit losses. Interest expense includes interest on deposits as well as on borrowings. Our interest revenue and expense are affected by fluctuations in interest rates as well as volume of activity. Our interest expense is also affected by the extent to which we fund our activities with low-interest and non-interest bearing deposits, and the extent to which we rely on borrowings. Until March 31, 2020 our allowance for credit losses was comprised of specific and unallocated allowances for loan loss. Impairments of credit substitutes were not included in our loan loss provision but were reflected under "Non-interest revenue – other than temporary losses on available for sale debt securities" in our consolidated statements of income. Effective April 1, 2020, we adopted the Current Expected Credit Loss ("**CECL**") accounting guidance. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost, available-for-sale debt securities and certain off-balance sheet credit exposures. Our allowance for credit losses is comprised of the allowance for loan losses, which covers our loan portfolios. Consistent with prior years, the impairment of our available-for-sale debt securities, including credit substitutes, are not included in our allowances for credit losses, but are reflected under "Non-interest revenue – allowance on available for sale debt securities" in our consolidated financial statements of income.

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

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

Our non-interest expense includes expenses for salaries and staff benefits, premises and equipment maintenance, depreciation and amortization, expenditure for the purchase of priority sector lending certificates and administrative and other expenses. The costs of outsourcing back office and other functions are included in administrative and other expenses.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. According to estimates by the Indian Central Statistics Office, real GDP declined by 7.3 percent in fiscal 2021 as compared to a growth of 4.0 percent in fiscal 2020. While the economy rebounded with positive year-on-year growth in the second half of fiscal 2021, real GDP contracted by 15.9 percent during the first half of fiscal 2021. Tracking the decline in nominal GDP, credit growth slowed to a 5.9 percent growth in fiscal 2021 as compared to a growth of 9.5 percent in fiscal 2020.

While our results may not necessarily track the GDP figures directly, the economic performance affects the environment in which we operate. For example, a weak GDP growth resulting from a decline in consumption and in the level of production of goods and services, may lead to a reduced demand for bank credit.

Headline CPI tracked above the RBI's upper tolerance limit of 6.0 percent between April 2020 and November 2020, as a result of supply shortages caused by the COVID-19 pandemic. In addition, a sharp increase in food inflation and certain segments of core inflation (such as recreation and health services) kept headline inflation elevated. In fiscal 2021, headline inflation averaged 6.2 percent compared to 4.8 percent in fiscal 2020, 3.4 percent in fiscal 2019 and 3.6 percent in fiscal 2018. Due to mounting inflationary pressures, the RBI did not reduce the policy rates further after delivering an emergency rate cut of 40 bps in May 2020. However, to keep yields steady, the RBI added liquidity worth Rs. 1.4 trillion between February 2020 and March 2021 and actively managed yields. A lower interest rate environment helps support economic growth and is generally beneficial to the environment in which we operate, provided inflation is under control.

Owing to the pandemic related disruption, the fiscal deficit target was revised to 9.5 percent of GDP from 3.5 percent of GDP. This compares to 4.6 percent of GDP in fiscal 2020 and 3.4 percent in fiscal 2019. Alongside the shift of the Food Corporation of India loans on to the Government's balance sheet and a pandemic related increase in Government spending, subdued economic activity and the resultant decrease in tax revenue also contributed to the widening of the deficit in fiscal 2021. For fiscal 2022, the Government is targeting a fiscal deficit of 6.8 percent of GDP and plans to focus on capital expenditure to revive growth. However, further COVID-19 related disruptions, including a "third wave" of infections could negatively impact revenue collection and thereby the fiscal deficit.

Our financial condition and results of operations are also affected by widespread health emergencies (or concerns over the possibility of such emergencies), such as the COVID-19 pandemic and the actions taken in response to it, which can cause significant volatility in demand for our products, changes in customer behavior and preferences, financial distress for our customers and related increases in customer defaults and provisions for losses, disruptions to our capital expenditure initiatives, limitations on our employees' ability to work and travel, significant changes in the economic or political conditions in markets in which we operate and related currency volatility, restrictions on our access to, and increases in the cost of, capital and increased regulatory requirements, such as the RBI's COVID-19 related regulations, which included permission for financial institutions to extend a three-month moratorium on term loan repayments due between March 1, 2020 and May 31, 2020. This was later renewed for a second period from June 1, 2020 to August 31, 2020. In May 2021, the RBI issued an additional set of measures, permitting lending institutions to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying such borrowers as "standard" subject to certain specified conditions. In August 2020 and May 2021, the RBI also issued guidelines for the restructuring of existing loans to micro, small and medium enterprises classified as 'standard', without a downgrade in the asset classification, subject to certain conditions. Since March 2021, India has been experiencing a "second wave" of COVID-19 infections, including a significant surge of COVID-19 cases following the discovery of a "double mutant" coronavirus variant in the country. While the initial lockdown imposed in March 2020 in response to the first outbreak of COVID-19 in India was lifted, regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. The slowdown during the year led to a decrease in loan originations, third party products sales, credit and debit card use by customers and collection effort efficiency. As a consequence, there may be a rise in the number of customer defaults and an increase in the provisions there against. The Supreme Court of India, in a public interest litigation, through an interim order dated September 3, 2020 ("**Interim Order**"), had directed that the accounts that were not declared as NPA until August 31, 2020, should not be declared as NPA until a further order is made. The Interim Order granted to not declare accounts as NPA was vacated on March 23, 2021. In accordance with the instructions in the RBI circular dated April 7, 2021 issued in connection with this matter, we continued with the asset classification of borrower accounts as per our existing policy in this regard.

Furthermore, while in ordinary circumstances, declining fiscal deficits tend to have a favorable impact on our operations, as lower fiscal deficit allows the RBI to reduce rates, support a sustainable level of inflation and prevent private investment from being crowded out, the current expansion is also likely to benefit us by offering support to slowing growth, providing relief to businesses and assisting in mitigating COVID-19 related disruptions. Given the dynamic nature of the outbreak, the extent to which COVID-19 will continue to impact our business, financial condition and results of operations will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

Notwithstanding the pace of growth in India, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2021, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.7 percent of net customer assets. In addition, our net customer assets represented 91.8 percent of our deposits and our deposits represented 74.2 percent of our total liabilities and shareholders' equity. Our average non-interest bearing current accounts and low-interest bearing savings accounts represented 40.0 percent of our average total deposits for the year ended March 31, 2021. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) for fiscal 2021 of 3.6 percent.

Critical Accounting Estimates – Allowance for Credit Losses

We have set forth below the details of our accounting policy and estimates used for the purposes of allowances for credit losses. We provide an allowance for credit losses based on our estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans. Upon adoption of ASC 326, we revised our accounting policy for Allowance for credit losses as detailed below.

Retail

Until March 31, 2020 our retail loan loss allowance consisted of specific allowance and allowance for loans collectively evaluated for impairment (termed as "unallocated allowance"). We established a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally, we monitored loan to value ratios for loan against securities. The loans were charged off against allowances typically when the account became 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off were 150 days past due for personal loans, credit card receivables, auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believed that any future cash flows from these loans were remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. Subsequent recoveries, if any, against write-off cases, were adjusted to provision for credit losses in the consolidated statement of income. We also recorded unallocated allowances for our retail loans by product type. Our retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. We established an unallocated allowance for loans in each product group based on its estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimated our unallocated allowance for retail loans based on the probability of default and loss given default, determined for the respective risk pools.

Wholesale

Until March 31, 2020, the allowance for wholesale loans consisted of specific and unallocated components. The allowance for such credit losses was evaluated on a regular basis by management and was based upon management's view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available.

Loans were charged off against the allowance when management believes that the loan balance may not be recovered. Subsequent recoveries, if any, against write-off cases, were adjusted to provision for credit losses in the consolidated statement of income. We grade our wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

We established specific allowances for each impaired wholesale loan customer, in the aggregate, for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent. Collateral values are generally based on appraisals from internal and external valuation sources. Wholesale loans that experienced insignificant payment delays and payment shortfalls were generally not classified as impaired but were placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed. These factors were considered by us for selection of loans for credit reviews and assessment of impairment.

Until March 31, 2020 we also established an unallocated allowance for wholesale standard loans based on the internal rating grades assigned, and the probability of default associated with internal rating grade pools and the loss given default.

Effective April 1, 2020, we adopted the CECL accounting guidance. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures including undrawn commitments not cancellable, investments AFS debt securities and other financial assets measured at amortized cost. This framework requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions.

Our allowance for credit losses is comprised of:

- the allowance for loan losses, which covers our loan portfolios and is presented separately on the balance sheet in loans;

- the allowance for lending-related commitments, which is recognized on the balance sheet in "Accrued expenses and other liabilities";

- the allowance for credit losses on investment securities, which covers our AFS debt securities and is recognized on the balance sheet in "Investments available for sale debt securities" on the balance sheet; and

- the allowance for credit losses on other financial assets measured at amortized cost, and other off-balance sheet credit exposures, which is recognized on the balance sheet in "Accrued expenses and other liabilities".

All changes in the allowance for credit losses are recognized in the income statement.

Determining the appropriateness of the allowance for credit losses is complex and requires significant judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of credit exposures, considering the macroeconomic conditions, forecasts and other factors then prevailing, may result in significant changes in the allowance for credit losses in future periods.

Our policies, used to determine our allowance for credit losses and our allowance for lending-related commitments, are described in the following paragraphs.

Our portfolio is bifurcated into retail and wholesale portfolios, wherein the retail portfolio is segmented into homogenous pools using various factors such as nature of product, delinquencies, and other demographic and behavioral variables of the borrowers. The wholesale portfolio is segmented into various risk grades on the basis of several quantitative and qualitative factors including financial performance, industry risk, business risk and management quality. The allowance for loan-related losses and allowance for lending-related commitments represents expected credit losses over the remaining expected life of outstanding loans and lending-related commitments that are not unconditionally cancellable. We do not record an allowance for future drawings on unconditionally cancellable lending-related commitments (e.g., credit cards). We do not record an allowance on accrued interest receivables on the balance sheet due to our policy to reverse interest income on loans more than 90 days past due and in case of agricultural loans more than 365 days past due, and also on any loans classified as non-performing. The expected life for retail loans and wholesale loans is determined by considering their contractual term and expected prepayments. The expected life of funded credit card loans is generally estimated by considering expected future payments on the credit card account. We have an unconditionally cancellable clause for credit card lines and as allowed by CECL accounting guidance, we make an allowance only for debt drawn at the time of expected loss measurement. We apply expected principal payments to the credit card receivable balances existing at the reporting date until the balance is exhausted.

The estimate of expected credit losses includes expected recoveries of amounts previously charged off or expected to be charged off, even if such recoveries result in a negative allowance. Retail loans are typically charged off against allowances when the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days for auto loans, commercial vehicle and construction equipment finance, and 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible. Wholesale loans are charged off against the allowance when management believes that the loan balance may not be recovered including following the realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

Wholesale loans are considered non-performing when, based on current information and events, it is probable that we will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining non-performance include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due. Wholesale loans that experienced insignificant payment delays and payment shortfalls are generally not classified as non-performing but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed. These factors are considered by us for selection of loans for credit reviews and assessment of allowance.

In order to estimate the allowance, we primarily rely on our risk-segmentation models, which are also an integral part of our risk management framework. Risk segmentation aims to group homogenous exposures together to allow for collective assessment of expected losses. Expected Loss estimation under collective assessment, is primarily based on probability of default ("**PD**"), loss given default ("**LGD**") and exposure at default ("**EAD**") estimates. We have modeled our PD estimates at the aforementioned granularity for our retail and wholesale portfolios and have also created the tenor structure of the same for computation of credit losses.

Our off-balance sheet credit exposures include unfunded loan commitments, financial guarantees, including standby letters of credit, and other similar instruments. For off-balance sheet credit exposures, we recognize an allowance for credit loss ("**ACL**") associated with the unfunded amounts. We do not recognize an ACL for commitments that are unconditionally cancelable at our discretion. ACL for off-balance sheet credit exposures are reported as a liability in accrued expenses and other liabilities on the consolidated balance sheet. ACL in such cases is measured for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts.

Collective and Individual Assessments

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

The methodology for estimating the amount of credit losses reported in the allowance for credit losses has two basic components: first, a pooled component for expected credit losses for pools of loans that share similar risk characteristics and second an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans.

As an integral part of the credit process, we have a credit rating model appropriate to our retail and wholesale credit segments. We monitor credit quality within our segments based on primary credit quality indicators. This internal grading is updated at least annually.

A majority of our credit exposures share risk characteristics with other similar exposures, and as a result are collectively assessed for allowance ("**portfolio-based component**").

If an exposure does not share risk characteristics with other exposures, we generally estimate expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual exposure ("**asset-specific component**"). The asset-specific component covers loans modified or reasonably expected to be modified in a TDR, collateral-dependent loans, as well as, borrowers with financial difficulties.

Portfolio-based component (Pooled Loans)

The portfolio-based component begins with a quantitative calculation that considers the likelihood of the borrower changing delinquency status or moving from one risk rating to another. The quantitative calculation covers expected credit losses over an instrument's expected life and is estimated by applying credit loss factors to our exposure at default.

In addition to our historical experience, we seek to incorporate any reasonable and supportable information regarding the prevalent and future economic and operating conditions, and their impact on credit losses into our allowance. We therefore include in our estimation the use of quantitative statistical models to predict the impact of macro-economic variables on defaults. We rely on a single economic variable to develop reasonable and supportable forecasts. In deploying these models we have assessed the impact of an exhaustive set of macro-economic variables such as GDP, inflation, gross capital formation and the index of industrial production on our expected losses, and use consensus macro-economic forecasts surveyed and published by the RBI. As the consensus macro-economic forecasts are published for a year we revert to the historical average default rate beyond this period. The output of our models is appropriately adjusted with additional forward looking factors. Any adjustments needed to the modeled expected losses in the quantitative calculations are addressed through a qualitative adjustment including business and portfolio specific outlook where required. These qualitative adjustments attempt to address any variations caused by a variety of reasons such as the complexity in relationships between the macroeconomic variables and performance of our portfolios, event based impact on credit risk, variability in available forecasts and low frequency of data. Qualitative adjustments include, among other things: the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession; the uncertainty of economic conditions related to an alternative downside scenario; certain portfolio characteristics and concentrations; collateral coverage; model limitations; idiosyncratic events; and other relevant criteria. The qualitative adjustment also reflects the estimated impact of the COVID-19 pandemic on the economic forecasts and the impact on credit loss estimates. The total ACL is comprised of the quantitative and qualitative components.

We estimate our allowance for credit losses for pooled loans based on their probability of default and loss given default, determined for the respective risk pools.

Asset-specific component

To determine the asset-specific component of the allowance, collateral-dependent loans (including those loans for which foreclosure is probable) and larger, non-accrual risk-rated loans in the wholesale portfolio segment are generally evaluated individually, while smaller loans (both scored and risk-rated) are aggregated for evaluation using factors relevant for the respective class of assets.

We generally measure the asset-specific allowance as the difference between the amortized cost of the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in impairment, including those related to the passage of time, are generally recognized as an adjustment to the allowance for credit losses. For collateral-dependent loans, the fair value of collateral less estimated costs to sell is used to determine the charge-off amount for declines in value (to reduce the amortized cost of the loan to the fair value of collateral) or the amount of negative allowance that should be recognized (for recoveries of prior charge-offs associated with improvements in the fair value of collateral).

The asset-specific component of the allowance for credit losses that have been or are expected to be modified in TDRs incorporates the effect of the modification on the loan's expected cash flows (including forgone interest, principal forgiveness, as well as other concessions), and also the potential for re-default. For wholesale loans modified or expected to be modified in TDRs, expected losses incorporate management's expectation of the borrower's ability to repay under the modified terms.

Estimating the timing and amounts of future cash flows is highly judgmental as these cash flow projections rely upon estimates such as loss severities, asset valuations, default rates (including re-default rates on modified loans), the amounts and timing of interest or principal payments (including any expected prepayments) or other factors that are reflective of current and expected market conditions. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

Available-for-sale debt securities

Until March 31, 2020, declines in the fair values of held to maturity and available for sale debt securities below their carrying value that were other than temporary were reflected in net income as other than temporary impairment losses, based on management's best estimate of the fair value of the investment. We conducted a review each year to identify other than temporary declines based on an evaluation of all significant factors. Our review of impairment generally entailed identification and evaluation of investments that had indications of possible impairment, analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment and documentation of the results of these analyses, as required under business policies. Estimates of any declines in the fair values of credit substitute securities that were other than temporary were measured on a case-by-case basis together with loans to those customers. We did not recognize an impairment for debt securities if the cause of the decline is related solely to an interest rate increase, we did not intend to sell the security and it was not more likely than not that we would be required to sell the security before recovery of its amortized cost basis.

Upon adoption of ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL) with effect from April 1, 2020 we conduct reviews of all available-for-sale securities with a fair value below their carrying value or with a zero loss expectation. We evaluate whether the decline in fair value resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded through a provision for credit loss expense, limited by the amount that fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. The allowance is increased or decreased if credit conditions subsequently worsen or improve. Reversals of credit losses are recognized in earnings. We recognize the entire difference between the amortized cost basis and fair value in earnings for impaired AFS debt securities that we have an intent to sell or for which we believe we will more-likely-than-not be required to sell prior to recovery of the amortized cost basis. We have applied ASC 326 to AFS debt securities when other-than-temporary-impairment has been recognized before the adoption. Amortized cost of a security, including the security's effective interest rate where an other-than-temporary impairment had been recognized up to March 31, 2020 has remained unchanged. Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows continue to be accreted to interest income over the remaining life of the security on a level-yield basis. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption are recorded to income in the period received. We do not record an allowance on accrued interest receivables on the balance sheet due to our policy to reverse interest income on debt securities in a timely manner in line with our non-accrual and past due policies and also on any debt security classified as non-performing. We do not purchase debt securities with credit deterioration.

Financial impact upon adoption of ASC 326 accounting guidance

Upon the adoption of the ASC 326 accounting guidance, we recorded a net increase of Rs. 83.5 billion in the allowance for credit losses, which was comprised of a net increase of Rs. 81.0 billion in the allowance for loans, a net increase of Rs. 2.3 billion in the allowance for credit losses on our off-balance sheet credit exposures and undrawn commitments and a net increase of Rs. 0.2 billion in the allowance for other credit losses. This increase was recognised net of tax in our retained earnings as of April 1, 2020. There was no allowance for our available-for-sale debt securities upon adoption of the ASC 326 accounting guidance as of April 1, 2020.

Sensitivity

CECL is sensitive to the changes in key assumptions and the qualitative adjustments that require the application of significant management judgment. Future amounts of CECL could be dependent on various factors such as loan growth and economic environment, especially since the possible variability in the current economic conditions remains high. Furthermore, the variability in the general economic conditions impacts each product differently and hence could result in a variation in CECL.

We undertook a sensitivity analysis to assess the magnitude of CECL under extreme situations. As part of the sensitivity analysis, we analyzed variability in provisions on account of a change in the assumptions underlying our forward looking outlook. For this analysis, we increased the impact of our qualitative adjustments. This did not result in a significant change to our CECL. Our sensitivity analysis does not represent our expectation of CECL at the balance sheet date. Management believes that the estimate for the CECL for loans was appropriate as at April 1, 2020 and March 31, 2021.

Critical Accounting Policies

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

Revenue Recognition

Interest income from loans and investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. Fees and commissions from guarantees issued are amortized over the contractual period of the commitment. Dividends from investments are recognized when declared. Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method. Other fees and income are recognized when earned, which is when the service that results in the income has been provided. We amortize the annual fees on credit cards over the contractual period of the fees.

Investments in Securities

Investments consist of securities purchased as part of our treasury operations, such as government securities and other debt securities, and investments purchased as part of our wholesale banking operations, such as credit substitute securities issued by our wholesale banking customers. Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and we bear the same customer credit risk as we do for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer. As our exposures to such securities are similar to our exposures on our loan portfolio, additional disclosures have been provided on impairment status in Note 7 "*Credit Substitutes*" of the consolidated financial statements and on concentrations of credit risk in Note 10 "*Concentrations of Credit Risk*" of the consolidated financial statements.

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

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

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

Up to March 31, 2018 equity securities with readily determinable fair values that were not classified as HFT were classified as available for sale and were carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, were reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Dividend income on such securities was included in "Interest and dividend revenue- available for sale debt securities". Non-marketable equity securities were carried at cost.

Equity securities are classified under other assets. Marketable securities are measured at fair value, change in fair value recorded in earnings. Non- marketable equity securities under the measurement alternative are carried at cost plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and impairment, if any. Our review for impairment for equity method, cost method and measurement alternative securities typically includes an analysis of the facts and circumstances of each security, the intent or requirement to sell the security, and the expectations of cash flows.

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

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

Goodwill

Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. Until March 31, 2020 this analysis was a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step is to be performed. The second step involved calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. On April 1, 2020, we adopted ASU 2017-04 which eliminated the requirement to calculate the implied fair value of Goodwill (the second step). Accordingly, if the fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss which is recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Fair Value Measurements

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

- whether the asset or liability is transacted in an active market with a quoted market price that is readily available;

- the size of transactions occurring in an active market;

- the level of bid-ask spreads;

- whether only a few transactions are observed over a significant period of time;

- whether the inputs to the valuation techniques can be derived from or corroborated with market data; and

- whether significant adjustments are made to the observed pricing information or model output to determine the fair value.

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

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

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

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

We review and update our fair value hierarchy classifications semi-annually. Changes from one half year to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels. Imprecision in estimating unobservable market inputs can impact the amount of revenue, loss or changes in common shareholder's equity recorded for a particular financial instrument. Furthermore, while we believe our valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial assets and liabilities could result in a different estimate of fair value at the reporting date. See Note 30 "*Fair Value Measurement*" of the consolidated financial statements, "Fair Value Measurement" for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

As of March 31, 2021, our Level 3 instruments recorded at fair value on a recurring basis were available-for-sale mortgage and asset-backed securities aggregating Rs. 161.2 billion. The Level 3 instruments comprised 3.7 percent of our total securities portfolio and 0.9 percent of our total assets, as of March 31, 2021. The valuation of these mortgage and asset-backed securities is dependent on the estimated cash flows that the underlying trust would pay out. The cash flows for mortgage and asset-backed securities are discounted at the yield-to-maturity rates and credit spreads published by Fixed Income Money Market and Derivatives Association on month ends.

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

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

Lease accounting

Effective April 1, 2019, we adopted FASB ASU 2016-02 "Leases (Topic 842)". We applied Topic 842 using the modified retrospective method. As a result, comparative information has not been adjusted and continues to be reported under ASC 840. As of April 1, 2019, the date of our initial application of ASC 842, we recognized lease liabilities measured as the present value of lease payments not yet paid, discounted using the incremental borrowing rate as at the date of initial application. The right-of-use asset as of the date of the initial application includes an initial measurement of the lease liabilities adjusted for accrued lease payments as of date of initial application.

At the inception of the contract, we assess whether the contract, is or contains, a lease. Our assessment is based on whether (1) the contract involves the use of distinct identified assets, (2) we have the right to substantially all the economic benefit from the use of the asset throughout the term of the contract, and (3) we have the right to direct the use of the asset. Leases are examined for classification as either finance leases or operating leases. A lease is classified as finance lease if any one of the following criteria is met: (1) the lease transfers ownership of the asset by the end of the lease term, (2) the lease contains an option to purchase the asset that is reasonably certain to be exercised, (3) the lease term is for the major part of the remaining useful life of the asset or (4) the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of the above criteria.

Our lessee arrangements consist of operating leases. We record right-of-use assets and lease liabilities at lease commencement date. Right-of-use assets are reported in other assets on the Consolidated Balance Sheet, and the related lease liabilities are reported in accrued expenses and other liabilities. We have elected not to record right-of-use assets for short-term-leases that have a lease term of 12 months or less and thus, all leases with a lease term exceeding 12 months are recorded on the consolidated balance sheet.

Lease expense is recognized on a straight-line basis over the lease term and is recorded in non-interest expense- premises and equipment in the consolidated statements of income. We made an accounting policy decision not to separate lease and non-lease components of a contract that is or contains a lease. At the lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate as at the date of the lease commencement. Right-of-use assets initially equal the lease liabilities, adjusted for any lease payments made prior to lease commencement and for any lease incentives.

We assess leased assets for impairment, and if the carrying amount of the leased asset exceeds the undiscounted cash flows from the lease payments and the estimated residual value upon disposition of the leased asset, an impairment loss is recognized.

Status of IND-AS

The Ministry of Corporate Affairs, in its press release dated January 18, 2016, issued a roadmap for the implementation of IND-AS converged with International Financial Reporting Standards as issued by the International Accounting Standards Board with certain carve outs for scheduled commercial banks, insurance companies and non-banking financial companies (the "2016 Roadmap"), which was subsequently confirmed by the RBI through its circular dated February 11, 2016. The 2016 Roadmap required such institutions to prepare IND-AS-based financial statements for accounting periods commencing on or after April 1, 2018, with comparative financial information for accounting periods commencing on or after April 1, 2017. The implementation of IND-AS by banks requires certain legislative changes in the format of financial statements to comply with disclosures required by IND-AS. In April 2018, the RBI deferred the effective date for implementation of IND-AS by one year, by which point the necessary legislative amendments were expected to have been completed. The legislative amendments recommended by the RBI are under consideration of the Government of India. Accordingly, the RBI, in March 2019 deferred the implementation of IND-AS until further notice.

In conjunction with the implementation of IND-AS for our local Indian results, we may adopt IFRS for the purposes of our filings pursuant to Section 13 or 15(d) of, and our reports pursuant to Rule13a-16 or 15d-16 under the Exchange Act. Should we choose to do so, we would be permitted to file two years, rather than three years, of statements of income, changes in shareholders' equity and cash flows prepared in accordance with IFRS.

Transition to Alternate Reference Rate

In 2017 the U. K. Financial Conduct Authority ("**FCA**") announced that it would no longer compel banks to contribute to the London Interbank Offered Rate ("**LIBOR**") setting after 2021. On March 5, 2021, the FCA announced the future cessation or loss of representativeness of the 35 LIBOR benchmark settings currently published by ICE Benchmark Administration Limited ("**IBA**"), which administers LIBOR. Therefore, after 2021 most LIBOR settings may cease to be calculated. It has become clear that various jurisdictions are working on a rate or rates as accepted alternatives to LIBOR. In India, instruments such as external commercial borrowings, other debt contracts and certain derivatives are typically linked to LIBOR. In addition, the Mumbai Interbank Forward Offer Rate (MIFOR), a benchmark used for interest rate swap transactions, is also a rate that is based on LIBOR. The cessation of LIBOR will affect financial instruments, including derivatives, linked to it, many of which have contractual maturities extending beyond the date of expected cessation of the LIBOR. The nature of potential changes, alternative reference rates or other reforms may affect market liquidity, the pricing of LIBOR-based instruments and the availability and cost of associated hedging instruments and borrowings. Payments under contracts referencing new reference rates may differ from those referencing LIBOR. The transition may change our risk profile and require changes to risk and pricing models, valuation tools, new product design and hedging strategies. Although we are unable to quantify the ultimate impact of the transition from LIBOR given the nature of the potential changes, we continue to monitor the developments related to the future of LIBOR in line with any regulatory or quasi-regulatory guidance.

Recently Issued Accounting Pronouncements Not Yet Effective

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes". This ASU is part of the FASB's initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The ASU removes specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. We expect to adopt the guidance in fiscal 2022. We are currently assessing the impact this guidance will have on our consolidated financial position or results of operations.

In January 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity with the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. We expect to adopt the guidance in fiscal 2022. We are currently assessing the impact this guidance will have on our consolidated financial position or results of operations.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The ASU provides for optional expedients and other guidance related to modification of contracts, hedging relationships, and other transactions affected by reference rate reform. The ASU also provides an election to account for certain contract amendments related to reference rate reform as modifications rather than extinguishments without the requirement to assess the significance of the amendments. The various practical expedients and elections allow hedge accounting to continue uninterrupted during the transition period. The amendments in the update are elective and applicable on issue. The guidance terminates in December 2022 and we have, as of March 31, 2021, not opted for any of the various practical expedients and elections provided in the update. Accordingly, there has been no material impact on our consolidated financial position or results of operations.

Fiscal Year Ended March 31, 2021 Compared to Fiscal Year Ended March 31, 2020

Net Interest Revenue after Allowance for Credit Losses

Our net interest revenue after allowances for credit losses increased by 11.3 percent from Rs. 475.9 billion in fiscal 2020 to Rs. 529.5 billion in fiscal 2021. Our net interest margin was 4.4 percent for fiscal 2021. The following table sets out the components of net interest revenue after allowance for credit losses.

	Year ended March 31,			
	2020	2021	Increase/ Decrease	% Increase/ Decrease
	(in million, except percentages)			
Interest on loans	Rs.981,794.8	Rs.1,017,047.8	Rs.35,253.0	3.6
Interest on securities, including dividends and interest on trading assets	205,775.3	230,064.7	24,289.4	11.8
Other interest revenue	24,412.8	28,855.1	4,442.3	18.2
Total interest and dividend revenue	1,211,982.9	1,275,967.6	63,984.7	5.3
Interest on deposits	507,888.8	501,260.2	(6,628.6)	(1.3)
Interest on short-term borrowings	27,216.8	12,531.8	(14,685.0)	(54.0)
Interest on long-term debt	83,200.5	78,361.5	(4,839.0)	(5.8)
Other interest expense	149.4	127.6	(21.8)	(14.6)
Total interest expense	618,455.5	592,281.1	(26,174.4)	(4.2)
Net interest revenue	Rs.593,527.4	Rs.683,686.5	Rs.90,159.1	15.2
Less: Provision for credit losses:				
Retail	104,516.8	145,821.9	41,305.1	39.5
Wholesale	13,105.1	8,411.5	(4,693.6)	(35.8)
Total	Rs.117,621.9	Rs.154,233.4	Rs.36,611.5	31.1
Net interest revenue after allowance for credit losses	Rs.475,905.5	Rs.529,453.1	Rs.53,547.6	11.3

Interest and Dividend Revenue

Interest income on loans increased by 3.6 percent from Rs. 981.8 billion in fiscal 2020 to Rs. 1,017.0 billion in fiscal 2021, primarily due to an increase in our average loan book. The average balance of our total loan book increased by 13.3 percent from Rs.9,342.4 billion in fiscal 2020 to Rs. 10,589.5 billion in fiscal 2021. Our average balance of retail loans increased by 7.9 percent from Rs. 6,465.5 billion in fiscal 2020 to Rs. 6,975.0 billion in fiscal 2021. The growth in retail loans was primarily across the retail business banking, housing loans and personal loans/credit cards segments. Our average balance of wholesale loans increased by 25.6 percent from Rs. 2,876.8 billion in fiscal 2020 to Rs. 3,614.5 billion in fiscal 2021. Retail loan yields decreased from 11.4 percent in fiscal 2020 to 10.9 percent in fiscal 2021. Wholesale loan yields decreased from 8.5 percent in fiscal 2020 to 7.2 percent in fiscal 2021.

Interest on securities, including dividends and interest on trading assets, increased by 11.8 percent from Rs. 205.8 billion in fiscal 2020 to Rs. 230.1 billion in fiscal 2021. This was primarily driven by an increase in the average balance of our investments. The average balance of our investments increased by Rs. 861.7 billion from Rs. 2,971.9 billion in fiscal 2020 to Rs. 3,833.6 billion in fiscal 2021. Yields on our investments decreased from 6.9 percent in fiscal 2020 to 6.0 percent in fiscal 2021.

Other interest revenue increased by 18.2 percent from Rs. 24.4 billion in fiscal 2020 to Rs. 28.9 billion in fiscal 2021, primarily due to increase in the average balance of dues from banks and other interest earning assets during fiscal 2021. The average balance of dues from banks and other interest earning assets increased by 69.3 percent from Rs. 568.2 billion in fiscal 2020 to Rs. 962.1 billion in fiscal 2021. This was partially offset by a decline in yields thereon from 4.3 percent in fiscal 2020 to 3.0 percent in fiscal 2021.

Interest Expense

Our interest expense on deposits decreased by 1.3 percent from Rs. 507.9 billion in fiscal 2020 to Rs. 501.3 billion in fiscal 2021. This was primarily due to a decrease in the average cost of our deposits. The average cost of our deposits, including non-interest bearing deposits, decreased from 5.1 percent in fiscal 2020 to 4.2 percent in fiscal 2021. This was partially offset by an increase in the average balance of our interest-bearing deposits. The average balance of our interest-bearing deposits increased by 22.4 percent from Rs. 8,684.2 billion in fiscal 2020 to Rs. 10,628.8 billion in fiscal 2021.

The average balance of our savings account deposits increased from Rs. 2,552.9 billion in fiscal 2020 to Rs. 3,392.4 billion in fiscal 2021 and the average balance of our time deposits increased from Rs. 6,131.3 billion in fiscal 2020 to Rs. 7,236.4 billion in fiscal 2021. The cost of our time deposits decreased from 6.8 percent in fiscal 2020 to 5.4 percent in fiscal 2021.

Interest expense on our short-term borrowings decreased by 53.7 percent from Rs. 27.4 billion in fiscal 2020 to Rs. 12.7 billion in fiscal 2021 primarily on account of a decrease in the cost of our short-term borrowings, which decreased from 4.6 percent in fiscal 2020 to 2.3 percent in fiscal 2021. In addition, this decrease was also driven by a decrease in the average balance of our short-term borrowings, which decreased by 8.3 percent from Rs. 598.7 billion in fiscal 2020 to Rs. 549.0 billion in fiscal 2021. Interest expense on our long-term debt decreased by 5.8 percent primarily on account of a decrease in the cost of our long term-debt, which decreased from 8.1 percent in fiscal 2020 to 7.1 percent in fiscal 2021. The average balance of our long-term debt increased from Rs. 1,023.4 billion in fiscal 2020 to Rs. 1,110.0 billion in fiscal 2021.

Provision for Credit Losses

We adopted topic 326 of ASC with effect from April 1, 2020. Until March 31, 2020 our loan loss allowance for credit losses consisted of specific and unallocated components. ASC 326 replaced our existing credit loss measurement methodology with the CECL accounting guidance. The CECL accounting guidance requires the measurement of our allowance for credit losses to be based on our estimate of lifetime expected credit losses inherent in our financial assets measured at amortized cost and certain off-balance sheet credit exposures. Upon the adoption of the ASC 326 accounting guidance, we recorded a net increase of Rs. 81.0 billion in the allowance for loans comprised of Rs. 54.1 billion in relation to our retail loans and Rs. 26.9 billion in relation to our wholesale loans. This increase was recognised net of tax in our retained earnings as of April 1, 2020.

Our provisions for credit losses increased by 31.1 percent from Rs. 117.6 billion in fiscal 2020 to Rs. 154.2 billion in fiscal 2021. The provisions for loan losses increased primarily due to the weaker economic outlook related to COVID-19 and the impact of the adoption of the new credit loss accounting standard. For the purposes of incorporating reasonable and supportable forecast into the CECL calculation, we have developed models using macroeconomic variables such as GDP, gross fixed capital formation, private final consumption expenditure, gross value added, index of industrial production and wholesale price index for wholesale and retail loans. The output of our models is appropriately adjusted with additional forward looking factors including business and portfolio specific outlook where required.

Our provisions for credit losses of our retail loans increased from Rs. 104.5 billion in fiscal 2020 to Rs. 145.8 billion in fiscal 2021. The increase in our provisions for credit losses of our retail loans was primarily attributable to the adoption of the new credit loss accounting standard and higher allowances in our auto loans, personal loans/credit cards, retail business banking and commercial transportation segments, primarily driven by the growth of these segments. Our provisions for our wholesale loans decreased from Rs. 13.1 billion in fiscal 2020 to Rs. 8.4 billion in fiscal 2021 primarily attributable to a decrease in our estimate of losses in our wholesale loan portfolio. This decrease was partially offset by the growth in our wholesale loan portfolio and our adoption of the new credit loss accounting standard.

Non-Interest Revenue

Our non-interest revenue increased by 27.6 percent from Rs. 198.2 billion in fiscal 2020 to Rs. 253.0 billion in fiscal 2021. The following table sets forth the components of our non-interest revenue:

	Years ended March 31,			
	2020	2021	Increase/ Decrease	% Increase/ Decrease
	(in million, except percentages)			
Fees and commissions	Rs.160,099.5	Rs.165,410.4	Rs.5,310.9	3.3
AFS securities gains, net	16,717.2	53,010.1	36,292.9	217.1
Trading securities gains/(losses), net	1,323.4	1,481.0	157.6	11.9
Foreign exchange transactions	15,265.6	27,762.6	12,497.0	81.9
Derivatives gains/(losses)	3,550.0	(3,253.0)	(6,803.0)	(191.6)
Other	1,263.3	8,564.6	7,301.3	578.0
Total non-interest revenue	Rs.198,219.0	Rs.252,975.7	Rs.54,756.7	27.6

Fees and commissions increased by 3.3 percent from Rs. 160.1 billion in fiscal 2020 to Rs. 165.4 billion in fiscal 2021, primarily on account of an increase in commissions on distribution of mutual funds and insurance products, and brokerage income. This increase was partially offset by a decrease in our payments and cards business fees and fees on retail assets.

The gain on AFS securities was primarily attributable to net realized gains on the sale of Government of India securities. The gain on trading securities was primarily attributable to net realized gains on the sale of our Government of India securities, equity shares and debt securities.

In fiscal 2021, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs. 3.4 billion, primarily on account of a loss of Rs. 3.4 billion from currency swaps and a loss of Rs. 2.2 billion from forward exchange contracts primarily attributable to mark-to-market losses, partially offset by gains of Rs. 2.2 billion (unadjusted for credit spread) from currency options, interest rate derivatives and forward rate agreements. In fiscal 2020, derivative transactions (unadjusted for credit spread) resulted in a gain of Rs. 3.8 billion, primarily on account of a gain of Rs. 4.1 billion from currency swaps and currency options and Rs. 2.2 billion from forward exchange contracts primarily due to mark-to-market gains, partially offset by a loss of Rs. 2.5 billion (unadjusted for credit spreads) in interest rate derivatives. Income from foreign exchange transactions amounted to Rs. 27.8 billion during fiscal 2021 as compared to Rs. 15.3 billion during fiscal 2020. As a result, income from foreign exchange transactions and derivatives increased from Rs. 18.8 billion in fiscal 2020 to Rs. 24.5 billion in fiscal 2021.

Our other non-interest revenue increased by Rs. 7.3 billion to Rs. 8.6 billion in fiscal 2021 as compared to Rs. 1.3 billion in fiscal 2020, primarily attributable to mark-to-market gains on our equity instruments that are carried at fair value.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Years ended March 31,					
	2020	2021	Increase/ Decrease	percent Increase/ Decrease	2020 % of net revenues	2021 % of net revenues
	(in million, except percentages)					
Salaries and staff benefits	Rs.130,506.9	Rs.143,755.9	Rs.13,249.0	10.2	19.4	18.4
Premises and equipment	31,533.9	35,763.2	4,229.3	13.4	4.7	4.6
Depreciation and amortization	12,800.3	13,860.2	1,059.9	8.3	1.9	1.7
Administrative and other	133,439.4	149,223.0	15,783.6	11.8	19.8	19.1
Total non-interest expense	Rs.308,280.5	Rs.342,602.3	Rs.34,321.8	11.1	45.7	43.8

Total non-interest expense increased by 11.1 percent from Rs. 308.3 billion in fiscal 2020 to Rs. 342.6 billion in fiscal 2021. Our net interest revenue after allowances for credit losses increased by 11.3 percent from Rs. 475.9 billion in fiscal 2020 to Rs. 529.5 billion in fiscal 2021. Our net revenue increased by 16.1 percent from Rs. 674.1 billion in fiscal 2020 to Rs. 782.4 billion in fiscal 2021. As a result, our non-interest expense as a percentage of our net revenues was 43.8 percent in fiscal 2021 as compared to 45.7 percent in fiscal 2020.

Salaries and staff benefits increased by 10.2 percent from Rs. 130.5 billion in fiscal 2020 to Rs. 143.8 billion in fiscal 2021 primarily attributable to an increase in the number of our employees and annual wage revisions. The number of our employees increased from 116,971 as of March 31, 2020 to 120,093 as of March 31, 2021.

Premises and equipment costs increased by 13.4 percent from Rs. 31.5 billion in fiscal 2020 to Rs. 35.8 billion in fiscal 2021 primarily on account of an increase in our premises and infrastructure costs. Depreciation and amortization expenses increased from Rs. 12.8 billion in fiscal 2020 to Rs. 13.9 billion in fiscal 2021.

Administrative and other expenses increased by 11.8 percent from Rs. 133.4 billion in fiscal 2020 to Rs. 149.2 billion in fiscal 2021, primarily on account of higher cards related costs and insurance expenses. This was partially offset by a decrease in our expenditure for the purchase of priority sector lending certificates. As of March 31, 2021, we had 5,608 branches and 16,087 ATMs and CDMs across 2,902 locations, compared to 5,254 branches and 14,901 ATMs and CDMs across 2,803 locations as of March 31, 2020. This also led to an overall increase in our non-interest expense.

Income Tax

Our income tax expense, net of interest earned on income tax refunds, increased by 7.9 percent, from Rs. 105.5 billion in fiscal 2020 to Rs. 113.8 billion in fiscal 2021.Our annual effective tax rate was 25.9 percent in fiscal 2021 as compared to 28.8 percent in fiscal 2020. Our effective tax rate was higher in fiscal 2020 primarily on account of the effect of change in our statutory tax rate from 34.94 percent in fiscal 2019 to 25.18 percent in fiscal 2020. Pursuant to this change in the statutory tax rate, we had, in fiscal 2020, recognized a charge in our income tax expense on stating our deferred tax assets as of March 31, 2019 at the newly enacted tax rate.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2020 and 2021:

	Year ended March 31,	
	2020	**2021**
Effective statutory income tax rate	25.17%	25.17%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation	0.51	0.61
Income exempt from taxes	(0.20)	(0.01)
Effect of change in statutory tax rate	3.07	–
Other, net	0.29	0.12
Annual effective income tax rate	28.84%	25.89%

Net Income

As a result of the foregoing factors, our net income after taxes increased by 25.2 percent from Rs. 260.3 billion in fiscal 2020 to Rs.326.0 billion in fiscal 2021.

Fiscal Year Ended March 31, 2020 Compared to Fiscal Year Ended March 31, 2019

Net Interest Revenue after Allowance for Credit Losses

Our net interest revenue after allowances for credit losses increased by 9.3 percent from Rs. 435.2 billion in fiscal 2019 to Rs. 475.9 billion in fiscal 2020. Our net interest margin was 4.6 percent for fiscal 2020. The following table sets out the components of net interest revenue after allowance for credit losses.

	Year ended March 31,			
	2019	2020	Increase/ Decrease	% Increase/ Decrease
	(in million, except percentages)			
Interest on loans	Rs.827,683.0	Rs.981,794.8	Rs.154,111.8	18.6
Interest on securities, including dividends and interest on trading assets	199,885.4	205,775.3	5,889.9	2.9
Other interest revenue	14,146.5	24,412.8	10,266.3	72.6
Total interest and dividend revenue	1,041,714.9	1,211,982.9	170,268.0	16.3
Interest on deposits	410,026.4	507,888.8	97,862.4	23.9
Interest on short-term borrowings	39,054.3	27,216.8	(11,837.5)	(30.3)
Interest on long-term debt	85,081.1	83,200.5	(1,880.6)	(2.2)
Other interest expense	47.5	149.4	101.9	214.5
Total interest expense	534,209.3	618,455.5	84,246.2	15.8
Net interest revenue	Rs.507,505.6	Rs.593,527.4	Rs.86,021.8	16.9
Less: Provision for credit losses:				
Retail	64,051.0	104,516.8	40,465.8	63.2
Wholesale	8,228.3	13,105.1	4,876.8	59.3
Total	Rs.72,279.3	Rs.117,621.9	Rs.45,342.6	62.7
Net interest revenue after allowance for credit losses	Rs.435,226.3	Rs.475,905.5	Rs.40,679.2	9.3

Interest and Dividend Revenue

Interest income on loans increased by 18.6 percent, primarily due to an increase in our average loan book. The average balance of our total loan book increased by 16.6 percent from Rs. 8,013.0 billion in fiscal 2019 to Rs. 9,342.3 billion in fiscal 2020. Our average balance of retail loans increased by 14.3 percent from Rs. 5,655.2 billion in fiscal 2019 to Rs. 6,465.5 billion in fiscal 2020. The growth in retail loans was primarily across personal loans/credit cards, housing loans and retail business banking segments. Our average balance of wholesale loans increased by 22.0 percent from Rs. 2,357.8 billion in fiscal 2019 to Rs. 2,876.8 billion in fiscal 2020. Retail loan yields increased from 11.1 percent in fiscal 2019 to 11.4 percent in fiscal 2020. Wholesale loan yields remained stable at 8.5 percent in fiscals 2019 and 2020.

Interest on securities, including dividends and interest on trading assets, increased by 2.9 percent from Rs. 199.9 billion in fiscal 2019 to Rs. 205.8 billion in fiscal 2020. This was primarily driven by an increase in the average balance of investments. The average balance of our investments increased by Rs. 189.0 billion from Rs. 2,782.9 billion in fiscal 2019 to Rs. 2,971.9 billion in fiscal 2020. Yields on our investment decreased from 7.2 percent in fiscal 2019 to 6.9 percent in fiscal 2020.

Other interest revenue increased by 72.6 percent from Rs. 14.1 billion in fiscal 2019 to Rs. 24.4 billion in fiscal 2020, primarily due to increase in the average balance of dues from banks and other interest earning assets during fiscal 2020 The average balance of dues from banks and other interest earning assets increased by 98.1 percent from Rs. 286.9 billion in fiscal 2019 to Rs. 568.2 billion in fiscal 2020. This increase was partially offset by a decline in yields on our dues from banks and other interest earning assets from 4.9 percent in fiscal 2019 to 4.3 percent in fiscal 2020.

Interest Expense

Our interest expense on deposits increased by 23.9 percent from Rs. 410.0 billion in fiscal 2019 to Rs. 507.9 billion in fiscal 2020. This increase was primarily due to an increase in our average interest bearing deposits, which increased by 21.8 percent from Rs. 7,131.2 billion in fiscal 2019 to Rs. 8,684.2 billion in fiscal 2020. This increase was augmented by an increase in the average cost of our deposits. The average cost of our deposits, including non-interest bearing deposits, increased from 5.0 percent in fiscal 2019 to 5.1 percent in fiscal 2020.

The average balance of our savings account deposits increased from Rs. 2,226.3 billion in fiscal 2019 to Rs. 2,552.9 billion in fiscal 2020 and the average balance of our time deposits increased from Rs. 4,904.9 billion in fiscal 2019 to Rs. 6,131.3 billion in fiscal 2020. Cost of time deposits increased from 6.7 percent in fiscal 2019 to 6.8 percent in fiscal 2020.

Interest expense on our short-term borrowings decreased by 30.0 percent from Rs. 39.1 billion in fiscal 2019 to Rs. 27.4 billion in fiscal 2020 primarily on account of a decrease in the average balance of our short-term borrowings. The average balance of our short-term borrowings decreased by 23.3 percent from Rs. 780.6 billion in fiscal 2019 to Rs. 598.7 billion in fiscal 2020. In addition, this decrease was also driven by a decline in the cost of our short-term borrowings which decreased from 5.0 percent in fiscal 2019 to 4.6 percent in fiscal 2020. Interest expense on our long-term debt decreased by 2.2 percent primarily on account of a decrease in the cost of our long term-debt, which decreased from 8.4 percent in fiscal 2019 to 8.1 percent in fiscal 2020. The average balance of our long-term debt increased from Rs. 1,015.1 billion in fiscal 2019 to Rs. 1,023.4 billion in fiscal 2020.

Provision for Credit Losses

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses increased by 62.7 percent from Rs. 72.3 billion in fiscal 2019 to Rs. 117.6 billion in fiscal 2020.

Our loan loss allowance for credit losses in our retail loan portfolio increased by 63.2 percent from Rs. 64.1 billion in fiscal 2019 to Rs. 104.5 billion in fiscal 2020. Our retail specific loan loss allowance increased from Rs. 53.3 billion in fiscal 2019 to Rs. 73.4 billion in fiscal 2020. This increase was primarily due to higher allowances in our personal loans/credit cards and commercial transportation segments. Our retail unallocated allowances increased from Rs. 10.8 billion in fiscal 2019 to Rs. 31.1 billion in fiscal 2020, primarily attributable to an increase in the unallocated allowances on our retail business banking, personal loans/credit cards and commercial transportation segments.

Our loan loss allowance for credit losses in our wholesale loan portfolio increased by 59.3 percent from Rs. 8.2 billion in fiscal 2019 to Rs. 13.1 billion in fiscal 2020. Our wholesale specific loan loss allowance increased from Rs. 6.5 billion in fiscal 2019 to Rs. 9.4 billion in fiscal 2020. Our wholesale unallocated loan loss allowance increased from Rs. 1.7 billion in fiscal 2019 to Rs. 3.7 billion in fiscal 2020. Our wholesale unallocated loan loss was higher in fiscal 2020 primarily on account of the growth in our wholesale loan portfolio and an increase in our estimate of losses in our wholesale loan portfolio.

During fiscal 2020, we implemented the loan-restructuring package announced by RBI on account of COVID-19 situation which grants temporary extensions in repayment obligations to the borrowers without any interest or financial concessions. There was no concession granted to the borrowers with respect to contractual rate of interest or the principal, and the deferment is for a short term. We expect to collect our dues as per the revised schedule. Hence, these did not meet the conditions to be classified as troubled debt restructuring.

Non-Interest Revenue

Our non-interest revenue increased by 23.8 percent from Rs. 160.1 billion in fiscal 2019 to Rs. 198.2 billion in fiscal 2020. The following table sets forth the components of our non-interest revenue:

	Years ended March 31,			
	2019	**2020**	**Increase/ Decrease**	**% Increase/ Decrease**
	(in million, except percentages)			
Fees and commissions	Rs.134,155.2	Rs.160,099.5	Rs.25,944.3	19.3
AFS securities gains/(loss), net	1,515.0	16,717.2	15,202.2	1,003.4
Trading securities gains/(loss), net	1,028.4	1,323.4	295.0	28.7
Foreign exchange transactions	1,917.8	15,265.6	13,347.8	696.0
Derivatives gains/(loss)	12,409.1	3,550.0	(8,859.1)	(71.4)
Other	9,096.7	1,263.3	(7,833.4)	(86.1)
Total non-interest revenue	Rs.160,122.2	Rs.198,219.0	Rs.38,096.8	23.8

Fees and commissions increased by 19.3 percent from Rs. 134.2 billion in fiscal 2019 to Rs. 160.1 billion in fiscal 2020, primarily on account of an increase in payments and cards business fees and commissions on distribution of mutual funds and insurance products.

The gain on AFS securities was primarily attributable to net realized gains on the sale of Government of India securities. The gain on trading securities was primarily attributable to net realized gains on sale of Government of India securities and corporate bonds.

In fiscal 2020, derivative transactions (unadjusted for credit spread) resulted in a gain of Rs. 3.8 billion, primarily on account of a gain of Rs. 4.1 billion from currency swap and currency options and Rs. 2.2 billion from forward exchange contracts due to mark-to-market gains and gains on cancellations of forward exchange contracts. In fiscal 2020, interest rate derivatives resulted in a loss of Rs. 2.5 billion (unadjusted for credit spreads). In fiscal 2019, derivative transactions (unadjusted for credit spreads) resulted in a gain of Rs. 12.4 billion, primarily on account of a gain of Rs. 10.9 billion from forward exchange contracts due to mark-to-market gains and gains on cancellations of forward exchange contracts. In fiscal 2019, currency swaps and currency options resulted in a gain of Rs. 0.8 billion (unadjusted for credit spreads) and interest rate derivatives and forward rate agreements resulted in a gain of Rs. 0.7 billion (unadjusted for credit spreads). Income from foreign exchange transactions amounted to Rs. 15.3 billion during fiscal 2020 as compared to Rs. 1.9 billion during fiscal 2019. As a result, income from foreign exchange transactions and derivatives increased from Rs. 14.3 billion in fiscal 2019 to Rs. 18.8 billion in fiscal 2020.

Our other non-interest revenue totaled Rs. 1.3 billion in fiscal 2020 compared to Rs. 9.1 billion in fiscal 2019. In fiscal 2019, we adopted ASU2016-01 "Financial Instruments – Overall (Subtopic 825-10)" as a result of which our equity investments were measured at fair value with changes in the fair value being recognized through net income. Our other non-interest revenue in fiscal 2019 was primarily attributed by the gain on sale of some of our equity investments and mark-to-market gains on our equity instruments that are carried at fair value.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Years ended March 31,					
	2019	**2020**	**Increase/ Decrease**	**percent Increase/ Decrease**	**2019 % of net revenues**	**2020 % of net revenues**
	(in million, except percentages)					
Salaries and staff benefits	Rs.104,652.6	Rs.130,506.9	Rs.25,854.3	24.7	17.6	19.4
Premises and equipment...........	29,527.7	31,533.9	2,006.2	6.8	5.0	4.7
Depreciation and amortization	12,247.8	12,800.3	552.5	4.5	2.1	1.9
Administrative and other...................	108,960.4	133,439.4	24,479.0	22.5	18.3	19.8
Amortization of intangibles...........	1.0	–	(1.0)	(100.0)	–	–
Total non-interest expense..............	Rs.255,389.5	Rs.308,280.5	Rs.52,891.0	20.7	42.9	45.7

Total non-interest expense increased by 20.7 percent from Rs. 255.4 billion in fiscal 2019 to Rs. 308.3 billion in fiscal 2020. Our net interest revenue after allowances for credit losses increased by 9.3 percent from Rs. 435.2 billion in fiscal 2019 to Rs. 475.9 billion in fiscal 2020. Our net revenue increased by 13.2 percent from Rs. 595.3 billion in fiscal 2019 to Rs. 674.1 billion in fiscal 2020. As a result, our non-interest expense as a percentage of our net revenues was 45.7 percent in fiscal 2020 compared to 42.9 percent in fiscal 2019.

Salaries and staff benefits increased by 24.7 percent from Rs. 104.7 billion in fiscal 2019 to Rs. 130.5 billion in fiscal 2020 primarily attributable to an increase in the number of our employees and annual wage revisions. The number of our employees increased from 98,061 as of March 31, 2019 to 116,971 as of March 31, 2020.

Premises and equipment costs increased by 6.8 percent from Rs. 29.5 billion in fiscal 2019 to Rs. 31.5 billion in fiscal 2020 primarily on account of an increase in premises and lease costs. Depreciation and amortization expenses increased from Rs. 12.2 billion in fiscal 2019 to Rs. 12.8 billion in fiscal 2020.

Administrative and other expenses increased by 22.5 percent from Rs. 109.0 billion in fiscal 2019 to Rs. 133.4 billion in fiscal 2020, primarily on account of higher cards related costs backed by an increase in cards spends, expenditure for the purchase of priority sector lending certificates and insurance expenses. As of March 31, 2020, we had 5,254 branches and 14,901 ATMs and CDMs across 2,803 locations, which increased from 4,971 branches and 13,489 ATMs and CDMs across 2,748 locations as of March 31, 2019. This also led to an overall increase in our non-interest expense.

The intangible assets (i.e., favorable leases) that were acquired through the merger of CBoP were amortized over their estimated remaining useful life. This amortization resulted in a charge of Rs. 1.0 million in fiscal 2019. There were no intangible assets remaining to be amortized in fiscal 2020.

Income Tax

Our income tax expense, net of interest earned on income tax refunds, decreased by 11.7 percent, from Rs. 119.4 billion in fiscal 2019 to Rs. 105.5 billion in fiscal 2020. Our statutory income tax rate decreased from 34.94 percent in fiscal 2019 to 25.17 percent in fiscal 2020. Pursuant to the change in the statutory tax rate, we stated our deferred tax assets as of March 31, 2019 at the newly enacted rate by recognizing a charge of Rs. 11.2 billion in our income tax expense for fiscal 2020. Consequently, our annual effective tax rate was 28.8 percent in fiscal 2020 compared to 35.1 percent in fiscal 2019.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2019 and 2020:

	Year ended March 31,	
	2019	**2020**
Effective statutory income tax rate	34.94%	25.17%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation	0.55	0.51
Income exempt from taxes	(0.42)	(0.20)
Interest on income tax refunds	(0.10)	–
Effect of change in statutory tax rate	–	3.07
Other, net	0.15	0.29
Annual effective income tax rate	35.12%	28.84%

Net Income

As a result of the foregoing factors, our net income after taxes increased by 18.2 percent from Rs. 220.1 billion in fiscal 2019 to Rs. 260.3 billion in fiscal 2020.

Liquidity and Capital Resources

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

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

	Year ended March 31,		
	2019	**2020**	**2021**
		(in million)	
Cash Flows from Operating Activities:			
Net income before non-controlling interest	Rs.220,565.5	Rs.260,364.0	Rs.326,006.4
Non-cash adjustments to net income	88,974.5	141,478.0	123,423.8
Net change in other assets and liabilities	(126,267.8)	(230,662.3)	472,346.0
Net cash provided by operating activities	Rs.183,272.2	Rs.171,179.7	Rs.921,776.2
Cash Flows from Investing Activities:			
Net change in term placements	24,447.4	6,055.7	4,168.0
Net change in investments	(390,904.0)	(740,545.6)	(823,663.2)
Net change in repurchase and resell agreements	609,805.1	160,195.5	(171,982.8)
Loans purchased net of repayments	(150,642.9)	(129,916.5)	(65,522.2)
Increase in loans originated, net of principal collections	(1,610,724.3)	(1,428,007.7)	(1,446,355.1)
Net additions to property and equipment	(16,142.7)	(18,111.9)	(17,653.7)
Activity in equity securities, net	(2,821.4)	(157.9)	(140.7)
Net cash used in investing activities	Rs.(1,536,982.8)	Rs.(2,150,488.4)	Rs.(2,521,149.7)

	Year ended March 31,		
	2019	2020	2021
		(in million)	
Cash Flows from Financing Activities:			
Net increase in deposits	1,331,850.9	2,213,972.5	1,882,763.1
Net increase/(decrease) in short-term borrowings	(127,707.1)	(277,587.3)	(138,024.7)
Proceeds from issuance of shares by subsidiaries to non-controlling interest	459.8	466.8	492.4
Net increase/(decrease) in long-term debt	96,009.1	(43,104.9)	155,704.2
Proceeds from issuance of equity shares for options exercised	22,008.2	18,486.8	17,601.0
Net proceeds from issuance of equity shares	235,896.2	–	–
Payment of dividends and dividend tax	(41,015.2)	(66,447.3)	(166.6)
Net cash provided by financing activities	Rs.1,517,501.9	Rs.1,845,786.6	Rs.1,918,369.4
Effect of exchange rate changes on cash and due from banks, and restricted cash	(3,069.7)	10,610.5	(262.2)
Net change in cash and due from banks, and restricted cash	160,721.6	(122,911.6)	318,733.7
Cash and due from banks, and restricted cash, beginning of year	574,151.0	734,872.6	611,961.0
Cash and due from banks, and restricted cash, end of year	Rs.734,872.6	Rs.611,961.0	Rs.930,694.7

Fiscal Year Ended March 31, 2021 Compared to Fiscal Year Ended March 31, 2020

Cash Flows from Operating Activities

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges (such as depreciation and amortization), as well as changes in other assets and liabilities. Our net cash provided by operating activities increased from Rs. 171.2 billion in fiscal 2020 to Rs. 921.8 billion in fiscal 2021, mainly due to higher cash flows in fiscal 2021 as compared to in fiscal 2020. This was largely a result of an increase in our net income and a decrease in our investments held for trading in fiscal 2021 as compared to an increase in our investments held for trading in fiscal 2020.

Cash Flows from Investing Activities

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. Net cash flows used for loans origination and purchase, net of principal collections and repayments, decreased from Rs. 1,557.9 billion in fiscal 2020 to Rs. 1,511.9 billion in fiscal 2021, largely on account of a lesser increase in retail and wholesale loan portfolios in fiscal 2021 as compared to fiscal 2020. Net cash flows used for investing in our debt securities increased from Rs. 740.5 billion in fiscal 2020 to Rs. 823.7 billion in fiscal 2021, primarily on account of an increase in our available-for-sale government securities and credit substitutes. Net cash flows used in repurchase and reverse repurchase agreements aggregated Rs. 172.0 billion in fiscal 2021 as compared to net cash flows from repurchase and reverse repurchase agreements aggregating Rs. 160.2 billion in fiscal 2020.

Cash Flows from Financing Activities

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 16.4 percent from Rs. 11,462.1 billion in fiscal 2020 to Rs. 13,337.2 billion in fiscal 2021. Time deposits increased by 8.5 percent from Rs. 6,626.7 billion in fiscal 2020 to Rs. 7,191.5 billion in fiscal 2021. Savings account deposits increased by 30.0 percent from Rs. 3,103.8 billion as of March 31, 2020 to Rs. 4,034.9 billion as of March 31, 2021. Our non-interest-bearing current account deposits increased by 21.9 percent from Rs. 1,731.6 billion as of March 31, 2020 to Rs. 2,110.8 billion as of March 31, 2021. Savings account deposits at Rs. 4,034.9 billion and current account deposits at Rs. 2,110.8 billion accounted for 46.1 percent of our total deposits as of March 31, 2021. Our short-term borrowings decreased by Rs. 138.2 billion from Rs. 377.4 billion in fiscal 2020 to Rs. 239.3 billion in fiscal 2021. Our long-term debt increased by 14.4 percent from Rs. 1,026.5 billion in fiscal 2020 to Rs. 1,174.8 billion in fiscal 2021.

Fiscal Year Ended March 31, 2020 Compared to Fiscal Year Ended March 31, 2019

Cash Flows from Operating Activities

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges (such as depreciation and amortization), as well as changes in other assets and liabilities. Our net cash provided by operating activities decreased from Rs. 183.3 billion in fiscal 2019 to Rs. 171.2 billion in fiscal 2020, mainly due to lower cash flows in fiscal 2020 as compared to in fiscal 2019. This was largely a result of a higher increase in our investments held for trading in fiscal 2020 as compared to fiscal 2019, partially offset by an increase in our net income.

Cash Flows from Investing Activities

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. Net cash flows used for loans origination and purchase, net of principal collections and repayments, decreased from Rs. 1,761.4 billion in fiscal 2019 to Rs. 1,557.9 billion in fiscal 2020, largely on account of a lesser increase in both retail and wholesale loan portfolios in fiscal 2020 as compared to in fiscal 2019. Net cash flows used for investing in our debt securities increased from Rs. 390.9 billion in fiscal 2019 to Rs. 740.5 billion in fiscal 2020, primarily on account of an increase in our available-for-sale Government of India securities, credit substitutes and asset and mortgage backed securities. Cash flows from repurchase agreements and reverse repurchase agreements decreased from Rs. 609.8 billion in fiscal 2019 to Rs. 160.2 billion in fiscal 2020.

Cash Flows from Financing Activities

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 24.2 percent from Rs. 9,225.0 billion in fiscal 2019 to Rs. 11,462.1 billion in fiscal 2020. There was a 24.6 percent increase in our time deposits from Rs. 5,317.7 billion in fiscal 2019 to Rs. 6,626.7 billion in fiscal 2020. Savings account deposits increased by 24.8 percent from Rs. 2,487.0 billion as of March 31, 2019 to Rs. 3,103.8 billion as of March 31, 2020. Our non-interest-bearing current account deposits increased by 21.9 percent from Rs. 1,420.3 billion as of March 31, 2019 to Rs. 1,731.6 billion as of March 31, 2020. Savings account deposits at Rs. 3,103.8 billion and current account deposits at Rs. 1,731.6 billion accounted for 42.2 percent of our total deposits as of March 31, 2020. Our short-term borrowings decreased by Rs. 276.6 billion from Rs. 654.1 billion in fiscal 2019 to Rs. 377.4 billion in fiscal 2020. Our long-term debt decreased by 1.7 percent from Rs. 1,044.6 billion in fiscal 2019 to Rs. 1,026.5 billion in fiscal 2020.

Financial Condition

Assets

The following table sets forth the principal components of our assets as of March 31, 2020 and March 31, 2021.

	As of March 31,			
	2020	2021(1)	Increase/ (decrease)	% Increase/ (decrease)
	(in million except percentages)			
Cash and due from banks, and restricted cash	Rs.611,961.0	Rs.930,694.7	Rs.318,733.7	52.1
Investments held for trading	304,962.9	99,620.2	(205,342.7)	(67.3)
Investments available for sale debt securities	3,406,289.2	4,275,449.9	869,160.7	25.5
Securities purchased under agreements to resell	250,000.0	270,060.0	20,060.0	8.0
Loans, net	10,425,022.4	11,700,189.2	1,275,166.8	12.2
Accrued interest receivable	103,035.9	118,762.9	15,727.0	15.3
Property and equipment	48,327.7	53,094.4	4,766.7	9.9
Goodwill	74,937.9	74,937.9	–	–
Other assets	737,352.1	456,972.8	(280,379.3)	(38.0)
Total assets	Rs.15,961,889.1	Rs.17,979,782.0	Rs.2,017,892.9	12.6

(1) With effect from April 1, 2020 we adopted FASB ASU 2016-13 “Financial Instruments – Credit Losses (Topic 326)” using the modified retrospective method for reporting periods beginning after April 1, 2020. Prior period amounts continue to be reported in accordance with previously applicable GAAP.

Our total assets increased by 12.6 percent from Rs. 15,961.9 billion as of March 31, 2020 to Rs. 17,979.8 billion as of March 31, 2021.

Our cash and due from banks, and restricted cash increased by 52.1 percent from Rs. 612.0 billion as of March 31, 2020 to Rs. 930.7 billion as of March 31, 2021, primarily on account of net cash provided by our operating and financing activities, partially offset by net cash used in our investing activities. Cash and due from banks, and restricted cash is comprised of cash and balances due from banks. We are also required to maintain cash balances with the RBI to meet our cash reserve ratio requirement. Banks in India, including us, are required to maintain a specific percentage of our demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. We have classified the cash reserve maintained with the RBI as restricted cash.

Securities held under the trading portfolio are for trading purposes and are generally sold within 90 days from the date of purchase. Investments held for trading decreased by 67.3 percent from Rs. 305.0 billion as of March 31, 2020 to Rs. 99.6 billion as of March 31, 2021 primarily on account of a decrease in our investments in government securities and units of mutual fund.

Investments available for sale debt securities increased by 25.5 percent primarily on account of an increase in our government securities and credit substitutes.

Net loans increased by 12.2 percent on account of an increase in both retail and wholesale loan portfolios. Our gross retail loan portfolio increased by 11.2 percent from Rs. 7,040.8 billion as of March 31, 2020 to Rs. 7,828.8 billion as of March 31, 2021. The growth in retail loans was primarily across the retail business banking, housing loans and personal loans/credit cards segments. Our gross wholesale loan book increased by 17.6 percent from Rs. 3,583.1 billion as of March 31, 2020 to Rs. 4,214.9 billion as of March 31, 2021. Upon adoption of ASC 326, we recorded a net increase of Rs. 54.1 billion in the allowance for our retail loans and Rs. 26.9 billion in the allowance for our wholesale loans. Our allowances for credit losses increased from Rs. 159.2 billion for our retail loans and Rs. 39.6 billion for our wholesale loans as of March 31, 2020 to Rs. 271.9 billion for our retail loans and Rs. 71.6 billion for our wholesale loans as of March 31, 2021.

Accrued interest receivable increased by 15.3 percent from Rs. 103.0 billion as at March 31, 2020 to Rs. 118.8 billion as of March 31, 2021, primarily on account of an increase in our loans and investment securities.

Our property and equipment increased by Rs. 4.8 billion. We added 283 branches and 1,412 ATMs and CDMs in fiscal 2020 and 354 branches and 1,186 ATMs and CDMs in fiscal 2021.

We paid a purchase consideration of Rs. 102.8 billion to acquire the net assets of CBoP at a fair value of Rs. 27.8 billion, thereby recognizing unidentified intangibles (goodwill) of Rs. 74.9 billion during fiscal 2009. The goodwill arising from the business combination is tested on an annual basis for impairment. The said goodwill has not been impaired as of March 31, 2021 and has been carried forward at the same value as the value at the acquisition date.

Other assets decreased by 38.0 percent from Rs. 737.4 billion as of March 31, 2020 to Rs. 457.0 billion as of March 31, 2021, primarily due to a decrease in receivables on account of sale of securities pending settlement from Rs. 222.0 billion as of March 31, 2020 to Rs. 4.9 billion as of March 31, 2021 and a decrease in derivatives from Rs. 190.5 billion as of March 31, 2020 to Rs. 84.4 billion as of March 31, 2021. The decrease in derivatives was largely attributable to a decrease in the mark-to-market gains from forward exchange contracts and interest rate derivatives. Other assets include a right-of-use asset of Rs. 64.5 billion as of March 31, 2021 and of Rs. 60.8 billion as of March 31, 2020 related to our future lease payments as a lessee under operating leases as of March 31, 2021.

Liabilities and Shareholders' Equity

The following table sets forth the principal components of our liabilities and shareholders' equity as of March 31, 2020 and March 31, 2021:

	As of March 31,			
	2020	**2021(1)**	**Increase/ (decrease)**	**Increase/ (decrease)**
	(in million, except percentages)			%
Liabilities				
Interest bearing deposits...	Rs.9,730,481.3	Rs.11,226,467.8	Rs.1,495,986.5	15.4
Non-interest bearing deposits........................	1,731,590.0	2,110,762.4	379,172.4	21.9
Total deposits.................	11,462,071.3	13,337,230.2	1,875,158.9	16.4
Securities sold under repurchase agreements..	507,982.0	356,059.2	(151,922.8)	(29.9)
Short-term borrowings......	377,417.6	239,264.1	(138,153.5)	(36.6)
Accrued interest payable ..	80,078.9	77,969.1	(2,109.8)	(2.6)
Long-term debt................	1,026,518.3	1,174,758.2	148,239.9	14.4
Accrued expenses and other liabilities.............	611,327.2	631,096.4	19,769.2	3.2
Total liabilities...............	14,065,395.3	15,816,377.2	1,750,981.9	12.4
Non-controlling interest in subsidiaries..............	3,411.4	3,776.4	365.0	10.7
HDFC Bank Limited shareholders' equity......	1,893,082.4	2,159,628.4	266,546.0	14.1
Total liabilities and shareholders' equity....	Rs.15,961,889.1	Rs.17,979,782.0	Rs.2,017,892.9	12.6

(1) With effect from April 1, 2020 we adopted FASB ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326)" using the modified retrospective method for reporting periods beginning after April 1, 2020. Prior period amounts continue to be reported in accordance with previously applicable GAAP.

Our total liabilities increased by 12.4 percent from Rs. 14,065.4 billion as of March 31, 2020 to Rs. 15,816.4 billion as of March 31, 2021. This increase was primarily attributable to the growth in our deposits. The increase in our interest-bearing deposits was on account of an increase in time deposits and savings deposits. Time deposits increased by 8.5 percent from Rs. 6,626.7 billion as of March 31, 2020 to Rs. 7,191.5 billion as of March 31, 2021. Savings account deposits increased by 30.0 percent from Rs. 3,103.8 billion as of March 31, 2020 to Rs. 4,034.9 billion as of March 31, 2021. Our non-interest bearing current account deposits increased by 21.9 percent from Rs. 1,731.6 billion as of March 31, 2020 to Rs. 2,110.8 billion as of March 31, 2021.

Most of our funding requirements are met through short-term and medium-term funding sources. Of our total non-equity sources of funding, primarily comprised of deposits and borrowings, deposits accounted for 84.3 percent, short-term borrowings accounted for 1.5 percent and long-term debt accounted for 7.4 percent as of March 31, 2021. Our short-term borrowings, comprised primarily of money market borrowings, decreased by Rs. 138.2 billion from Rs. 377.4 billion as of March 31, 2020 to Rs. 239.3 billion as of March 31, 2021. Our long-term debt increased by 14.4 percent from Rs. 1,026.5 billion in fiscal 2020 to Rs. 1,174.8 billion in fiscal 2021.

Accrued interest payable decreased by Rs. 2.1 billion from Rs. 80.1 billion as of March 31, 2020 to Rs. 78.0 billion as of March 31, 2021. This decrease was primarily on account of decrease in interest accrued on our time deposits and our borrowings.

Accrued expenses and other liabilities increased by 3.2 percent from Rs. 611.3 billion as of March 31, 2020 to Rs. 631.1 billion as of March 31, 2021, primarily on account of an increase in bills and other payables, partially offset by a decrease in derivatives from Rs. 184.8 billion as of March 31, 2020 to Rs. 81.9 billion as of March 31, 2021. Accrued expenses and other liabilities include lease liability of Rs. 70.4 billion as of March 31, 2021 and Rs. 65.6 billion as of March 31, 2020 related to our future lease payments as a lessee under operating leases. Upon adoption of ASC 326, we recorded a net increase of Rs. 2.3 billion in the allowance for credit losses on our off-balance sheet credit exposures and undrawn commitments. Accrued expenses and other liabilities include our allowance for credit losses on our off-balance sheet credit exposures and undrawn commitments, aggregating Rs. 5.6 billion as of March 31, 2021.

Shareholders' equity increased on the exercise of 29,490,022 stock options by employees and on an increase in our retained earnings, partially offset by a decrease in the balance of our accumulated other comprehensive income One ADS continues to represent three equity shares.

Capital

We are a banking company within the meaning of the BR Act, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on our financial position. The RBI issued detailed guidelines for implementation of Basel III capital regulations in May 2012. The minimum capital requirements under Basel III are being phased-in as per the guidelines prescribed by the RBI. Accordingly, we are required to maintain a minimum Common Equity Tier I ratio of 7.575 percent, a minimum total Tier I capital ratio of 9.075 percent and a minimum total capital ratio of 11.075 percent (each including capital conservation buffer and additional capital applicable to us as a D-SIB) as of March 31, 2021.

Our regulatory capital and capital adequacy ratios measured in accordance with Indian GAAP and calculated under Basel III as of March 31, 2020 and March 31, 2021 are as follows:

	As of March 31,		
	2020	**2021**	**2021**
	(in million, except percentages)		
Tier I capital	Rs.1,714,144.4	Rs.1,985,873.6	U.S.$27,151.7
Tier II capital	Rs.128,434.1	Rs.139,589.4	U.S.$1,908.5
Total capital	Rs.1,842,578.5	Rs.2,125,463.0	U.S.$29,060.2
Total risk weighted assets	Rs.9,947,157.4	Rs.11,311,438.8	U.S.$154,654.6
Capital ratios of the Bank:			
Common Equity Tier I	16.43%	16.85%	16.85%
Tier I	17.23%	17.56%	17.56%
Total capital	18.52%	18.79%	18.79%
Minimum capital ratios required by the RBI:*			
Tier I	9.075%	9.075%	9.075%
Total capital	11.075%	11.075%	11.075%

* The Tier I and Total capital ratio includes capital conservation buffer and additional capital applicable to us as a D-SIB.

Capital Expenditure

Our capital expenditures consist principally of expenditures relating to our branch network expansion, as well as investments in our technology and communications infrastructure. Our capital expenditure was Rs. 17.7 billion in fiscal 2021. We have current plans for capital expenditures of approximately Rs. 22.8 billion in fiscal 2022. Our budgeted capital expenditure is primarily to expand our branch and ATM network, to upgrade and expand our hardware, data center, network and other systems, to add new equipment in and expand our existing premises and to relocate our branches and back-offices. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, and consequently our actual capital expenditures may be higher or lower than our budgeted amounts. See also "*Risk Factors – A slowdown in economic growth in India would cause us to experience slower growth in our asset portfolio and deterioration in the quality of our assets*", "*– Financial instability in other countries may cause increased volatility in the Indian financial markets*" and "*– The COVID-19 pandemic may have a material adverse effect on our business, financial condition and results of operations*".

Financial Instruments and Off-Balance Sheet Arrangements

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

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

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. A currency option is a contract where the purchaser of the option has the right but not the obligation to either purchase or sell and the seller of the option agrees to sell or purchase an agreed amount of a specified currency at a price agreed in advance and denominated in another currency on a specified date or by an agreed date in the future. A forward rate agreement is a financial contract between two parties to exchange interest payments for a "notional principal" amount on a settlement date, for a specified period from a start date to a maturity date. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchanges of principal amounts at maturity (or on specified intermittent dates) based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

We earn profit on customer transactions by way of a margin as a mark-up over the inter-bank exchange or interest rate. We earn profit on inter-bank transactions by way of a spread between the purchase rate and the sale rate. These profits are recorded as income from foreign exchange and derivative transactions. Our Board of Directors imposes limits on our ability to hold overnight positions in foreign exchange and derivatives and the same are intimated to RBI. The following table presents the aggregate notional principal amounts of the our outstanding forward exchange and derivative contracts as of March 31, 2021, together with the fair values on each reporting date:

	As of March 31, 2021					
	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
	(In million)					
Interest rate derivatives	Rs.3,155,410.2	Rs.32,217.2	Rs.33,894.0	Rs.(1,676.8)	U.S.$43,142.1	U.S.$(22.9)
Forward rate agreements	20,887.8	270.0	64.1	205.9	285.6	2.8
Currency options	202,402.7	1,078.7	1,510.7	(432.0)	2,767.3	(5.9)
Currency swaps	237,081.5	8,126.4	4,940.8	3,185.6	3,241.5	43.6
Forward exchange contracts	4,964,726.6	42,714.4	41,470.4	1,244.0	67,879.8	16.9
Total	Rs.8,580,508.8	Rs.84,406.7	Rs.81,880.0	Rs.2,526.7	U.S.$117,316.3	U.S.$34.5

We have not designated the above derivative contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with subsequent changes in fair value recorded in earnings.

Guarantees and Documentary Credits

As a part of our commercial banking activities, we issue documentary credits and guarantees. Documentary credits, such as letters of credit, enhance the credit standing of our customers. Guarantees generally represent irrevocable assurances that we will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third-party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third-party beneficiary where a customer fails to perform anon-financial contractual obligation. The nominal values of guarantees and documentary credits for the dates set forth below were as follows:

	As of March 31,		
	2020	2021	2021
	(In million)		
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs.263,758.0	Rs.334,040.8	U.S.$4,567.1
Performance guarantees	330,164.6	421,162.2	5,758.3
Documentary credits	440,232.7	376,536.2	5,148.2
Total	Rs.1,034,155.3	Rs.1,131,739.2	U.S.$15,473.6

Guarantees and documentary credits outstanding increased by 9.4 percent from Rs. 1,034.2 billion as of March 31, 2020 to Rs. 1,131.7 billion as of March 31, 2021, principally due to growth in our trade finance business.

Undrawn commitments

Our undrawn commitments in respect of loans and financing provided to customers aggregated to Rs. 539.8 billion and Rs. 628.3 billion (U.S.$8.6 billion) as of March 31, 2020 and March 31, 2021, respectively. Among other things, the making of a loan is subject to a review of the creditworthiness of the customer at the time the customer seeks to borrow, at which time we have the unilateral right to decline to make the loan. If we were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. Further, we have unconditional cancellable commitments aggregating to Rs. 3,806.2 billion and Rs. 4,826.7 billion (U.S.$66.0 billion) as of March 31, 2020 and March 31, 2021, respectively. See also Note 23 "*Financial Instruments*" to our consolidated financial statements included elsewhere in this report.

Contractual Obligations and Commercial Commitments

The table below summarizes our principal contractual obligations as of March 31, 2021:

Contractual Obligations

	Payments due by period, as of March 31, 2021				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
			(in million)		
Subordinated debt[(a)]	Rs.126,240.0	Rs.–	Rs.8,300.0	Rs.5,000.0	Rs.112,940.0
Other long-term debt	963,542.1	98,617.5	538,290.2	158,546.8	168,087.6
Operating leases[(b)]	101,953.0	11,783.1	21,077.4	18,755.0	50,337.5
Short-term borrowings	239,264.1	239,264.1	–	–	–
Securities sold under repurchase agreements	356,059.2	356,059.2	–	–	–
Unconditional purchase obligations[(c)]	12,895.7	12,895.7	–	–	–
Total	Rs.1,799,954.1	Rs.718,619.6	Rs.567,667.6	Rs.182,301.8	Rs.331,365.1

(a) Scheduled maturities of subordinated debt do not include perpetual bonds of Rs. 84,976.1 million (net of debt issuance cost).

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

(c) Unconditional purchase obligations represent committed capital contracts as of March 31, 2021. See "– *Note 26 – Commitments and contingencies*" of our consolidated financial statements.

Commercial Commitments

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

We have recognized a liability of Rs. 5.5 billion as of March 31, 2021, in accordance with FASB ASC 460-10 in respect of guarantees issued or modified. Based on historical trends, in accordance with FASB ASC 450, we have recognized a liability of Rs. 3.1 billion as of March 31, 2020.

As part of our risk management activities, we continuously monitor the creditworthiness of customers as well as guarantee exposures. However, if a customer fails to perform a specified obligation to a beneficiary, the beneficiary may draw upon the guarantee by presenting documents that are in compliance with the guarantee. In that event, we make payment on account of the defaulting customer to the beneficiary, up to the full notional amount of the guarantee. The customer is obligated to reimburse us for any such payment. If the customer fails to pay, we would, as applicable, liquidate collateral and/or set off accounts; if insufficient collateral is held, we recognize a loss.

The residual maturities of the above commitments as of March 31, 2021 are set forth in the following table:

	Amount of commitment expiration per period, as of March 31, 2021				
	Total amounts Committed*	Up to 1 year	1-3 years	3-5 years	Over 5 years
			(in million)		
Documentary credits	Rs.376,536.2	Rs.363,317.1	Rs.11,756.3	Rs.724.2	Rs.738.6
Guarantees	755,203.0	540,504.0	149,992.8	52,748.0	11,958.2
Forward exchange and derivative contracts	8,580,508.8	5,869,654.5	1,664,746.3	913,310.7	132,797.3
Total	Rs.9,712,248.0	Rs.6,773,475.6	Rs.1,826,495.4	Rs.966,782.9	Rs.145,494.1

* Denotes nominal values of documentary credits and guarantees and notional principal amounts of forward exchange and derivative contracts.

Extent of dependence on single customer exposures

Our exposures to our 10 largest borrowers as of March 31, 2021, based on the higher of the outstanding balances of or limits on, funded and non-funded exposures were as follows. None of these exposures were impaired as of March 31, 2021:

	March 31, 2021				
	Borrower Industry	**Funded Exposure**	**Non-Funded Exposure**	**Total Exposure**	**Total Exposure**
		(in million)			
Borrower 1	Power	Rs.302,918.5	Rs.500.0	Rs.303,418.5	U.S.$4,148.5
Borrower 2	Coal and Petroleum Products	192,080.2	61,446.2	253,526.4	3,466.3
Borrower 3	Financial Institutions	195,480.0	–	195,480.0	2,672.7
Borrower 4	Financial Intermediaries	154,997.8	548.1	155,545.9	2,126.7
Borrower 5	Financial Intermediaries	150,000.0	489.2	150,489.2	2,057.5
Borrower 6	Housing Finance Companies	148,107.3	–	148,107.3	2,025.0
Borrower 7	Infrastructure Development	3,830.9	100,477.6	104,308.5	1,426.1
Borrower 8	Power	98,919.7	2,000.0	100,919.7	1,379.8
Borrower 9	Coal & Petroleum Products	75,437.8	22,268.4	97,706.2	1,335.9
Borrower 10.....	Financial Institution	90,108.0	–	90,108.0	1,232.0

Of the total exposure to these ten borrowers, approximately 49.1 percent was secured by collateral.

In June 2019, the RBI issued the revised Large Exposures Framework, which aims to align the exposure norms for Indian banks with BCBS standards. The guidelines came into effect from April 1, 2019, except for certain provisions which became effective from April 1, 2020. See "– Large Exposures Framework – Supervision and Regulation." As per this Large Exposure Framework, a bank's exposures to a single NBFC is restricted to 15.0 percent of their available eligible capital base, while exposure values of a bank to a single counterparty must not be higher than 20.0 percent of its available eligible capital base, which can be extended to 25.0 percent by a bank's board of directors under exceptional circumstances. The RBI in its circular dated September 12, 2019 stated that a bank's exposure to a single NBFC (excluding gold loan companies) will be restricted to 20.0 percent of that bank's eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits prescribed in RBI circular dated May 18, 2012. A bank's exposure to a single NBFC, having gold loans equivalent to or exceeding 50.0 percent of its total financial assets is restricted to 7.5 percent of the banks' capital funds, which can be extended to 12.5 percent if the additional exposure is on account of funds on-lent by the NBFC to the infrastructure sector. Tier I capital that fulfills the criteria set out in the RBI's Basel III guidelines must be considered as eligible capital base for this purpose. As of March 31, 2021, of our exposure to our 10 largest borrowers, exposure to eight borrowers was equal to or more than 5.0 percent of our eligible capital base under this framework and was mainly comprised of large credit facilities to these borrowers. There were no exposures that exceeded the regulatory ceiling established by RBI.

Cross border exposures

The RBI requires banks in India to implement RBI prescribed guidelines on country risk management in respect of those countries where a bank has net funded exposure in excess of a prescribed percentage of its total assets. In the normal course of business, we have both direct and indirect exposure to risks related to counterparties and entities in foreign countries. We monitor such cross-border exposures on an ongoing basis. As of March 31, 2021, our aggregate country risk exposure was 2.8 percent of our total assets and our net funded exposure to any other country did not exceed 1 percent of our total assets as per the said guidelines.

Cybersecurity

We offer internet and mobile banking services to our customers. Our internet and mobile banking channel includes multiple services, such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements and requesting check books. We are therefore exposed to cyber threats, such as hacking, phishing and trojans, targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information; hacking, wherein hackers seek to hack into our website with the primary intention of causing reputational damage to us; and data theft, wherein cyber criminals may intrude into our network with the intention of stealing our internal data or our customer information or to extort money.

We have implemented various measures to mitigate risks that emanate from offering online banking to our customers. These are briefly enumerated below:

- Phishing: We identify phishing sites and trojans targeting our customers and once identified, those sites are shut down by us. Forensic information such as customers details, which may have been compromised are retrieved from such sites and dealt with accordingly. We have implemented a "Secure Access" system which provides an additional layer of security in addition to the customer identification (ID) and password requirement for internet banking transactions. This system evaluates every critical financial transaction based on our risk model and helps us determine whether the incumbent transaction is genuine or suspicious. Should the transaction be deemed suspicious, the system will either decline the transaction or ask for additional authentication. Our practice is to send awareness mails to our customers, to educate them about phishing and the measures they should take to protect themselves from falling victim to it. Our cybersecurity awareness has been fortified in view of the reports that fraudulent vishing calls have been on the rise due to the pandemic and lack of staff in our offices. We launched the "Mooh Band Rakho" (keep your mouth shut) campaign to improve customers' awareness of the increase in fraudulent calls. The campaign runs on a regular basis. In addition, customer ecommerce transactions and card transactions are continuously monitored.

- Hacking and Data Theft: We have implemented a network firewall, web application firewalls and an intrusion prevention system at the perimeter of our network, in order to block any attempts made to hack or breach our network. Our cybersecurity operations center (CSOC), which operates 24 hours a day, seven days a week, analyzes logs of its perimeter defenses to identify any attempts made to breach our network. We have developed an Incident Management Procedure, a Cybersecurity Policy and a Cyber Crisis Management Plan for the incident management process to ensure that in the event of any incident, relevant stakeholders are aware of their role in resolving the incident. We also test our internet-facing infrastructure and applications for vulnerability including periodic red team assessments. Any vulnerability identified is remediated in a timely manner to ensure the online banking services stay protected against the evolving threat. In addition, we have deployed a host intrusion prevention solution on the internet banking setup to protect against unpatched vulnerabilities. We have defined baseline security standards for the technologies in use. These standards were created taking into consideration industry-best practices and are reviewed on a regular basis to counter new threat vectors and avoid obsolescence. We perform daily malware scanning of the default landing pages of internet websites so that our customers are not compromised by malware that has been injected on non-logged web pages. We have also subscribed to anti-DDOS services (Distributed Denial Of Services) to strengthen our protection against DDOS attacks.

Threat intelligence feeds and indicators of compromise received from government agencies, service providers and dark web monitoring vendors are logged in the security technologies deployed in our security operations centre.

We have also undertaken internal data security measures that are taken with respect to breaches or theft of material or sensitive customer data. These are briefly enumerated below:

- Data Loss Prevention ("DLP"): Information is an important asset of any organization that supports business processes and management decisions. Usage and protection of business information can be heavily influenced by individuals in the end user environment, where most of the corporate data is processed, shared and stored. We have implemented enterprise solutions such as DLP to monitor sensitive data stored, transmitted and shared by users, and to prevent and detect data breaches. Individual business functions are also involved in incident reviews which helps create a sense of ownership and awareness amongst our employees.

- Laptop Encryption: Data encryption ensures that business-critical and sensitive data is not misplaced, thereby preventing any reputational damage and curtailing monetary losses. We recognize that the cost which arises out of loss of data in a laptop is far higher than the cost of replacing the actual device. We have therefore implemented a laptop encryption tool on our laptops.

- Domain-based Message Authentication, Reporting and Conformance ("DMARC"): We have implemented a DMARC system which gives us the ability to protect the domain from unauthorized use, commonly known as "email spoofing". The purpose and primary outcome of implementing DMARC is to protect a domain from being used in business email compromise attacks, phishing emails, email scams and other cyber threat activities.

- Anti-Advanced Persistence Threat: An Anti-Advanced Persistence Threat (“APT”) is a prolonged and targeted cyber-attack in which an intruder gains access to a network and remains undetected for an extended period of time. We have implemented an anti-APT system to prevent these attacks. All network elements such as email and web are protected by the anti-APT system, which is also installed on endpoint computers.

- Awareness programs: Our comprehensive e-learning module, Information Security Ambassador, is a mandatory assessment based course on information and cyber security, accessible to all employees. We also send emails to raise employee awareness on cybersecurity, which include cyber-tips, guidance on information, cyber security and other related issues as well as operating guidelines. As a part of on-floor awareness, we also have posters and desktop calendars on phishing, vishing and smishing. All new joiners receive information regarding various aspects of information security issues in an everyday work environment and complete our induction module, the Information Security Pledge, through classroom training. To gauge the awareness level of our employees, we send phishing surveys to employees for completion. We also test our employees using our own phishing attacks and measure their response, after which they are provided with specific education and awareness to ensure they are better prepared to face such attacks in future.

Business continuity during the COVID-19 pandemic-forced lockdown

To ensure business continuity following the outbreak of COVID-19 and the government mandated lockdown, we implemented our crisis management plan. We advised our employees to either work from their homes or locations near their homes. In implementing our response to the COVID-19 pandemic, the crisis management team prioritized certain critical functions such as IT and treasury to minimize potential business disruptions. We adopted a multipronged strategy to prioritize the safety of our employees while ensuring technology and security enabled service delivery to our customers. Following the gradual easing of the nationwide lockdown, we largely reverted to our pre-pandemic operating strategy, but continued implementing various continuity strategies, due to the evolving pandemic.

We implemented the following technology interventions to ensure business continued unhampered following the outbreak of COVID-19.

(i) a new strategy of “Work from Home” was incorporated;

(ii) an information security awareness campaign series for all employees was rolled out;

(iii) we ensured continuity of information technology services by increasing hardware capacity and enabling secure access from home;

(iv) we applied a continuous high alert watch, to ensure IT security;

(v) we arranged for an external recertification audit by BSI for ISMS and BCMS (ISO27001 and ISO 22301);

(vi) cybersecurity threats were thwarted by our own implementation of two-factor authentication, strengthening anti-virus feature in the devices at home and prohibiting any download on local storage drives; and

(vii) our endpoint security posture during COVID-19 improved incrementally by our undertaking of several technology security initiatives.

In addition, to protect the health and safety of our employees, we:

- provided face masks to security guards, pantry staff and other support staff and made hand sanitizers available across locations;

- introduced Apollo Healthy Life for all employees, whereby a free of charge service of ‘on call’ Apollo doctors was available to our employees. We also ensured they had access to COVID-19 care packages;

- allowed employees to claim medical expenses incurred for COVID-19 treatment;

- facilitated the inoculation of employees and their immediate family members against COVID-19; and

- published “Back to Work” guidelines for ensuring employee safety, once the number of daily cases declined.

In order to maintain operational stability, we:

- introduced multiple shifts to ensure adherence to government guidelines and social distancing requirements;

- ensured efficient execution of moratorium extensions to customers;

- used the disaster recovery site at Kanjurmarg as a contingency site to ensure the continuity of our treasury department;- set up a crisis group on our mobile platform for faster communication, action and response; and

- enhanced the BCP strategy based on our forward looking initiatives.

RECENT DEVELOPMENTS

You should read the following discussion and analysis of our financial condition and results of operations together with June Financial Results included elsewhere in this Offering Memorandum. The following discussion is based on our June Financial Results, which have been prepared in accordance with Indian GAAP. We generally prepare and publish our financial statements in accordance with Indian GAAP, except for purposes of the financial statements contained in our Annual Report included in Form 20-F which we file with the U.S. Securities and Exchange Commission, and for certain half-yearly information furnished on Form 6-K, which are prepared in accordance with U.S. GAAP. We historically have not prepared and in the future do not intend to prepare financial information for any other interim periods under U.S. GAAP. Indian GAAP differs in certain respects from U.S. GAAP, see "Presentation of Financial and other Information" and "Unaudited Reverse Reconciliation of Selected Financial Information and Summary of Differences between Indian GAAP and US GAAP". Therefore, the information below should be read with caution and there can be no assurance that results reported under U.S. GAAP will not differ materially from our results under Indian GAAP and the information contained below. As such, you should not place undue reliance on this information. This information may not be indicative of the remainder of the fiscal year or any future period. See "Forward-Looking Statements" and "Risk Factors" for a more complete discussion of certain of the factors that could affect our future performance.

The financial data set out in this section titled "Recent Developments" have been translated into U.S. dollars at the applicable rate on June 30, 2021 of Rs.74.33 per U.S.$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

Unaudited unconsolidated financial and other information of the Bank under Indian GAAP for the three months ended June 30, 2021 and the three months ended June 30, 2020

	Particulars	Three months ended June 30, 2020	Three months ended June 30, 2021	
		(in million, except percentages and otherwise specified)		
1	Interest Earned (a)+(b)+(c)+(d)	Rs.303,779.7	Rs.304,829.7	U.S.$4,101.1
	(a) Interest/discount on advances/bills	240,373.7	235,927.3	3,174.1
	(b) Income on investments	55,976.4	64,931.4	873.6
	(c) Interest on balances with Reserve Bank of India and other inter bank funds	6,264.8	3,028.3	40.7
	(d) Others	1,164.8	942.7	12.7
2	Other Income	40,753.1	62,885.0	846.0
3	**Total Income (1)+(2)**	**344,532.8**	**367,714.7**	**4,947.1**
4	Interest Expended	147,125.5	134,740.1	1,812.7
5	Operating Expenses (i)+(ii)	69,114.6	81,604.3	1,097.9
	(i) Employees cost	25,134.4	27,655.8	372.1
	(ii) Other operating expenses	43,980.2	53,948.5	725.8
6	**Total Expenditure (4)+(5) (excluding Provisions and Contingencies)**	**216,240.1**	**216,344.4**	**2,910.6**
7	**Operating Profit before Provisions and Contingencies (3)-(6)**	**128,292.7**	**151,370.3**	**2,036.5**
8	Provisions (other than tax) and Contingencies	38,915.2	48,308.4	649.9
9	Exceptional Items	–	–	–
10	**Profit/(Loss) from Ordinary Activities before tax (7)-(8)-(9)**	**89,377.5**	**103,061.9**	**1,386.6**
11	Tax Expense	22,791.3	25,765.5	346.6
12	**Net Profit/(Loss) from Ordinary Activities after tax (10)-(11)**	**66,586.2**	**77,296.4**	**1,040.0**
13	Extraordinary items (net of tax expense)	–	–	–
14	**Net Profit/(Loss) for the period (12)-(13)**	**66,586.2**	**77,296.4**	**1,040.0**
15	Paid up equity share capital (Face Value of Rs. 1/- each)	5,490.3	5,526.7	74.4
16	**Analytical Ratios**			
	(i) Percentage of shares held by Government of India	Nil	Nil	Nil
	(ii) Capital Adequacy Ratio	18.9%	19.1%	19.1%
	(iii) Earnings per share (EPS) (Rs.) (Face Value of Re. 1/- each)			
	(a) Basic EPS before & after extraordinary items (net of tax expense) – not annualized	12.1	14.0	0.2
	(b) Diluted EPS before & after extraordinary items (net of tax expense) – not annualized	12.1	13.9	0.2

Particulars	Three months ended June 30, 2020	Three months ended June 30, 2021	
	(in million, except percentages and otherwise specified)		
(iv) NPA Ratios			
(a) Gross NPAs	137,734.6	170,985.1	2,300.4
(b) Net NPAs	32,799.6	54,858.0	738.0
(c) % of Gross NPAs to Gross Advances	1.36%	1.47%	1.47%
(d) % of Net NPAs to Net Advances	0.33%	0.48%	0.48%
(v) Return on assets (average) – not annualized	0.44%	0.45%	0.45%

Segment information in accordance with the Accounting Standard 17 – Segment Reporting of the operating segments of the Bank is as under:

	Particulars	Three months ended June 30, 2020	Three months ended June 30, 2021	
		(in million, except percentages)		
1	**Segment Revenue**			
(a)	Treasury	Rs.80,012.6	Rs.86,443.3	U.S.$1,163.0
(b)	Retail Banking	271,016.2	269,746.7	3,629.0
(c)	Wholesale Banking	141,835.9	144,069.9	1,938.2
(d)	Other Banking Operations	38,968.3	48,634.4	654.3
(e)	Unallocated	–	–	–
	Total	**531,833.0**	**548,894.3**	**7,384.5**
	Less: Inter Segment Revenue	187,300.2	181,179.6	2,437.4
	Income from Operations	**344,532.8**	**367,714.7**	**4,947.1**
2	**Segment Results**			
(a)	Treasury	25,051.7	27,074.3	364.2
(b)	Retail Banking	22,200.5	10,903.6	146.7
(c)	Wholesale Banking	36,444.5	53,567.2	720.7
(d)	Other Banking Operations	9,737.6	15,285.8	205.6
(e)	Unallocated	(4,056.8)	(3,769.0)	(50.6)
	Total Profit Before Tax	**89,377.5**	**103,061.9**	**1,386.6**
3	**Segment Assets**			
(a)	Treasury	4,615,392.5	5,069,264.7	68,199.4
(b)	Retail Banking	4,689,951.8	5,262,798.9	70,803.2
(c)	Wholesale Banking	5,497,929.2	6,489,061.8	87,300.7
(d)	Other Banking Operations	566,447.3	627,007.3	8,435.5
(e)	Unallocated	81,312.3	91,278.1	1,228.0
	Total	**15,451,033.1**	**17,539,410.8**	**235,966.8**
4	**Segment Liabilities**			
(a)	Treasury	779,889.9	764,655.8	10,287.3
(b)	Retail Banking	9,682,070.6	11,314,654.5	152,221.9
(c)	Wholesale Banking	2,916,664.9	3,082,724.1	41,473.5
(d)	Other Banking Operations	52,318.5	49,173.6	661.6
(e)	Unallocated	240,542.5	203,323.4	2,735.4
	Total	**13,671,486.4**	**15,414,531.4**	**207,379.7**
5	**Capital Employed** (Segment Assets – Segment Liabilities)			
(a)	Treasury	3,835,502.6	4,304,608.9	57,912.1
(b)	Retail Banking	(4,992,118.8)	(6,051,855.6)	(81,418.7)
(c)	Wholesale Banking	2,581,264.3	3,406,337.7	45,827.2
(d)	Other Banking Operations	514,128.8	577,833.7	7,773.9
(e)	Unallocated	(159,230.2)	(112,045.3)	(1,507.4)
	Total	**1,779,546.7**	**2,124,879.4**	**28,587.1**

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 the RBI.

Statement of Assets and Liabilities as at June 30, 2021 and June 30, 2020 is given below:

Particulars	As at June 30, 2020	As at June 30, 2021	
	(in million)		
	Rs.	Rs.	U.S.$
CAPITAL AND LIABILITIES			
Capital	5,490.3	5,526.7	74.4
Reserves and Surplus	1,774,056.4	2,119,352.7	28,512.7
Deposits	11,893,872.9	13,458,293.4	181,061.4
Borrowings	1,163,890.0	1,312,750.2	17,661.1
Other Liabilities and Provisions	613,723.5	643,487.8	8,657.2
Total	**15,451,033.1**	**17,539,410.8**	**235,966.8**
ASSETS			
Cash and Balances with Reserve Bank of India	966,253.7	1,046,251.1	14,075.8
Balances with Banks and Money at Call and Short notice	130,179.3	153,545.8	2,065.7
Investments	3,793,504.1	4,361,316.4	58,675.0
Advances	10,032,988.6	11,476,516.4	154,399.5
Fixed Assets	44,641.1	50,053.8	673.4
Other Assets	483,466.3	451,727.3	6,077.4
Total	**15,451,033.1**	**17,539,410.8**	**235,966.8**

Notes:

1. The above financial results have been approved by the Board of Directors at its meeting held on July 17, 2021. The financial results for the three months ended June 30, 2021 have been subjected to a "Limited Review" by the statutory auditors of the Bank. The report thereon is unmodified.

2. The Bank has applied its significant accounting policies in the preparation of these financial results that are consistent with those followed in the annual financial statements for the year ended March 31, 2021.

3. The Board of Directors at its meeting held on June 18, 2021 recommended a dividend of Rs. 6.50 per equity share of face value of Re. 1 each out of the net profits for the year ended March 31, 2021, subject to approval of the shareholders of the Bank at its ensuing Annual General Meeting. Effect of the proposed dividend has been reckoned in determining capital funds in the computation of capital adequacy ratio as at June 30, 2021.

4. During the three months ended June 30, 2021, the Bank allotted 1,39,42,616 shares pursuant to the exercise of options under the approved employee stock option schemes.

5. Consequent to the outbreak of the COVID-19 pandemic, the Indian government announced a lockdown in March 2020. Subsequently, the national lockdown was lifted by the government, but regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. During the three months ended June 30, 2021, India experienced a "second wave" of COVID-19, including a significant surge of COVID-19 cases following the discovery of mutant coronavirus variants in the country.

   The impact of COVID-19, including changes in customer behaviour and pandemic fears, as well as restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activities. The disruptions following the outbreak, have led to a decrease in loan originations, the sale of third party products, the use of credit and debit cards by customers and the efficiency in collection efforts. This may lead to a continued rise in the number of customer defaults and consequently an increase in provisions there against. The extent to which the COVID-19 pandemic will continue to impact the Bank's results will depend on ongoing as well as future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic, and any action to contain its spread or mitigate its impact whether government-mandated or elected by us.

6. Details of resolution plan implemented under the Resolution Framework for COVID-19-related Stress as per RBI circular dated August 6, 2020 (Resolution Framework 1.0) are given below:

Rs. in million except number of accounts

Type of Borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) Exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan and implementation	(E) Increase in provisions on account of the implementation of the resolution
Personal Loans	287,507	54,573.5	–	–	5,457.4
Corporate persons	1,510	17,353.0	–	–	3,186.2
Of which, MSMEs	64	270.8	–	–	27.1
Others	47,090	6,079.2	–	–	607.9
Total	**336,107**	**78,005.7**	**–**	**–**	**9,251.5**

There were 33 borrower accounts having an aggregate exposure of Rs. 106.4 million to the Bank, where resolution plans had been implemented and now modified under RBI's Resolution Framework 2.0 dated May 5, 2021.

7. Other income relates to income (including commission) from non-fund based banking activities, fees, earnings from foreign exchange and derivative transactions, profit and loss (including revaluation) from investments, dividends from subsidiaries and recoveries from accounts previously written off.

8. Figures of the previous periods have been regrouped/reclassified wherever necessary to conform to current period's classification.

9. Rs. 10 lac = Rs. 1 million

10. Rs. 10 million = Rs. 1 crore

Financial and other information for the three months ended June 30, 2021 and the three months ended June 30, 2020

The Board of Directors of the Bank approved the Bank's (Indian GAAP) results for the three months ended June 30, 2021, at its meeting held in Mumbai on Saturday, July 17, 2021. The accounts have been subjected to a limited review by the statutory auditors of the Bank.

STANDALONE FINANCIAL RESULTS:

Profit & Loss Account: Three months ended June 30, 2021

The Bank's net revenues (net interest income plus other income) increased by 18.0% to Rs. 232,974.6 million for the three months ended June 30, 2021 from Rs. 197,407.3 million for the three months ended June 30, 2020. Net interest income (interest earned less interest expended) for the three months ended June 30, 2021 grew to Rs. 170,089.6 million from Rs. 156,654.2 million for the three months ended June 30, 2020, driven by advances growth of 14.4%, and a core net interest margin of 4.1%. The Bank's continued focus on deposits helped in the maintenance of a healthy liquidity coverage ratio at 126%, well above the regulatory requirement.

During the three months ended June 30, 2021, the country was hit by a "second wave" of COVID-19, with a significant surge in cases following the discovery of mutant coronavirus strains. While there was an improvement towards the end, business activities remained curtailed for almost two thirds of the quarter. These disruptions led to a decrease in retail loan originations, sale of third party products, card spends and efficiency in collection efforts. The lower business volumes, coupled with higher slippages, resulted in lower revenues, as well as an enhanced level of provisioning.

Other income (non-interest revenue) at Rs. 62,885.0 million was 27.0% of net revenues for the three months ended June 30, 2021 and grew by 54.3% over Rs. 40,753.1 million in the corresponding period of the previous year. The four components of other income for the three months ended June 30, 2021 were fees & commissions of Rs. 38,853.8 million (Rs. 22,307.4 million in the corresponding period of the previous year), foreign exchange & derivatives revenue of Rs. 11,986.7 million (Rs. 4,365.6 million in the corresponding period of the previous year), gain on sale/revaluation of investments of Rs. 6,009.7 million (Rs. 10,867.3 million in the corresponding period of the previous year) and miscellaneous income, including recoveries and dividend, of Rs. 6,034.8 million (Rs. 3,212.8 million in the corresponding period of the previous year).

Operating expenses for the three months ended June 30, 2021 were Rs. 81,604.3 million, an increase of 18.1% over Rs. 69,114.6 million during the corresponding period of the previous year. The cost-to-income ratio for the three months ended June 30, 2021 was at 35.0%.

Pre-provision Operating Profit ("**PPOP**") at Rs. 151,370.3 million for the three months ended June 30, 2021 grew by 18.0% over the corresponding period of the previous year.

Provisions and contingencies for the period ended June 30, 2021 were Rs. 48,308.4 million (consisting of specific loan loss provisions of Rs. 42,197.0 million and general and other provisions of Rs. 6,111.4 million) as against Rs. 38,915.2 million (consisting of specific loan loss provisions of Rs. 27,398.0 million and general and other provisions of Rs. 11,517.2 million) for the period ended June 30, 2020. Total provisions for the current period included contingent provisions of approximately Rs. 6,000 million

As mentioned earlier, the "second wave" of COVID-19 disrupted business activities for close to two thirds of the quarter, leading to a decrease in the efficiency in collection efforts, and a higher level of provisions. The total credit cost ratio was thus at 1.67%, as compared to 1.64% for the three months ending March 31, 2021 and 1.54% for the for the three months ended June 30, 2021 ending June 30, 2020.

Profit before tax for the three months ended June 30, 2021 at Rs. 103,061.9 million grew by 15.3% over corresponding period of the previous year. After providing Rs. 25,765.5 million for taxation, the Bank earned a net profit of Rs. 77,296.4 million, an increase of 16.1% over the three months ended June 30, 2020.

Balance Sheet: As of June 30, 2021

Total balance sheet size as of June 30, 2021 was Rs. 17,539,410.8 million as against Rs. 15,451,033.1 million as of June 30, 2020, a growth of 13.5%.

Total deposits as of June 30, 2021 were Rs. 13,458,293.4 million, an increase of 13.2% over June 30, 2020. CASA deposits grew by 28.1% with savings account deposits at Rs. 4,261,316.4 million and current account deposits at Rs. 1,856,689.7 million. Time deposits were at Rs. 7,340,287.3 million, an increase of 3.1% over the corresponding period of the previous year, resulting in CASA deposits comprising 45.5% of total deposits as of June 30, 2021.

Total advances as of June 30, 2021 were Rs. 11,476,516.4 million, an increase of 14.4% over June 30, 2020. As per the Bank's internal business classification, retail loans grew by 9.3%, commercial and rural banking loans grew by 25.1% and other wholesale loans grew by 10.2%. Overseas advances constituted 3% of total advances.

Capital Adequacy:

The Bank's total Capital Adequacy Ratio ("**CAR**") as per Basel III guidelines was at 19.1% as on June 30, 2021 (18.9% as on June 30, 2020) as against a regulatory requirement of 11.075% which includes Capital Conservation Buffer of 1.875%, and an additional requirement of 0.20% on account of the Bank being identified as a Domestic Systemically Important Bank ("**D-SIB**"). Tier 1 CAR was at 17.9% as of June 30, 2021 compared to 17.5% as of June 30, 2020. Common Equity Tier 1 Capital ratio was at 17.2% as of June 30, 2021. Risk-weighted Assets were at Rs. 11,535,589.0 million (as against Rs. 10,107,740.1 million as at June 30, 2020).

NETWORK

As of June 30, 2021, the Bank's distribution network was at 5,653 branches and 16,291 ATMs/Cash Deposit & Withdrawal Machines ("**CDMs**") across 2,917 cities/towns as against 5,326 branches and 14,996 ATMs/CDMs across 2,825 cities/towns as of June 30, 2020. 50% of our branches are in semi-urban and rural areas. In addition, we have 15,912 business correspondents, which are primarily manned by Common Service Centres ("**CSC**") as against 6,546 business correspondents as of June 30, 2020. Number of employees were at 123,473 as of June 30, 2021 (as against 115,822 as of June 30, 2020).

ASSET QUALITY

Gross non-performing assets were at 1.47% of gross advances as on June 30, 2021, (1.3% excluding NPAs in the agricultural segment) as against 1.32% as on March 31, 2021 (1.2% excluding NPAs in the agricultural segment) and 1.36% as on June 30, 2020 (1.2% excluding NPAs in the agricultural segment). Net non-performing assets were at 0.48% of net advances as on June 30, 2021.

The Bank held floating provisions of Rs. 14,512.8 million and contingent provisions of Rs. 65,962.8 million as on June 30, 2021. Total provisions (comprising specific, floating, contingent and general provisions) were 146% of the gross non-performing loans as on June 30, 2021.

Overview

We are a new generation private sector bank in India. Our goal is to be the preferred provider of financial services to our customers in India across metro, urban, semi-urban and rural markets. Our strategy is to provide a comprehensive range of financial products and services to our customers through multiple distribution channels, with what we believe are high-quality services, advanced technology platforms and superior execution.

We have three principal business activities: retail banking, wholesale banking and treasury operations. Our retail banking products include deposit products, loans including loans to small and medium enterprises, credit cards, debit cards, third-party mutual funds and insurance products, bill payment services, and other products and services. With respect to wholesale banking, we offer customers a range of financing products, such as documentary credits and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. We offer a range of deposit and transaction banking services, such as cash management, custodial and clearing bank services and correspondent banking. Our treasury operations manage our balance sheet, and include customer-driven services such as advisory services related to foreign exchange and derivative transactions for corporate and institutional customers, supplemented by proprietary trading, including Indian Government securities. Further, our non-banking finance company ("**NBFC**") subsidiary HDB Financial Services Limited ("**HDBFSL**") offers a wide range of loans and asset finance products including mortgage loans, commercial vehicle loans, consumer loans and gold loans, as well as a range of business process outsourcing solutions. We provide our customers with brokerage accounts through our subsidiary HDFC Securities Limited ("**HSL**"), which we believe is one of the leading stock brokerage companies in India and which offers a suite of products and services across various asset classes such as equity, gold and debt, among others.

As a result of trade tensions and geopolitical risks, global growth slowed to 2.8 percent in 2019 from 3.6 percent in 2018, according to IMF estimates. In 2020, growth declined by a further 3.3 percent, driven by the COVID-19 pandemic and related lockdowns and movement restrictions across the globe which caused GDP to contract in major economies. Going forward, we expect the global economic recovery to be driven by emerging markets and the United States. The IMF projects global GDP growth at 6 percent in 2021, with China and the United States growing at 8.4 percent and 6.4 percent, respectively.

The COVID-19 pandemic also adversely impacted India's economic growth. The Government imposed a strict lockdown between March 25, 2020 and May 31, 2020. While this helped to control the spread of the pandemic during the first wave, it adversely impacted all sectors of the economy, with the consumption and services sectors worst affected. India's GDP contracted by 24.4 percent in the first quarter of fiscal 2021 as a result of stay at home orders, restrictions on production and significantly decreased sales of non-essential items. In addition, India experienced an increase in unemployment, with the unemployment rate increasing to 11.90 percent as of May 2021 compared to 7.2 percent in January 2020 according to the Center for Monitoring Indian Economy. In response to the pandemic and its economic impact, the Government and the RBI announced several measures during fiscal 2021. These included easing the policy rate, imposing a temporary moratorium on debt repayments and halting dividend payments by banks, among other things. Together with the easing of restrictions and improved hiring, economic activity started to improve again from the second quarter of fiscal 2021. GDP rebounded with 0.5 percent year on year growth in the third quarter of fiscal 2021 as compared to a contraction of 7.4 percent in the second quarter of fiscal 2021 and 24.4 percent in the first quarter of fiscal 2021. In the third quarter, from a supply-side perspective, GDP growth was primarily driven by agriculture (4.5 percent), manufacturing (1.7 percent) and construction and utilities (6.5 percent). From a demand-side perspective, the primary driver was investment, which recorded year on year growth of 2.6 percent in the third quarter, as compared to a contraction of 46.6 percent in the first quarter and a contraction of 8.6 percent in the second quarter of fiscal 2021. The fourth quarter of the fiscal 2021 reaffirmed that the economy was recovering as growth momentum picked up pace. India's GDP grew by 1.6 percent in the fourth quarter, compared to 0.5 percent in the previous quarter due to improvements across all sectors of the economy. For the full year, India's GDP declined by 7.3 percent in fiscal 2021 compared to growth of 4.0 percent in the prior year.

More recently, the "second wave" of COVID-19 and related containment measures have adversely affected the pace of recovery for the Indian economy during April 2021 and May 2021. The majority of economic high-frequency indicators (i.e., economic indicators that are available more frequently than traditional economic data) decreased in April 2021 after having demonstrated solid growth during March 2021. However, given lockdowns and other restrictive measures were only being imposed at a local level, instead of nationally, the impact of the "second wave" on the economy is expected to be less severe than the "first wave". Furthermore, the increasing availability of COVID-19 vaccinations in fiscal 2022 is expected to have a significantly positive impact on economic activity.

We expect the Indian economy to return to its path to recovery beginning in the second quarter of fiscal 2022. We estimate that GDP growth will be 9.1 percent in fiscal 2022.

The economic disruptions caused by COVID-19 also had a bearing on inflation. The headline consumer price index ("**CPI**") tracked above the RBI's upper tolerance of 6.0 percent between April and November 2020. The sharp jump in headline CPI was the result of supply bottlenecks that kept food inflation elevated for most of fiscal 2021. Headline CPI averaged 6.7 percent in the first half of fiscal 2021, before decreasing to 5.6 percent in the second half of fiscal 2021. For the full year, headline CPI increased to 6.2 percent in fiscal 2021, compared to 4.8 percent in fiscal 2020. More recently, headline CPI stood at 6.3 percent in June 2021, remaining above the RBI's threshold for the second consecutive month. Going forward, higher crude oil prices and input prices, along with a rebound in demand are likely to keep inflation at elevated levels for the remainder of fiscal 2022. We expect inflation to average 6.0 percent in fiscal 2022.

In response to the adverse impact of the COVID-19 pandemic and related disruptions, the Government significantly increased spending and revised upwards its fiscal deficit target for fiscal 2021. The revised target was 9.5 percent of GDP compared to the previously budgeted estimate of 3.5 percent. According to the provisional data of the Controller of General Accounts of India, the fiscal deficit in fiscal 2021 was 9.3 percent, compared to 4.6 percent in fiscal 2020. For fiscal 2022, the Government is targeting a fiscal deficit of 6.8 percent and plans to improve the quality of its spending. We expect the fiscal deficit to rise to 7.3 percent of GDP for fiscal 2022, reflecting the cost of the measures announced in June 2021 (including, among other things, free food grains, and an additional fertilizer subsidy), which aim to mitigate the impact of the second wave of COVID-19.

Since commencing operations in January 1995 we have grown rapidly. As of March 31, 2021, we had 5,608 branches and 16,087 ATMs/Cash Deposit and Withdrawal Machines ("**CDMs**") in 2,902 cities and towns and 61.9 million customers. In addition, we had 15,756 business correspondents, which are primarily manned by common service centers ("**CSCs**"). On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 15,961.9 billion as of March 31, 2020 to Rs. 17,979.8 billion as of March 31, 2021. Our net income has increased from Rs. 260.3 billion for fiscal 2020 to Rs. 326.0 billion for fiscal 2021. Our loans and deposits as of March 31, 2021 were at Rs. 11,700.2 billion and Rs. 13,337.2 billion respectively. Across business cycles, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2021, gross non-performing customer assets as a percentage of gross customer assets was 1.70 percent. Our net customer assets represented 91.8 percent of our deposits and our deposits represented 74.2 percent of our total liabilities and shareholders' equity. The average non-interest-bearing current accounts and low-interest-bearing savings accounts represented 40.0 percent of average total deposits for the year ended March 31, 2021. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) of 3.6 percent for fiscal 2021. We had a return on equity (net income as a percentage of average total shareholders' equity) of 15.1 percent for fiscal 2020 and 16.1 percent for fiscal 2021. As at March 31, 2021 we had a total capital adequacy ratio (calculated pursuant to RBI guidelines) of 18.79 percent. Our Common Equity Tier I ("**CET-I**") ratio was 16.85 percent as at March 31, 2021.

About Our Bank

The Bank was incorporated in August 1994 and commenced operations as a scheduled commercial bank in January 1995. In 2000, we merged with Times Bank Limited and, in 2008, we acquired Centurion Bank of Punjab Limited ("**CBoP**"). We are part of the HDFC Group of companies established by our principal shareholder, Housing Development Finance Corporation Limited ("**HDFC Limited**"), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and general insurance. HDFC Limited and its subsidiaries (together, "**HDFC Group**") owned 21.1 percent of our outstanding equity shares as of March 31, 2021 and our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. See also "Principal Shareholders". We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or that restrict HDFC Limited or any of its group companies from competing with our business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

We have two subsidiaries: HDBFSL and HSL. HDBFSL is a non-deposit-taking NBFC engaged primarily in the business of retail asset financing while HSL is primarily in the business of providing brokerage and other investment services. Effective April 1, 2018 the financial results of our subsidiary companies have been prepared in accordance with notified Indian Accounting Standards (April 1, 2017 being the transition date). HDBFSL's total assets and shareholders' equity as of March 31, 2021 were Rs. 626.4 billion and Rs. 84.5 billion, respectively. HDBFSL's net income was Rs. 3.9 billion for fiscal 2021. As of March 31, 2021, HDBFSL had 1,319 branches across 959 cities in India. HSL's total assets and shareholders' equity as of March 31, 2021 were Rs. 47.6 billion and Rs. 14.8 billion, respectively. HSL's net income was Rs. 7.0 billion for fiscal 2021. On December 1, 2016, Atlas Documentary Facilitators Company Private Ltd. which provided back office transaction processing services to us, and its subsidiary HBL Global Private Ltd. which provided direct sales support for certain products of the Bank, amalgamated with HDBFSL.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000.Our agent in the United States for the 2001, 2005, 2007, 2015 and 2018 ADS offerings is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022.

Our Competitive Strengths

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

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

At HDFC Bank, we are focused on offering a comprehensive range of financial products and solutions tailored to meet the diverse needs of our customers. We are driven by our core values: customer focus, operational excellence, product leadership, sustainability and people. This has helped us grow and achieve our status as one of the largest private sector banks in India, while delivering value to our customers, stakeholders, the Government, employees and the community. We believe HDFC Bank is one of the most trusted and preferred bank brands in India. We have been acknowledged as "India's Most Valuable Brand" by BrandZ for the seventh consecutive year. We have also been acknowledged as "India's Best Bank" by Euromoney Awards for Excellence 2020. We have capitalized on our strong brand presence by establishing an extensive banking network throughout India, serving a broad range of customers in metro, urban, semi-urban and rural regions. As of March 31, 2021, we had 5,608 branches and 16,087 ATMs/CDMs in 2,902 cities and towns and over 61.0 million customers, and of our total branches, 49.8 percent were in the semi-urban and rural areas. In addition, we had 15,756 business correspondents, which are primarily manned by CSCs. Our extensive branch network is further complemented by our digital platforms, including internet banking, mobile banking, WhatsApp banking and phone banking solutions, to provide our customers with a lifestyle banking experience, which is categorized into seven categories: Pay, Save, Invest, Borrow, Shop, Trade and Insure. Our focus is on delivering a highly personalized multi-channel experience to our customers.

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

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a "one-stop-shop" for our customers' banking needs. We consider our high-quality service offerings to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous improvement. This pursuit of high-quality service and operational execution directly supports our ability to offer a wide range of banking products.

Our retail banking products include deposit products, retail loans (such as vehicle and personal loans), and other products and services, such as private banking, depositary accounts, brokerage services, foreign exchange services, distribution of third-party products (such as insurance and mutual funds), bill payments and sale of gold and silver bullion. In addition, we are the largest credit card issuer in India with 15 million cards outstanding as of March 31, 2021. With respect to wholesale banking, we offer customers working capital loans, term loans, bill collections, letters of credit, guarantees, foreign exchange and derivative products and investment banking services. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We believe our large scale and low cost of funding enable us to pursue high-quality wholesale financing opportunities competitively and at an advantage compared to our peers. We collect taxes for the Government and are bankers to companies in respect of issuances of equity shares and bonds to the public. Our NBFC subsidiary HDBFSL offers loan and asset finance products including tractor loans, consumer loans and gold loans, as well as business process outsourcing solutions such as form processing, document verification, contact center management and other front and back-office services.

We are able to provide this wide range of products across our physical and digital network, meaning we can provide our targeted rural customers with banking products and services similar to those provided to our urban customers, which we believe gives us a competitive advantage. Our wide range of products and focus on superior service and execution also create multiple cross-selling opportunities for us and, we believe, promote customer retention.

We have achieved robust and consistent financial performance while maintaining a healthy asset quality during our growth

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resulting increase in market penetration through our extensive branch network, our assets have grown from Rs. 15,961.9 billion as of March 31, 2020 to Rs. 17,979.8 billion as of March 31, 2021. Our net interest margin was 4.6 percent in fiscal 2020 and 4.4 percent in fiscal 2021. Our current and savings account deposits as a percentage of our total deposits were 46.1 percent as of March 31, 2021, and we believe this strong current and savings account profile has enabled us to tap into a low-cost funding base. In addition to the significant growth in our assets and net revenue, we remain focused on maintaining a healthy asset quality. We continue to have low levels of non-performing customer assets as compared to the average levels in the Indian banking industry. Our gross non-performing customer assets as a percentage of total customer assets was 1.70 percent as of March 31, 2021. Our net income has increased from Rs. 260.3 billion for fiscal 2020 to Rs. 326.0 billion for fiscal 2021. Net income as a percentage of average total shareholders' equity was 15.1 percent in fiscal 2020 and 16.1 percent in fiscal 2021 and net income as a percentage of average total assets was 1.9 percent in fiscal 2020 and 2.0 percent in fiscal 2021. We believe the combination of strong net income growth, robust deposit-taking, a low cost of funds and prudent risk management has enabled us to generate attractive returns on capital.

We have an advanced technology platform

We continue to make substantial investments in our advanced technology platform and systems and expand our electronically linked branch network. We have implemented mobile data-based networking options in semi-urban and rural areas where telecom infrastructure and data connectivity are weak. These networks have enabled us to improve our core banking services in such areas and provide a link between our banking outlets and data centers. In recent years, we have been actively engaged in the shift towards digital banking. Our aim has always been to improve customer experience through digital innovation as an "Experiential Leader" and we are constantly working to develop new technology and improve the digital aspects of our business. See "– Digital Banking".

We have invested in a digital banking platform, Backbase, to provide a single, unified omni-channel experience to our customers for mobile banking, online banking, the public website and payments. The latest version of our mobile banking app (v11.0) has been rolled out to our customers.

The COVID-19 pandemic has also accelerated the shift towards digital banking in the last year and the Bank has introduced several new features for its customers:

- Insta Account Opening: Account opening using only a mobile device, Aadhaar and the Permanent Account number;

- Video KYC: Automation of the Know Your Customer ("KYC") process through video calling from the customer's home or any other location;

- DigiDemat: DigiDemat accounts can be opened instantly, using existing KYC documentation previously collected in order to open the corresponding bank accounts, removing the need for the customer to provide additional documentation; and

- Issuance of Insta New Credit Cards: Enabled at the beginning of the COVID-19 pandemic to overcome physical card delivery challenges. A physical card is sent within the normal turnaround time.

We have an experienced management team

Many of the members of our management have had a long tenure with us, which gives us a deep bench of experienced managers. They have substantial experience in banking or other industries and share our common vision of excellence in execution. Our experienced management team is led by Mr. Sashidhar Jagdishan, who has been with our Bank since 1996 and who was appointed Managing Director and Chief Executive Officer of the Bank in October 2020. Formerly our Chief Financial Officer, Mr. Jagdishan was appointed as Change Agent in 2019. He was additionally responsible for legal and secretarial, human resources, corporate communication, infrastructure, administration and corporate social responsibility functions. Having a management team with such breadth and depth of experience is well suited to leverage the competitive strengths we have already developed across our large, diverse and growing branch network as well as allowing our management team to focus on creating new opportunities for our business. See also "*Management*".

Our Business Strategy

Our business strategy emphasizes the following elements:

Project Future Ready

Steered by our new Managing Director, we recently launched "Project Future Ready", which seeks to prepare the Bank to capitalize on the next wave of growth. Project Future Ready classifies its growth engines under business verticals, delivery channels and technology/digital, which will be backed by the Bank's traditional strengths in internal audit, underwriting, risk management and governance. We believe corporate banking, commercial banking (MSME) and rural, government and institutional banking, private banking, retail assets and payments will be growth engines for the Bank, and plan to address these by focusing on our branch banking, tele-sales, and service, relationship and digital marketing.

We believe our growth engines will be supported by our renewed focus on technology and digital investments that we expect will form the backbone for the future of the Bank. While we are strengthening our Enterprise Technology Factory to ensure the availability, security and smooth functioning of our systems, we intend to also create a new Digital Factory. The mandate of the new Digital Factory is to foster innovations in the product and customer experience domains using both proprietary developments as well as collaborations with fintech and more established technology companies. In particular, we intend to focus on moving our products and services to the cloud, creating micro-services, establishing an API-based architecture for all our products and services, and developing partnerships by leveraging the interconnectivity of APIs.

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

In addition to benefiting from the overall growth in India's economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths, including our strong brand, our diverse product offering and our extensive banking outlet and ATM networks, to increase our market penetration. We believe we can expand our market share by focusing on developing our digital offerings to target mass markets across India. We believe digital offerings will position us well to capitalize on growth in India's banking and financial services sector, arising from India's emerging middle class and growing number of bankable households. We believe we can also capture an increased market share by expanding our branch footprint, particularly by focusing on rural and semi-urban areas. As of March 31, 2021, we had 5,608 branches and 16,087 ATMs/CDMs in 2,902 cities and towns. In addition, we had 15,756 business correspondents, which are primarily manned by CSCs. In line with the Bank's core value of product leadership, the bank has significantly enhanced its process of managing the retail distribution franchise and its expansion by developing a scientific approach and using a "Distribution Planning Tool". This data science tool combines data sources, including geo-spatial data on urbanization levels in India, credit bureau information on the presence of financial companies in an area and various internal data sources with a front-end data visualization solution. The Distribution Planning Tool has enabled the Bank to merge data-based insights with on-the-ground intelligence to take informed decisions on the expansion of distribution points (branches, ATMs/CDMs and business correspondents) at locations which carry high business potential across the country. We expect this approach to help optimize our expansion and increase our market share and profitability.

Continue our investments in technology to support our digital strategy

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching out to our customers. As a result, we are continuously investing in technology as a means of improving our customers' banking and payments experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts and payment instruments with us. We believe our culture of innovation and development to be crucial to remaining competitive.

To accelerate our digital strategy, we are creating a Digital Factory and strengthening our Enterprise Technology Factory to develop new digital products and services and improve IT infrastructure. The digital and enterprise factories will focus on the development of APIs, big data and the cloud to ensure reliability, availability, scalability and security of our IT systems. We expect to hire talent from diverse backgrounds such as data analytics, artificial intelligence, machine learning, design thinking, cloud and DevOps in a bid to strengthen capabilities for the digital and enterprise factories. We also aim to develop new internet protocol technologies and plan to shift to a native cloud architecture in collaboration with technology companies, fintechs and large IT companies. The enterprise factory will upgrade its legacy infrastructure, decouple existing systems and build its own capabilities, leveraging open source resources for resilience and scale.

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

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

Maintain strong asset quality through disciplined credit risk management

We have maintained high-quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of gross customer assets was 1.70 percent as of March 31, 2021. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

Maintain a low cost of funds

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our non-interest bearing current and low-interest-bearing savings account deposits were 46.1 percent of our total deposits as of March 31, 2021. Our average cost of funds (including equity) was 4.5 percent for fiscal 2020 and 3.6 percent in fiscal 2021.

Embed ESG principles within our wider business strategy

We factor in environmental, social and governance ("**ESG**") concerns while designing products, processes and policies. Our ESG strategy focuses on climate change, community and society, along with practices related to people, customers, lending, procurement, and governance. We have a board-approved ESG policy framework and environmental policy in place to identify the Bank's environmental risks and impacts. We have recently set a target to become carbon neutral by fiscal 2032. Our initiatives to reduce ESG risks include initiatives in digital banking, contribution to tree planting targets (we aim to have planted 2.5 million trees by the end of fiscal 2025, of which we have already planted 1.6 million), green building, managing greenhouse gas emissions through various initiatives, including those to reduce fuel consumption by our corporate fleet and paper consumption across the Bank, the use of renewable energy and a reduction in energy consumption.

COVID-19 Pandemic

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization ("**WHO**"). Since March 2021, India has experienced a significant surge of COVID-19 cases following the discovery of a "double mutant" variant in the country. Governments and companies have introduced a variety of measures to contain the spread of the virus. Measures we have taken include the implementation of remote working arrangements for the majority of our workforce, provision of appropriate masks and hand sanitizers for at-risk employees, use of physical distancing measures, periodic disinfection and fumigation of operational bank locations and the establishment of a specific COVID-19 employee helpline. In addition, as a result of the increase in remote working, we have strengthened our cybersecurity measures, including implementing two-factor authentication, increasing employee awareness of unusual activity and ensuring IT support is available 24 hours per day. We also implemented additional measures to enable customers to complete their banking activity remotely where possible. We believe that due to the measures we have taken following the initial COVID-19 outbreak and the "second wave" in India, including holding provisions that are in excess of the RBI prescribed norms, our capital and liquidity position remains strong leading to robust processes, coordination and communication within our business units and a high level of customer service and care.

The pandemic and its aftermath are likely to result in both challenges and opportunities for the Indian banking system. For example, opportunities in the healthcare sector are likely to grow, as the management of the pandemic underscores the need to expand capacity in this area. While the stimulus package announced by the government between May 13, 2020 and May 17, 2020 committed more spending on healthcare (the specific allocation of funds will be determined by the path of the pandemic and the resulting financial costs), it is likely that going forward both the central and state governments will increase spending on health and associated sectors, such as sanitation. Growth in the healthcare sector is likely to also have a positive impact on the pharmaceuticals and medical equipment segments. As the Government increases its focus on these sectors, it is likely to draw in private sector participation. In November 2020, the Government announced a Rs. 2.65 trillion stimulus package, which included funding for real estate developers and contractors, fertilizer subsidies, employment schemes and additional spending on rural job schemes. In addition, in February 2021, the Government announced provisional plans to increase its capital spending to INR 5.5 trillion in fiscal 2022 from INR 4.25 trillion in fiscal 2021. These measures may lead to increased demand for ancillary products in the infrastructure segment, as well as the crowding-in of private capital expenditure. Furthermore, the development of an Asset Restructuring Company could improve the balance sheet of banks and therefore, the availability of credit.

Agriculture is likely to see significant structural change, as proposed changes in farm produce marketing laws and the Essential Commodities Act 1955 are implemented. While we expect to see growing interest in the agricultural sector, obstacles to the procurement of produce and warehousing may continue to persist. This would directly benefit the food processing industry by inviting more corporate investment and expanding the demand for banks to fund this sector.

The government has also allocated considerable funding (Rs. 100.0 billion in the recent stimulus package) to formalize the micro-food processing segment through technical and infrastructure support and the implementation of safety and quality standards. The micro-segment is likely to grow in "clusters" and to offer increased credit opportunities for banks, particularly through the micro-finance and the self-help group ("**SHG**") channels.

Loans to micro, small and medium enterprises ("**MSMEs**") are likely to see immediate traction with the government providing a 100 percent guarantee on Rs. 3,000 billion collateral-free lending to this segment. While the sovereign back-stop makes lending to this segment viable in the near term, the effort to strengthen and scale up MSMEs may create high-quality borrowers in the process. The decision to infuse Rs. 500 billion as equity through fund of funds (20 percent investment from the central government and the remaining 80 percent from private investors) in MSMEs with growth potential is an example. The Government has also provided both a full and partial credit guarantee for NBFCs, housing finance companies and microfinance institutions. This reduces the risk of bank lending to these entities in the near term and over the medium term could assist such institutions in overcoming a cycle of elevated risk perception, shortage of liquidity and credit and balance sheet distress.

Furthermore, increased savings that are typical in the wake of a major economic shock are likely to provide the banking system with low-cost deposits. A lower risk appetite by the general public could drive investments away from alternatives, such as equities, and therefore further increase deposits. With respect to policy measures, the RBI is likely to continue its strategy of remaining accommodative. These measures would ensure low-cost funds for banks.

Finally, anticipated shift in global value chains away from China, in order to reduce concentration risk, as well as in response to a shifting geopolitical landscape, presents India with unique opportunities. India could gain global market share across sectors including more traditional sectors, such as textiles, furniture and basic chemicals, as well as more technologically complex sectors, such as mobile phone handsets, pharmaceuticals and auto components.

However, challenges still remain. As a result of the second wave of COVID-19, we have revised down our fiscal 2022 GDP projections to 9.1 percent. This could slow the recovery in credit demand in the coming year. With respect to Indian exports, a decrease in global demand led to a 7.2 percent decline in merchandise exports in fiscal 2021. For fiscal 2022, export demand is likely to recover, driven by an increase in GDP growth for major trading partners, such as the United States and Europe. However, any significant slowdown in Asia due to the resurgence of the COVID-19 pandemic could slow down the export recovery in India. In particular, the Bank expects the COVID-19 pandemic to have a prolonged impact in the hospitality travel, tourism, recreation, personal services and civil aviation sectors of the Indian economy. The rise in precautionary savings among households and the possibility of rising unemployment, which is often the corollary of a slowdown in economic growth, could reduce the demand for retail lending and in particular for larger borrowings.

Given the dynamic nature of the outbreak, the extent to which COVID-19 will continue to impact our business, financial condition and results of operations will depend on future developments, including the length of the pandemic and how long it takes our clients' businesses to recover, which remain highly uncertain and cannot be accurately predicted at this time. For additional information related to the COVID-19 pandemic see "*Risk Factors – The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Certain Factors Affecting our Results of Operation*".

Our Principal Business Activities

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

	Year ended March 31,						
	2019		2020		2021		
	(in millions, except percentages)						
Retail banking	Rs.473,748.2	79.6%	Rs.540,456.5	80.2%	Rs.567,389.2	U.S.$7,757.6	72.5%
Wholesale banking	111,803.5	18.8%	126,677.3	18.8%	198,576.0	2,715.0	25.4%
Treasury operations	9,796.8	1.6%	6,990.7	1.0%	16,463.6	225.1	2.1%
Net revenue	Rs.595,348.5	100.0%	Rs.674,124.5	100.0%	Rs.782,428.8	U.S.$10,697.7	100.0%

Retail Banking

Overview

We consider ourselves a one-stop shop for the financial needs of our customers. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, payment wallets, third-party mutual funds and insurance products, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, and market segment our organization structure and our internal business reporting mechanism. Such grouping ensures optimal utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower-income individuals through our Sustainable Livelihood Initiative. Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population in rural areas. We actively market our services through our banking outlets and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We follow a multi-channel strategy to reach out to our customers bringing to them choice, convenience and what we believe to be a superior experience. Innovation has been the springboard of growth in this segment and so has a strong focus on analytics and customer relationship management, which we believe has helped us to understand our customers better and offer tailor-made solutions. We further believe that these factors lead to better customer engagement.

As of March 31, 2021, we had 5,608 branches and 16,087 ATMs/CDMs in 2,902 cities and towns. In addition, we had 15,756 business correspondents, which are primarily manned by CSCs. We also provide telephone, internet and mobile banking to our customers. We plan to continue to expand our banking outlet and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans, credit cards and loans against securities. Our retail loans, of which 31.2 percent were unsecured, made up 65.0 percent of our gross loans as of March 31, 2021. Apart from our banking outlets, we use our ATMs, telephone banking, internet banking and mobile banking to promote our loan products. We perform our own credit analysis of the borrowers and the value of the collateral if the loan is secured. See "– Risk Management – Credit Risk – Retail Credit Risk". We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral, in most cases, we obtain debit instructions/post-dated checks covering repayments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. Our unsecured personal loans, which are not supported by any collateral, are a greater credit risk for us than our secured loan portfolio. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher contracted interest rate since they carry a higher credit risk as compared to secured loans. Also see "Risk Factors – Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance".

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

	At March 31, 2021 Value		% of Total Value
	(in millions)		
Retail Assets:			
Auto loans	Rs.964,053.2	U.S.$13,180.9	12.3%
Personal loans/Credit cards	2,042,727.2	27,929.0	26.1%
Retail business banking	2,007,845.9	27,452.1	25.6%
Commercial vehicle and construction equipment finance	805,329.8	11,010.8	10.3%
Housing loans	702,235.5	9,601.3	9.0%
Other retail loans	1,306,641.0	17,864.9	16.7%
Total retail loans	Rs.7,828,832.6	U.S.$107,039.0	100.0%

Note: The figures above exclude securitized-out receivables.

Auto Loans

We offer loans at fixed interest rates for financing of new and used car purchases. In addition to our general promotional efforts, we specifically market our offerings at various customer touch points such as authorized original equipment manufacturers, dealer showrooms and outlets, authorized direct sales agents and our banking outlets, as well as actively cross-selling these products through other lending businesses of the Bank. We also market our products through outbound and inbound calls with customers, as well as through the bank's digital touch points. Having established our presence in this business over the last two decades we believe we have consistently been a market leader and are well-equipped to serve the entire automobile ecosystem, including original equipment manufacturers, dealers and end-customers.

Personal Loans and Credit Cards

We offer unsecured loans at fixed rates to salaried individuals, self-employed professionals, small businesses and individual businessmen.

We offer credit cards from VISA, MasterCard, Diners and Rupay platforms, including gold, silver, corporate, business, platinum, titanium, signature, world, black and infinite credit cards under the classification of corporate cards, business cards, co-brand cards, premium retail cards and super premium retail cards. We had approximately 14.5 million and 15.0 million cards outstanding (i.e., total credit cards in circulation) as of March 31, 2020 and March 31, 2021, respectively.

We offer Easy EMI (equated monthly installments) through credit cards, debit cards and consumer loans. Easy EMI is available instantly at no extra cost across multiple product categories, including offline and online channels.

Our efforts in the payments business are continuously focused on meeting customers' specific requirements in the most accessible and relevant manner, while simplifying transactions.

Over the past two years, we have experienced outages in our internet banking, mobile banking and payment utilities, including an outage in our internet banking and payment system in November 2020 due to a power failure in the primary data center. In response to these outages, the RBI issued an order on December 2, 2020 (the "**December 2020 Order**"), advising us to temporarily stop (a) all launches of the digital business-generating activities under our planned Digital 2.0 program and other proposed business-generating IT applications and (b) the sourcing of new credit card customers. The December 2020 Order also stated that these measures may be considered for lifting upon the satisfactory compliance by the Bank with the major critical observations as identified by the RBI. The RBI also appointed a third-party auditor to conduct an audit of the Bank's systems. The audit has been completed and the auditor submitted its report to the RBI. We await further communication in connection with this matter.

We have adopted preventive measures to strengthen our technology infrastructure and mitigate the risks of outages. Some of the key initiatives undertaken include the migration of core data centres in Bengaluru and Mumbai to state-of-the-art facilities which has reinforced our capability to switchover in less than 45 minutes when needed. The capacity for unified payment interface UPI has been tripled, Net Banking and Mobile Banking capacity has been doubled to manage 90,000 users concurrently (a significant step as most of our customers now rely on our digital channels for banking needs), disaster recovery drills have been completed for all critical payment systems and significant upgrades in network and security has been carried out. See also "*Risk factors – A failure, inadequacy or security breach in our information technology and telecommunication systems may adversely affect our business, results of operation or financial condition*".

Retail Business Banking

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

Commercial Vehicles and Construction Equipment Finance

We provide secured financing for commercial vehicles and construction equipment along with working capital, trade advances, bank guarantees, and transaction banking services, among others, both traditional and digital, to entities engaged in the infrastructure and transportation businesses. In addition to funding domestic assets, we also extend financing for imported assets for which we open foreign letters of credit and offer treasury services, such as forward exchange covers. We coordinate and collaborate with original equipment manufacturers including their authorized dealers to jointly promote our financing options to their clients. We have a strong market presence in the commercial vehicle and construction equipment financing business.

Housing Loans

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

Other Retail Loans

Two-Wheeler Loans

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

Loans Against Securities

We offer loans against equity shares, mutual fund units, bonds and other securities that are on our approved list. We limit our loans against equity shares to Rs. 2.0 million per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first-priority security interests. The minimum margin for lending against shares is prescribed by the RBI. The collateral value of the security for these loans' is dependent on the quoted price of the security.

Loan Assignments

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

Kisan Gold Card

Under the Kisan Gold Card ("**KGC**") scheme, funds are extended to farmers in accordance with the RBI's Kisan Credit Card scheme which is aimed at financing agricultural and related credit requirements. The KGC is a credit facility of a specified amount, which is offered to farmers to finance certain requirements, including the production of crops, post-harvest repair and maintenance expenses, miscellaneous consumption needs, animal husbandry, poultry farming and maintaining fisheries. In addition to loans for recurring needs, long-term loans are granted for purposes including the purchase of farm machinery and land development activities, such as the digging of tube wells, installation of irrigation sprinklers, construction of storage facilities, and sheds for animals.

Depending on the requirements, various types of facilities are extended under KGC. These include cash credit, overdrafts, term loans, farm development loans and drop line overdraft limits. The amount of cash credit funding is based on the farmer's cropping pattern, the amount of land used and scale of finance, while for term loans it is based on the unit cost of assets. These facilities are extended under a range of crop and geography-specific products, which are designed on the basis of the harvest cycles and the local needs of farmers spread across diverse agro-climatic zones.

Through our knowledge of rural customers' preferences, we have established a strong footprint in rural areas and we are able to impact the lives of thousands of rural people making banking accessible to areas which lack formal sources of financial services, including credit. Our focus in rural markets is not only to increase credit uptake, but also to strengthen relationships with rural customers by empowering them. In addition to advising farmers on their financial needs, we are increasingly focusing on educating them on the benefits of various governmental and regulatory schemes, such as crop insurance and interest subvention.

We also aim to cater to other financial needs of rural customers through appropriate banking products.

Loans Against Gold Jewelry

We offer loans against gold jewelry to all customer segments, including women and small and marginal farmers. Such loans are typically offered with different repayment modes, with repayment either at monthly intervals or at maturity. Collateral value is dependent on the market price of the gold and therefore these loans also have margin requirements in the event of a decrease in the value of the gold. Loans against gold jewelry are also extended to existing customers of the bank in order to cater to their additional funding needs.

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

Retail Deposit Products

Retail deposits provide us with a low-cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented approximately 80.0 percent of our total deposits as of March 31, 2021. The following chart shows the book value of our retail deposits by our various deposit products:

	At March 31, 2021		
	Value (in millions)		% of total
Savings	Rs.3,939,467.3	U.S.$53,862.0	36.9
Current	1,276,632.1	17,454.6	12.0
Time	5,449,142.0	74,502.9	51.1
Total	Rs.10,665,241.4	U.S.$145,819.5	100.0

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

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

- Current accounts, which are non-interest-bearing accounts designed primarily for business customers. Customers have a choice to select from a wide range of product offerings which are differentiated by basis minimum average quarterly account balance requirements and nature of transactions.

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

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

Other Retail Services and Products

Debit Cards

We had approximately 32.1 million and 36.7 million debit cards outstanding as of March 31, 2020 and March 31, 2021, respectively. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

Individual Depositary Accounts

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

Mutual Fund Sales

We are a registered distributor with the Association of Mutual Funds in India ("**AMFI**"). We engage in distributing mutual fund products to our customers through our staff, who are AMFI certified. We offer units of most large and reputable mutual fund houses in India to our customers. We distribute mutual fund products primarily through our banking outlets and our private banking relationship managers. We receive trail income on the new business as well as on the existing assets under management.

Insurance

HDFC Bank is registered as a corporate agent for the solicitation of life, general and health insurance business under regulations prescribed by the Insurance Regulatory and Development Authority of India. Presently, we have arrangements with three life insurance companies, namely HDFC Life Insurance Company Limited, Tata AIA Life Insurance Company Limited and Aditya Birla Sun Life Insurance Company Limited, three general insurance companies, namely HDFC ERGO General Insurance Company Limited, Bajaj Allianz General Insurance Company Limited and Bharti AXA General Insurance Company Limited and two health insurance companies, namely Aditya Birla Health Insurance Company Limited and Max Bupa Health Insurance Company Limited. We earn commission on new premium collected as well as trail income in subsequent years in certain cases while the policy is still in force. Our commission income for fiscal 2021 included fees of Rs. 27,483.4 million in respect of life insurance business and Rs. 3,988.9 million in respect of non-life insurance business, of which Rs. 13,868.2 million was for displaying publicity materials at the Bank's banking outlets/ATMs.

Bill Payment Services

We are a part of the Bharat Bill Payment System network and offer our customers bill payment services for all utility companies, including water, electricity, gas, telephone, direct-to-home, mobile recharge and internet service providers, as well as financial products such as insurance and mutual funds. We also offer Smartpay (autopay functionality) for all these bills. We believe this is a valuable convenience that we offer our customers. We offer these services to customers through multiple distribution channels: internet banking, mobile banking and phone banking.

Corporate Salary Accounts

We offer corporate salary accounts to employees of corporate and government entities, enabling employees' salaries to be credited by the entity directly or via the Bank. A salary account is a type of savings account with no minimum balance requirement in lieu of regular salary credits. Benefits, including a premium debit card and complimentary personal accident cover are provided, amongst others. We also offer salary accounts tailored for employees of the defence and government sector. As of March 31, 2021, these accounts constituted 28.7 percent of our savings deposits by value.

Non-Resident Indian Services

Non-resident Indians (NRIs) are an important target market segment for us given their relative affluence and strong ties with family members in India. Our private and premium banking programs in India are also extended to NRI clients. Relationship managers in India facilitate the banking and investment transactions of our NRI clients. Through our overseas branch in Bahrain, we offer deposits, bonds, equity, mutual funds, treasury and structured products offered by third-parties to our NRI clients. We also have referral arrangements with product/service providers for NRI clients. Our non-resident deposits amounted to Rs. 1,119.4 billion as of March 31, 2020 and Rs. 1,144.8 billion as of March 31, 2021.

Retail Foreign Exchange

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

Customers and Marketing

We identify and target distinct market customer segments for our retail services. Customers are at the core of all marketing initiatives of the Bank. We use advanced analytics to identify customers and offer them relevant products through their preferred channel of communication and with high levels of personalization. Our investments in advanced analytics tools have enabled us to develop a good understanding of customer behavior and customer preferences. This knowledge helps us curate personalized interventions at scale. Our marketing team uses artificial intelligence and machine learning technology and customer relationship management systems to engage with new and existing customers and enable them to purchase our financial products and services with zero or minimal physical interface. We source new customers through joint marketing efforts with our wholesale banking department, such as our corporate salary account package.

Our omni channel campaign management platform enables us to conduct marketing campaigns via our website, mobile apps, e-mails, SMS, WhatsApp and social media. In addition, we launched a customer experience program, called "Infinite Smiles", that helps establish behaviors and practices that result in customer-centric actions through improvements in product, services, processes and policies. We measure customer loyalty through a closed-loop customer feedback system. The insights we receive help us identify actionable information and implement changes to improve customer experiences and strengthen their loyalty.

We also have programs that target other specific segments of the retail market. For example, under our private and premium banking programs, the relationship managers distribute mutual funds and insurance products and provide advice related to these products. Clients seeking investment advice on alternate products are referred to HDFC Securities (a registered investment adviser regulated by SEBI IA Regulations, 2013) where a team of certified investment advisers provides this service. Customers interested in availing themselves of alternate products (such as fixed income, private equity, alternate investment funds and structures) or services such as succession planning, tax planning, trust formation and will-writing are also referred to HDFC Securities who have referral arrangements with the concerned product/service providers. As of March 31, 2021, 29 percent of our retail deposit customers contributed 64 percent of our retail deposits.

We continue to be strongly committed to financial inclusion programs that extend banking services to underserved populations. Our Sustainable Livelihood Initiative caters to lower income individuals to finance their economic activity, and also provides skills training, credit counseling and market linkages in terms of access to, or contacts in, their local markets. Through these initiatives, we aim to reach the unbanked and underbanked segments of the Indian populations.

Wholesale Banking

Overview

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

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

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

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

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

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

Our principal financing products are working capital facilities and term loans. Working capital facilities primarily consist of cash credit facilities and bill discounting. Cash credit facilities are revolving credits provided to our customers that are secured by working capital such as inventory and accounts receivable. Bill discounting consists of short-term loans which are secured by bills of exchange that have been accepted by our customers or drawn on another bank. In many cases, we provide a package of working capital financing that may consist of loans and a cash credit facility as well as documentary credits or bank guarantees. Term loans consist of short-term loans and medium-term loans which are typically loans of up to five years in duration. Over 90.0 percent of our loans are denominated in rupees with the balance being denominated in various foreign currencies, principally the U.S. dollar.

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

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

	As of March 31,			
	2019	2020	2021	2021
	(in millions)			
Gross commercial loans	Rs.2,873,561.0	Rs.3,583,055.2	Rs.4,214,885.3	U.S.$57,627.7
Credit substitutes:				
Commercial paper	25,734.3	124,393.4	9,804.1	134.1
Non-convertible debentures	247,152.5	237,980.3	537,472.8	7,348.5
Total credit substitutes	272,886.8	362,373.7	547,276.9	7,482.6
Gross commercial loans plus credit substitutes	Rs.3,146,447.8	Rs.3,945,428.9	Rs.4,762,162.2	U.S.$65,110.3

Whilst we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of March 31, 2021, approximately 61.3 percent of the aggregate principal amount of our gross wholesale loans was secured by collateral (Rs. 1,631.5 billion in aggregate principal amount of loans were unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See "– *Risk Management – Credit Risk – Wholesale Credit Risk*".

We price our loans based on a combination of our own cost of funds, market rates, tenor of the loan, our rating of the customer and the overall revenues from the customer and with reference to the applicable benchmark. An individual loan is priced on a fixed or floating rate and the pricing is based on a margin that depends on, among other factors, the credit assessment of the borrower. We are required to follow the system requirements related to the interest rate on advances, issued by the RBI from time to time, while pricing our loans. For a detailed discussion of these requirements, see "*Supervision and Regulation – Regulations Relating to Making Loans*".

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

Bill Collection, Documentary Credits and Bank Guarantees

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

	As of March 31,			
	2019	2020	2021	2021
	(in millions)			
Bill collection	Rs.5,197,456.2	Rs.6,039,408.6	Rs.5,863,622.6	U.S.$80,169.8
Documentary credits	1,787,206.9	1,753,159.7	1,410,029.3	19,278.5
Bank guarantees	313,578.3	303,348.0	420,229.2	5,745.5
Total	Rs.7,298,241.4	Rs.8,095,916.3	Rs.7,693,881.1	U.S.$105,193.9

Bill collection: We provide bill collection services for our corporate clients in which we collect bills on behalf of a corporate client from the bank of our client's customer (i.e., import bill collection). Under the import bill collection system, we receive instructions from overseas banks, deal with necessary documents and effect remittances on behalf of our clients. We also provide export collection, where we receive documents from our corporate clients and send such documents to the overseas bank for collection. Once the export collection is realized, we credit our corporate clients' accounts with the relevant amount.

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

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

Foreign Exchange and Derivatives

Our foreign exchange and derivative product offering to our customers covers a range of products, including foreign exchange and interest rate transactions and hedging solutions, such as spot and forward foreign exchange contracts, forward rate agreements, currency swaps, currency options and interest rate derivatives. These transactions enable our customers to transfer, modify or reduce their foreign exchange and interest rate risks. A specified group of relationship managers from our treasury front office works on such product offerings in line with the customers' risk and other requirements and within the framework of our Suitability and Appropriateness policy.

Forward exchange contracts are commitments to buy or sell fixed amounts of currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another and exchange of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees without exchanging the notional principal. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined, being the difference between the contracted rate and the market rate on the settlement date. The underlying rate of interest could be an interest rate curve, interest rate index or bond yield. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps in the inter-bank market, broadly to support our customers' requirements and, to a limited extent, for our own account. The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2019, 2020 and 2021, together with the fair values on each reporting date.

	As of March 31,							
	2019		2020		2021		2021	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
Interest rate swaps and forward rate agreements	Rs.1,073,100.9	Rs.698.2	Rs.1,545,303.1	Rs.1,404.5	Rs.1,684,294.2	Rs.785.5	U.S.$23,028.4	U.S.$10.7
Forward exchange contracts, currency swaps, currency options	Rs.884,608.8	Rs.2,416.0	Rs.1,309,254.8	Rs.7,532.1	Rs.1,490,543.6	Rs.4,275.8	U.S.$20,379.3	U.S.$58.5

Investment Banking

Our Investment Banking Group offers services in the debt and equity capital markets. The group has arranged project financing for clients across various sectors including telecoms, roads, healthcare, energy, real estate and cement. The group advised on aggregate issuances of over Rs. 850.0 billion worth of rupee-denominated corporate bonds across public sector undertakings, financial institutions and our corporate clients during fiscal 2021, becoming the second-largest corporate bond arranger in the market for fiscal 2021. In the equity capital markets business, the group concluded various transactions, including two initial public offerings, four qualified institutional placements, two rights issues and two share buybacks. In the advisory business, we advise clients in the infrastructure, new economy and digital, financial services, industrials and healthcare sectors.

Wholesale Deposit Products

As of March 31, 2021, we had wholesale deposits aggregating to Rs. 2,672.0 billion, which represented 20.0 percent of our total deposits. We offer both non-interest-bearing current accounts and time deposits. We are permitted to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 20.0 million), provided the rates booked on a day are the same for all customers of that deposit size for that maturity. See "Selected Statistical Information" for further information about our total deposits.

Transactional Services

Cash Management Services

We believe that the Indian market is one of the most promising Cash Management Services ("CMS") markets. However, it is also marked by some distinctive characteristics and challenges such as a vast geography, a large number of small business-intensive towns, a large unorganized sector in various business supply chains, and infrastructural limitations for accessibility to many parts of the country. Over the years, such challenges have made it a daunting task for CMS providers in the country to uncover the business potential and extend suitable services and product solutions to the business community.

We are a technology-driven bank and have been providing digital CMS solutions to our customers from diverse industry segments. We believe that we have been consistently aligning our product and services strategy to meet our customers' needs. This, we believe, has helped us to keep ahead of competitors and retain a satisfied customer base that is growing by the year.

We offer traditional and new age digital banking products and experience an increasing demand for digital banking services. While we believe that we have been one of the leading banks in the traditional CMS market, we believe that we have also been able to forge a similar position in the new age CMS market, i.e., digital cash management, and we also believe that we have aligned our product offering with changing and dynamic customer needs. Currently, approximately 85 percent of our transactions are done on the electronic platform.

Today, we believe that we are a leading service provider of digital banking products with a large share of business across customer segments. We have, thus, been able to reduce our transaction costs while maintaining our fees and float levels.

Clearing Bank Services for Stock and Commodity Exchanges

We serve as a clearing bank for the equity cash and derivatives segment, currency derivatives, commodity derivatives and other segments for major stock and commodity exchanges in India, including the National Stock Exchange of India Limited, the BSE Limited, Multi Commodity Exchange and National Commodity and Derivatives Exchange Limited. As a clearing bank, we provide the exchanges or their clearing corporations with a means for collecting payments due to them from their members or custodians and a means of making payments to these institutions. In addition to benefiting from the cash float, which reduces our overall cost of funds, we also earn interest, and generate transaction fees, and commissions by offering various fund-based and non-fund-based facilities and transactional services to the exchanges and their members.

Custodial Services

We provide custodial services to domestic and foreign investors that include domestic mutual funds, portfolio managers, insurance companies, alternative investment funds and foreign portfolio investors ("FPIs"). These services include safekeeping of securities, trade settlement, collection of dividends and interest payments on securities, fund accounting services and derivatives clearing services (including currency derivatives and interest rate futures). We are registered as a designated depository participant with the local securities regulator, i.e., the Securities and Exchange Board of India, and are permitted to grant registration to FPIs.

Correspondent Banking Services

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

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

Tax Collections

We have been appointed by the Government of India to collect direct taxes. In fiscal 2020 and 2021 we collected Rs. 3,005 billion and Rs. 3,028 billion, respectively, of direct taxes for the Government of India. We are also appointed to collect Goods and Services Tax ("**GST**") and excise duties in India. In fiscals 2020 and 2021 we collected Rs. 1,867 billion and Rs. 1,657 billion, respectively, of such indirect taxes for the Government of India and relevant state Governments. We earn a fee from the Government of India for each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to Government entities.

Treasury

Overview

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

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

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

Foreign Exchange and Derivatives

Our treasury operations primarily include liquidity management, managing the interest rate risks in our investment portfolio along with limited proprietary trading.

Our treasury operations also include foreign exchange and derivative product offerings to our customers covering a range of products, including foreign exchange and interest rate transactions and hedging solutions, such as spot and forward exchange contracts, forward rate agreements, and derivatives. Whilst "plain vanilla" products are offered to all customer segments, derivative products are offered mostly to our wholesale customers in accordance with the RBI guidelines. A specified group of relationship managers from our treasury front office works on such product offerings in line with the customers' risk and other requirements and within the framework of our Suitability and Appropriateness policy.

We also enter into derivative contracts not denominated in rupees. Typically the market risks arising out of such products are economically hedged in the interbank market. We also operate under a capped risk exposure to each interbank counterparty. In order to manage residual risks and for overall balance sheet management, we also undertake limited proprietary trading transactions, subject to limits approved by our board of directors (the "**Board**").

The following table sets out the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2019, 2020 and 2021, together with the fair values on each reporting date:

	As of March 31,							
	2019		2020		2021		2021	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
Interest rate swaps and forward rate agreements	Rs.2,086,766.2	Rs.131.0	Rs.2,099,192.7	Rs.(3,504.6)	Rs.1,492,003.7	Rs.(2,256.4)	U.S.$20,399.3	U.S.$(30.9)
Forward exchange contracts, currency swaps, currency options	Rs.5,156,391.8	Rs.829.9	Rs.5,276,918.2	Rs.322.6	Rs.3,913,667.3	Rs.(278.2)	U.S.$53,509.3	U.S.$(3.8)

Domestic Money Market and Debt Securities Desk

Our principal activity in the domestic money market and debt securities market is to ensure that we comply with our reserve requirements including Liquidity Coverage Ratio ("**LCR**"). These consist of a cash reserve ratio, which we meet by maintaining balances with the RBI, and a statutory liquidity ratio, which we meet by purchasing Indian Government securities. See also "Supervision and Regulation – Legal Reserve Requirements". The Bank meets the LCR requirement by maintaining an adequate level of high-quality liquid assets mainly government securities above its mandated statutory requirements. See also "Supervision and Regulation – Regulations on Asset Liability Management". Our local currency desk primarily trades Indian Government securities for our own account. We also participate in the inter-bank call deposit market and engage in limited trading of other debt instruments.

Equities Market

We trade a limited amount of equities of Indian companies for our own account as part of the equity trading portfolio of our treasury operations, which are specified in the approved list of equity universe that is reviewed at least on a quarterly basis or on a need-based basis as mandated in the Bank's internal policy. As of March 31, 2021, we had an internal aggregate approved limit of Rs. 500 million for proprietary equity trading, which included Rs. 100 million (defined as a sub-limit of the aggregate approved limit) for primary purchases of equity investments for proprietary trading and Rs. 100 million (defined as a sub-limit of the aggregate approved limit) for investment in index funds or equity mutual funds for proprietary trading. We set limits on the amount invested in any individual company as well as a stop-loss trigger level and a value at-risk limit for the proprietary equity trading portfolio. Our exposure as of March 31, 2021 was within these limits.

In addition, we had long-term and strategic investments in equities and equity-linked instruments within the board-approved quantum for such investments. All such investments are carried out after review and approval of the proposal by the investment committee and the board, if applicable.

Distribution Channels

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

Banking Outlets

Our banking outlets are comprised of branches and business correspondents. As of March 31, 2021, we had a total of 5,608 branches covering 2,902 cities and towns. In addition, we had 15,756 business correspondents, which are primarily manned by CSCs. All of our banking outlets are electronically linked so that our customers can access their accounts from any banking outlet regardless of where they have their accounts.

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

As part of its banking outlet licensing conditions, the RBI requires that at least 25.00 percent of all incremental banking outlets added during the year be located in unbanked rural areas that do not have a brick and mortar structure of any scheduled commercial bank for customer-based banking transactions. As per the guidelines of the RBI, a rural area is defined as a center with a population up to 9,999. As of March 31, 2021, 5,198 of our banking outlets (including banking outlets manned by the CSCs) are in unbanked areas. With the objective of liberalizing and rationalizing the branch licensing process, the RBI granted general permission, effective from October 2013, to banks like us to open banking outlets in Tier 1 to Tier 6 centers, subject to a requirement to report to the RBI and other prescribed conditions. In May 2017, the RBI further liberalized the branch authorization policy. See "Supervision and Regulation – Regulations Relating to the Opening of Banking Outlets".

We have overseas banking outlets in Bahrain, Hong Kong and the Dubai International Finance Centre ("**DIFC**"). These banking outlets cater to the needs of our overseas clients, both corporate and individual. They offer banking, trade finance and wealth management (primarily for non-resident individual customers). In addition, we have representative offices in Abu Dhabi, Dubai and Nairobi. We also have a presence in the International Financial Service Centre Banking Unit at the Gujarat International Finance Tec-City ("GIFT City") in Gandhinagar, Gujarat. This unit operates in a similar fashion to our foreign banking outlets and customers are able to purchase products such as trade credits and foreign currency term loans, including external commercial borrowings and derivatives to hedge loans. Our unit in GIFT City is regulated and supervised by the RBI.

Automated Teller Machines

As of March 31, 2021, we had 16,087 ATMs/CDMs, of which 7,838 were located at our banking outlets or extension counters and 8,249 were located off-site with access to the general public.

Customers can use our ATMs for a variety of functions, including withdrawing cash, monitoring bank balances, mobile recharge/top-up, and cardless cash withdrawals. Customers can access their accounts from any of the HDFC Bank ATMs or non-HDFC Bank ATMs. ATM cards issued by American Express or other banks in the Rupay, Visa, MasterCard, Maestro, JCB, UPI, Cirrus, Citrus or Discover Financial Services networks can be used in our ATMs and we receive a fee for each transaction. Our debit cards issued with respective networks (Rupay/VISA/MasterCard) can be used at ATMs of other banks for which we pay the acquiring bank a fee. Our customers can use our CDMs for a variety of functions, including cash deposits, cash withdrawals and monitoring bank balances.

Telephone Banking

We provide telephone banking services to our customers in 2,902 cities and towns as at March 31, 2021. Customers can access their accounts over the phone through our 24-hour automated voice response system and can conduct balance and transaction inquiries, order check books and order stop payments of checks. In certain cities, we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers. In select cities, customers can also engage in financial transactions such as opening deposits.

Mobile Banking

Our mobile banking application is specially designed to help our customers manage their banking needs more efficiently. With a secure access and an intuitive, multi-feature design, the application provides our customers with an improved banking experience. Our mobile banking application is designed for an era where our customers can get most of their banking needs serviced on their mobile phones, from sending money (via the national electronic funds transfer ("**NEFT**"), immediate payment service and unified payment interface ("**UPI"**) to managing accounts, bills and investments. We believe that banking with our mobile banking application is easy, convenient and secure.

Internet Banking

Our internet banking platform is convenient, comprehensive and safe, enabling our customers to bank 24/7 from the comfort of their home or office. Users can perform the majority of banking transactions online and be assured of the highest levels of security standards. The platform provides several different services, including viewing balances and statements, fund transfers, payment of bills, opening term and recurring deposit accounts, mobile and direct-to-home recharges, ordering check books and online shopping.

Payment Wallets

PayZapp aims to make digital payments safe. PayZapp provides a comprehensive solution for all payment, banking and financial requirements for our internal and external customers. It offers a platform for making different types of payments, including grocery, food delivery, shopping, mobile and direct-to-home recharges, rent payments, FASTag recharge and utility bills. Using PayZapp, customers can also apply for a credit card or a personal loan, send money to others and transfer money to a bank account.

Digital Banking

In order to advance our digital banking capabilities, we have a dedicated digital innovation team responsible for researching and experimenting with technology. We have built a varied enterprise ecosystem and are making progress in transitioning from the traditional product-oriented approach to a customer-oriented approach. We seek to enable differentiated experiences through applications such as SmartBuy, which we believe is India's first bank-initiated marketplace offering deals across key categories, including travel, hotels, e-shopping, among others and PayZapp which is our comprehensive mobile payment solution. In addition we seek to improve our customers' experience using APIs that allow for the seamless and secure exchange of information between the Bank's systems and third-parties, making our products and services available to all our merchants and on platforms that our customers prefer. Finally, we also utilize analytics that help us improve our customer acquisition and retention. We believe that our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell various products and improve customer retention. Our product innovations include pre-approved personal loans for salaried accounts granted in as little as 10 seconds and "Digital Loan Against Securities, among others.

In 2017, we began virtual relationship banking to engage with customers through technology, which has since become a fully-fledged customer engagement channel, providing end-to-end services. We have over 5.6 million customers engaged through virtual relationship management. In addition, we have also begun utilizing artificial intelligence ("AI") technologies. Our virtual assistant EVA, which we believe is India's first AI-enabled assistant, is capable of both acquiring and servicing customers, as well as processing banking transactions. EVA has also been extended to several other platforms, including Google Assistant, Amazon Alexa and WhatsApp. Furthermore we extensively use robotic process automation to automate backend processes, resulting in higher productivity and reduced turnaround times. In what we believe to be another industry-first, we launched myApps, a suite of applications, in fiscal 2020. myApps offers digital payment modes and other value-added services for four key segments: smart cities, housing societies, clubs and religious institutions to enable digitization of their ecosystem.

During fiscal 2020, we were recognized for our commitment to technology, including being awarded the Nasscom DSCI Excellence Awards 2019 for best security practices in the banking sector, the Business Today – Money Today Financial Award 2019 for best fintech engagement and the Dun & Bradstreet Bank Tech Award 2020 for best use of banking technology for data analytics/BI/Big data. We believe our "Experiential Leadership" strategy and culture of innovation and development will be a crucial strength in remaining competitive in the years to come.

In fiscal 2021, in order to help customers access banking facilities seamlessly irrespective of location, we actively participated in the Account Aggregator Ecosystem, which enables real-time customer information-sharing while ensuring data privacy, subject to customer consent. We are also certified as a financial information provider and financial information user within the ecosystem. In addition, we participate in the Government e-Marketplace Sahay ecosystem that enables us to utilize the Open Credit Enablement Platform in order to quickly disburse loans to MSME borrowers.

We have also invested in machine learning research to improve our understanding of customer sentiments, operational efficiencies and new business opportunities and have begun using robotic process automation to streamline and automate backend processes, operations and underwriting models. We expect this will enable us to reduce costs, improve operating efficiencies and develop our business. We have also begun developing several blockchain-based proof of concepts for multiple use cases, including supply chain financing and issuing letters of credit, which we expect will help us reduce fraud and improve the security and transparency of our processes.

In fiscal 2021, we have also begun implementing APIs across all products and services of the Bank, including the introduction of API Gateway. Our APIs have multi-platform capabilities and are therefore reusable. We expect that together with relying on strategic partnerships, this will enable us to utilize developer ecosystems and reinforce our efforts in setting up a robust digital infrastructure for the Bank. We believe that utilizing APIs will further improve our customer experience and encourage developers to use the APIs to build innovative solutions for our customers, expanding the reach of the Bank's products and services.

Risk Management

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

Credit Risk

Credit risk is the possibility of losses associated with a diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses result from a customer's or counterparty's default due to the inability or the unwillingness of such customer or counterparty to meet commitments in relation to borrowing, trading, settlement and other financial transactions. Alternatively, losses result from a reduction in portfolio value arising from the actual or perceived deterioration in credit quality of the underlying borrowers. Credit risk typically results from a bank's dealings with an individual, association of persons, corporate entity, other bank, financial institution or a sovereign.

The Board of the Bank is responsible for managing the comprehensive risks faced by the Bank, including credit risk. The Board endorses the credit risk strategy and approves the credit risk policies of the Bank. The Bank's Risk Policy & Monitoring Committee ("**RPMC**"), which is a Board-level committee, supports the Board by supervising the implementation of the credit risk strategy and procedures. It guides the development of policies, procedures and systems for managing credit risk. The RPMC ensures that these policies are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank. It periodically reviews the portfolio composition and the status of impaired credits.

The Retail and Wholesale Credit Risk Management functions under the Chief Risk Officer ("**CRO**"), and runs credit risk management centrally in the Bank. Within the Retail and Wholesale Credit Risk Management function, there is a framework for review and approval of credit ratings. This function is clearly demarcated from, and is independent of, the operations, credit and business functions of the Bank.

Retail Credit Risk

Retail lending, given the granularity of individual exposures, is managed largely on a portfolio basis across various products and customer segments. There are robust front-end and back-end systems in place to ensure credit quality and to minimize losses from defaults. The Retail Credit Risk team is responsible for establishing the risk appetite, ensuring adherence to the risk appetite limits approved by the Board and reviewing and monitoring the key risk indicators of the retail and SME portfolios of the Bank. It is also responsible for conducting product review, formulating key risk indicators and portfolio analysis and distribution trends.

Wholesale Credit Risk

The wholesale credit risk team sits within the Risk Management Group and is primarily responsible for implementing the wholesale credit risk strategy approved by the Board, developing procedures and systems for managing credit risk, periodically monitoring the overall portfolio quality, concentrations and risk-mitigating actions and ensuring that portfolio composition and quality are within the Bank's risk appetite.

The Bank's Credit Policies & Procedure Manual and Credit Program (the "**Credit Policies**") are central in controlling credit risk in various activities and products. The Credit Policies articulate our credit risk strategy and thereby the approach for credit origination, approval and maintenance. Each credit proposal is evaluated by the business units against the credit standards prescribed in our Credit Policies. They are then subjected to a greater degree of credit analysis based on product type and customer profile by credit specialists in the Wholesale Credit Group headed by the Chief Credit Officer.

There is a framework for independent review and approval of credit ratings by specifically designated rating approvers in the ratings unit, which sits within the Credit Risk function. We have in place a process of risk-grading each borrower according to its management, industry, financial health and the performance of its business. Each borrower is graded on a model scale of 1 to 10, which is further mapped to a master scale of HDB 1 to HDB 10 (HDB 1 indicating the highest and HDB 10 the lowest rating; we further classify HDB 1 to HDB 7 as "investment grade" ratings, while HDB 8 or lower are classified as "non-investment grade" ratings). We have specific models applicable to each significant segment of wholesale credit (e.g., large corporate, SME-manufacturing, SME-services and NBFCs). For a standalone borrower rating, the model encapsulates risks associated with the industry, business, management and financials into quantitative and qualitative factors. The risk rating assigned to the borrower is a function of aggregated weighted scores after an assessment under each of the above four risk categories. Wholesale loans that are investment grade are disclosed as either "pass" or "labeled" and considered to be performing. "Labeled" loans are investment grade loans showing evidence of weakness and following deteriorating trends which, if not corrected, could adversely impact repayment of the obligations.

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

(i) Borrower/business group: Based on the RBI guidelines on the Large Exposure Framework ("LEF"), exposure ceilings are established for exposures to single borrowers, borrower groups, NBFCs, connected NBFCs groups or a group of connected counterparties, which include an NBFC in the group. See also "Supervision and Regulation – Large Exposures Framework".

(ii) Industry: We have established ceilings on aggregate exposure to an industry. For this purpose, advances and investments as well as non-fund-based exposures are aggregated. Retail advances are exempt from this exposure limit.

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

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

Credit Management

The Credit Group, under the Chief Credit Officer ("**CCO**") consists of the Retail Credit Group and the Wholesale Credit Group. The CCO reports directly to the Managing Director and is responsible for leading and overseeing the implementation of the overall credit strategy and the management of the retail and wholesale credit portfolios of the Bank. The credit underwriting and portfolio management under the retail and wholesale credit functions are aligned with the Board-approved credit appetite thereby maintaining credit quality of the portfolio. The Credit Group is not assigned any business target. No official in the Retail Credit Group or Wholesale Credit Group has any business responsibility or association, thereby assuring compliance to the four pillars, namely, independence (total independence and freedom to operate without any influence which may compromise risk acceptance), knowledge base (specialization and experience over a period of time), absence of conflict of interest (absolute separation from any business targets or responsibilities, ensuring the quality of risk management) and regulatory compliance (ensuring continuous operation within a low-risk environment).

Retail Credit

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

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

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

(i) Central Credit Program Unit: This unit drives credit portfolio management centrally for retail assets. It is responsible for formulating credit product programs and evaluating proposals for the launch of new products and entering new geographies. The unit also conducts periodic reviews that cover our portfolio management information system, credit management information system and post-approval reviews. The credit program teams conduct detailed studies on portfolio performance in each customer segment.

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

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

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

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

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

Wholesale Credit

For our wholesale banking products, we target leading private businesses and public sector enterprises in the country, as well as subsidiaries of multinational corporations. We consider the credit risk of our counterparties comprehensively. Accordingly, our credit policies and procedures apply not only to credit exposures but also to credit substitutes and contingent exposures.

The Wholesale Credit Group is primarily responsible for implementing the credit strategy approved by the Board, developing procedures and systems for managing credit originated by the wholesale business groups, carrying out an independent assessment of credit, approving individual credit exposures by specifically appointed credit approvers as well as monitoring and ensuring portfolio composition and quality.

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

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

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

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

SME Credit

In order to manage credit in SME assets, the "wholesale credit-business banking function" draws from the wholesale and retail credit functions. The SME policy and strategy is broadly aligned with the wholesale credit function with suitable amendments to make it appropriate for SME customers. It incorporates certain procedures and systems for managing credit, which have been taken from the retail credit function.

Market Risk

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

The market variables which affect the valuation of these instruments typically include interest rates, credit spreads, equity prices, foreign exchange rates, implied volatilities (including the foreign exchange volatility surface, cap/floor volatility and volatility smiles) and commodity prices. Any change in the relevant market risk variable has an adverse or favorable impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earn from the upside potential, there is always a possibility of downside risk. Thus, the Bank must constantly review the positions to ensure that the risk on account of such positions is within our overall risk appetite. The risk appetite for trading risk is set through a pre-approved treasury limits package as well as through specific trading limits and trigger levels for a few product programs. In addition, the Bank's risk limits with respect to interbank counterparties are guided by the interbank counterparty exposure limit while the Bank's Asset Liability Management ("**ALM**") limits prescribe the appetite for liquidity risk and interest rate risk in the banking book ("**IRRBB**"). The process for monitoring and reviewing risk exposure is outlined in the various risk policies.

The market risk department formulates procedures for portfolio risk valuation, assesses market risk factors impacting the trading portfolio and recommends various market risk controls relating to limits and trigger levels for the treasury (including investment banking portfolios for primary undertaking and distribution) and non-treasury positions. The treasury mid-office is responsible for monitoring and reporting market risks arising from the trading desks and also carries out rate scans of the deals. The market data cell in the mid-office maintains market data, performs market data scans to check market data sanctity and verifies the rates submitted by the treasury front office for polling various benchmarks.

Our Board has delegated the responsibility for market risk management of the balance sheet on an ongoing basis to the Asset Liability Committee ("**ALCO**"). This committee, which is chaired by the Managing Director and includes the heads of the business groups, generally meets fortnightly. The ALCO reviews the product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view and decides on future business strategy with respect to interest rates. It reviews and sets funding policy, also reviews developments in the markets and the economy and their impact on the balance sheet and business along with review of the trading levels. Moreover, it reviews the utilization of liquidity and interest rate risk limits set by the Board and decides on the inter-segment transfer pricing policy.

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

Policies and Procedures – Trading and Asset Liability Management Risks

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

I. Trading Risk

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

The trading risk is managed by establishing a sound process for price validation and by setting various limits or trigger levels, such as value at risk limits, stop-loss trigger levels, price value per basis point (PV01) limits, option Greek limits and position limits, namely, intraday and net overnight forex open position. Additional controls such as order size and outstanding exposure limits are prescribed, wherever applicable, based on case-by-case review. Moreover, measures such as investment limits and deal size thresholds are prescribed as part of the investment policy for managing outstanding investment or trading positions.

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

The market risk policy sets the framework for market risk monitoring and includes the non-standard product policy which stipulates requirements for case-specific evaluation of risk exposure in respect of non-standard products (that is, products which are not part of the standard product list decided by treasury and the market risk department). Additionally, limits have been assigned to restrict the aggregate exposure in non-standard positions. Further, the stress testing policy prescribes the stress scenarios that are applied on the outstanding trading positions to recognize and analyze the impact of the stress conditions on the trading portfolio. Stress tests are based on historical scenarios as well as on sensitivity factors, such as an assessment based on hypothetical/judgmental scenarios.

Validation of valuation models applied for validation of trading products is conducted by the treasury analytics team, which are then reviewed by the market risk department and governed by the Board-approved independent model validation policy. The Valuation Committee is apprised of the model validation results in its quarterly meetings. Moreover, the market data of major interest rate curves, captured in the valuation systems, are compared against an independent market data source on a month-end basis for accurate valuation in accordance with the independent model validation policy of the Bank.

II. Asset Liability Management

The ALM risk management process consists of management of liquidity risk and IRRBB. Liquidity risk is the risk that the Bank may not be able to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses. IRRBB refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates. The banking book is comprised of assets and liabilities that are incurred to create a steady income flow or to fulfill statutory obligations. Such assets and liabilities are generally held to maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks, exposing itself to risks from changing interest rates. The Bank's objective is to maintain liquidity risk and IRRBB within certain tolerance limits. The ALM limits are reviewed by the market risk department and presented to the RPMC for its recommendation to the Board for approval. The limits are reviewed at least annually.

Structure and Organization

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

Board of Directors

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

Risk Policy and Monitoring Committee of the Board

The RPMC is a Board-level committee, which supports the Board by supervising the implementation of risk strategy. It guides the development of policies, procedures and systems for managing risk. It 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. It ensures that frameworks are established for assessing and managing liquidity and interest rate risks faced by the Bank. The RPMC meets at least once every quarter. The RPMC's role includes, inter alia:

1. to review and recommend for Board approval the liquidity and interest rate risk policies or any other amendment thereto; and

2. to ratify excess utilization of Board-approved limits except where delegated to the ALCO.

Asset Liability Committee

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

- product pricing for deposits and customer advances;

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

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

- reviewing and articulating funding strategy and deciding on source and mix of liabilities or sale of assets;

- ensuring adherence to the liquidity and interest rate risk limits set by the Board and ratification of utilization, wherever applicable;

- determining the structure, responsibilities and controls for managing liquidity and interest rate risk and overseeing the liquidity positions Bank level (including domestic and overseas branches);

- reviewing stress test results and ensuring that a well-documented contingency funding plan is in place;

- deciding on the transfer pricing policy of the Bank; and

- regularly reporting to Board on the ALM risk profile of the Bank through ALCO minutes.

ALM Support Group

The ALM support group is responsible for analyzing, monitoring, and reporting the relevant risk profiles to senior management and relevant committees. The ALM support group comprises the balance sheet management desk (Treasury), market risk department, treasury mid-office and financial control.

Risk Measurement Systems and Reporting

Liquidity Risk

Liquidity risk is measured using the flow approach and the stock approach. The flow approach involves comprehensive tracking of cash flow mismatches, whereas the stock approach involves the measurement of critical ratios in respect of liquidity risk.

For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates has been adopted as a standard tool. The time buckets for classification of assets and liabilities for the purposes of this statement is as per the RBI's prescribed guidelines.

Stock approach involves measurement of certain critical ratios in respect of liquidity risk. Based on the RBI guidelines, a set of liquidity ratios under stock approach is monitored on a periodic basis.

In addition, the Bank is required to maintain Liquidity Coverage Ratio. The regulatory minimum requirement for the ratio was reduced during the year and stood at 90 percent as on March 31, 2021. Effective April 1, 2021 the minimum requirement reverted to 100 percent. Analysis of liquidity risk also involves examining how funding requirements are likely to be affected under crisis scenarios. The Bank has a Board-approved liquidity stress framework guided by regulatory instructions. The Bank has an extensive intraday liquidity risk management framework for monitoring intraday positions during the day.

Interest Rate Risk in Banking Book

Interest rate risk is the risk where changes in market interest rates affect a bank's financial position. Changes in interest rates impact a bank's earnings through changes in its net interest income ("**NII**"). Changes in interest rates also impact a bank's market value of equity ("**MVE**") or net worth through changes in the economic value of its rate-sensitive assets, liabilities and off-balance sheet positions. The interest rate risk, when viewed from these two perspectives, is known as "earnings perspective" and "economic value perspective", respectively.

The Bank measures and controls IRRBB using both the earnings perspective (measured using the traditional gap analysis method) and the economic value perspective (measured using the duration gap analysis method) as detailed below. These methods involve grouping of rate-sensitive assets ("RSA") and rate-sensitive liabilities ("**RSL**"), including off-balance sheet items, based on the maturity or repricing dates. The Bank classifies an asset or liability as rate sensitive or non-rate sensitive in line with the RBI guidelines, as amended, from time to time.

A significant portion of non-maturing deposits are grouped in the "over 1 year to 3 year" category. Non rate sensitive liabilities and assets primarily comprise capital, reserves and surplus, other liabilities, cash and balances with the RBI, current account balances with banks, fixed assets and other assets.

The banking book is represented by excluding the trading book (i.e., on and off-balance sheet items) from the total book.

- Earnings Perspective (impact on net interest income)

The traditional gap analysis ("**TGA**") method measures the level of a bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over a one-year horizon. It involves bucketing of all RSA, RSL and off-balance sheet items maturing or getting repriced in the next year and computing changes of income under 200 basis points upward and downward parallel rate shocks over a year's horizon.

- Economic Value Perspective (impact on market value of equity)

While the earnings perspective calculates the short-term impact of the rate changes, the Economic Value Perspective calculates the long-term impact on the MVE of the Bank through changes in the economic value of its rate-sensitive assets, liabilities and off-balance sheet positions. The Economic Value Perspective is measured using the duration gap analysis method ("**DGA**"). DGA involves computing the modified duration gap between RSA and RSL and thereby the Duration of Equity ("**DoE**"). The DoE is a measure of sensitivity of MVE to changes in interest rates. Using the DoE, the Bank estimates the change in MVE under 200 basis points upward and downward parallel rate shocks.

Operational Risk Management

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

Organizational Structure for Managing Operational Risk

The Board is primarily responsible for ensuring effective management of the operational risks of the Bank. The Board sets the overall strategy and direction for operational risk management ("**ORM**") within the Bank. This strategy is developed further and subsequently implemented by the RPMC of the Bank. The RPMC is responsible for overseeing the effective implementation of the ORM framework approved by the Board, as well as developing a strong ORM culture and sense of responsibility at every level in the organization. The ORM committee, which is headed by the Chief Risk Officer and consists of senior management functionaries, oversees the implementation of the operational risk management framework approved by the Board. An independent operational risk management department ("ORMD") is responsible for implementation of the framework across the Bank. The operational risk management policy stipulates the roles and responsibilities of employees, business units, operations and support functions in managing operational risk.

Risk Measurement and Monitoring

The Bank's organizational structure for managing operational risk consists of the following three lines of defense.

- Business, Operations, Support & Other functions: These functions are primarily responsible for the implementation of sound risk management practices (including cost-benefit analyses) in the day-to-day operations and any resulting impact of operational risk losses in their units. Specifically, these functions are responsible for developing risk mitigation strategies for their units and will be the first line of defense against operational risk;

- Operational Risk Management Department: ORMD is responsible for implementing the operational risk management framework across the Bank. The department designs and develops tools required for implementing the framework, including policies and processes, and guidelines towards implementation and is also responsible for the maintenance of the framework. ORMD represents the second line of defense against operational risk; and

- Internal Audit department: Internal audit is the third line of defense in mitigating operational risk exposures. Internal audit evaluates the adequacy and effectiveness of the internal control systems and procedures in the risk management functions, as well as across the various business and support units of the Bank.

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

- risk control self-assessment, to identify high-risk areas so that the Bank can initiate timely remedial measures. This assessment is conducted annually to update senior management of the risk level across the Bank;

- key risk indicators are metrics that are derived from various factors to provide an early warning of, or to monitor, the increasing risk or control failures in an activity. As these indicators are quantifiable, they can be measured continuously to identify trends in values;

- the loss data maintenance establishes the Bank's process of recognizing, recording and mitigating operational losses. Units or functions accounting loss data are required to report every operational risk loss data in a timely manner to ORMD. Operational losses experienced by the units are followed up by the respective control functions for initiation of mitigative measures as applicable;

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

- periodic reporting on risk assessment and monitoring is done to the line as well as to senior management to enable them to take timely action.

Capital Requirement

The Bank currently follows the basic indicator approach for computing operational risk capital charge. BCBS published a document titled 'Basel III: Finalizing post-crisis reforms' in December 2017, containing details of the standardized approach for estimating a minimum operational risk capital charge, which would replace all the existing methods for computation of operational risk capital. The Bank will implement the revised approach once the RBI guidelines are notified.

Competition

We face intense competition in all our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and in some product areas, NBFCs. In addition, new entrants into the financial services industry, including companies in the financial technology sector, may further intensify competition in the business environments, especially in the digital business environment, in which we operate. In the last decade, the RBI issued guidelines for the entry of new banks in the private sector, licensing of payments banks and small finance banks in the private sector and "on-tap" licensing of universal banks in the private sector (moving from the previous "stop and go" licensing approach to a continuous or "on-tap" licensing regime). See "*Supervision and Regulation – Entry of new banks in the private sector*". Since the introduction of the new rules, new banks, payment banks and small finance banks have been established and are operational pursuant to prescribed guidelines, which has increased competition in the markets in which we operate.

Within the public sector banking space, in August 2019, the Government implemented consolidated measures, announcing the merger of ten public sector banks into four bigger banks. This led to a reduction in the number of public sector banks in the country. The consolidation became effective in April 2020.

Retail Banking

In retail banking, our principal competitors are large public sector banks, which have much larger deposit bases and branch networks than ours, other new generation private sector banks, old generation private sector banks, foreign banks and NBFCs in the case of retail loan products. The retail deposit share of foreign banks is small in comparison to the public sector banks. However, some foreign banks have a significant presence among NRIs and also compete for non-branch-based products. The country's digital payments market is dominated by the government's United Payment Interface and other digital wallet platforms and online payment systems, offering contactless, in-app or online transactions. While the Bank's payment app, PayZapp, is the dominant mobile app amongst banks in the wallet space, with users across bank and non-bank customers for payments across offline and online merchants, the Bank faces competition from fintech players in the payment sector as well as payment apps from other banks. In the distribution of third-party products, our principal competitors are brokers, foreign banks and other new private sector banks.

Wholesale Banking

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

Treasury

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

Employees

We had 120,093 employees as of March 31, 2021. Most of our employees are located in India. We consider our relationship with our employees to be positive. Further to our acquisition of CBoP in 2008, several employees of CBoP continue to be part of a labor union. These employees represent less than 1 percent of our total employee strength.

Our compensation structure has fixed as well as variable pay components. Our variable pay plans are comprised of periodic performance linked pay (PLP), annual performance linked bonus and employee stock option plans.

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

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

Properties

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

As of March 31, 2021, we had a network consisting of 5,608 branches and 16,087 ATMs/CDMs, including 8,249 at non-branch locations. In addition, we had 15,756 business correspondents, which are primarily manned by CSCs. These facilities are located throughout India with the exception of three banking outlets which are located in Bahrain, Hong Kong and Dubai. We also have representative offices in the United Arab Emirates and Kenya. We set up and commenced business in an International Financial Service Centre Banking Unit at the Gujarat International Finance Tec-City in June 2017. This branch is treated as an overseas branch.

Intellectual Property

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

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business, including certain spurious or vexatious proceedings with significant financial claims present on the face of the complaint, but we believe that such spurious or vexatious proceedings lack any merit, based on the historical dismissal of similar claims.

On September 3, 2020, a securities class action lawsuit was filed against the Bank and certain of its current and former directors and officers in the United States District Court for the Eastern District of New York. The complaint was amended on February 8, 2021. The Bank, on July 23, 2021, through its legal counsel, has filed the reply memorandum of law in further support of the motion to dismiss the securities class action suit. The Bank intends to continue to vigorously defend against the allegations. See "*Risk Factors – Our business and financial results could be impacted materially by adverse results in legal proceedings.*"

MANAGEMENT

Directors and Senior Management

Our Memorandum and Articles of Association ("**Articles**") provide that, until otherwise determined by the general meeting of shareholders, the number of our directors shall not be less than three or more than 15, excluding directors appointed pursuant to the terms of issued debt. As of March 31, 2021, our Board of Directors consisted of 10 members. With the appointment of Mr. Atanu Chakraborty as part-time Non-Executive Chairman and Independent Director of the Board with effect from May 5, 2021, the size of our Board increased to 11 members.

As per the Companies Act, unless the Articles provide for the retirement of all directors at every annual general meeting, not less than two-thirds of the total number of directors shall be persons whose period of office is liable to determination by retirement of directors by rotation. However, any retiring director may be re-appointed by resolution of the shareholders. Pursuant to the Companies Act, every company shall have at least one director who has stayed in India for a total period of not less than 182 days in the previous calendar year (i.e. an Indian resident).

As per our Articles, so long as HDFC Limited, its subsidiary or any other company promoted by HDFC Limited, either singly or in the aggregate, holds not less than 20 percent of the paid-up equity share capital in the Bank, the Board of Directors of the Bank shall with the approval of the shareholders, appoint the non-retiring directors from persons nominated by HDFC Limited. HDFC Limited shall be entitled to nominate the part-time Chairman and the Managing Director or the full-time Chairman as the case may be, subject to the approval of the Board of Directors of the Bank and the shareholders. Currently, Mrs. Renu Karnad is the Non-Executive Director (nominee of HDFC Limited) of the Bank. The BR Act and subsequent RBI notification dated November 24, 2016 requires that not less than 51 percent of the board members shall consist of persons who have specialized knowledge or practical experience in one or more of the following areas: accounting, finance, agriculture and rural economy, banking, co-operation, economics, law, small-scale industry, information technology, payment and settlement systems, human resources, risk management, business management and any other matter which in the opinion of the RBI will be useful to the banking company. Of these, not less than two directors shall have specialized knowledge or practical experience in respect of agriculture and the rural economy, co-operation or small-scale industry. Mr. Malay Patel and Dr. (Ms.) Sunita Maheshwari are the Independent Directors on the Board who have specialized knowledge and practical experience in small scale industry and Mr. Umesh Chandra Sarangi is the Independent Director on the Board having specialized knowledge and practical experience in agriculture and rural economy. Mr. Srikanth Nadhamuni is the Non-Executive and Non-Independent Director on the Board of the Bank having expertise in Information Technology.

Interested directors may not vote at board proceedings, except in relation to contracts or arrangements with a company in which that director (or two or more directors together) holds not more than 2 percent of the paid-up share capital. None of our directors or members of our senior management holds 1 percent or more of our equity shares.

Our Board of Directors*, as of March 31, 2021, comprised of:

Name	Position	Age
Mrs. Renu Karnad	Non-Executive Director	69
Mr. Malay Patel	Non-Executive Director	44
Mr. Umesh Chandra Sarangi	Non-Executive Director	69
Mr. Srikanth Nadhamuni	Non-Executive Director	57
Mr. Sanjiv Sachar	Non-Executive Director	63
Mr. Sandeep Parekh	Non-Executive Director	50
Mr. M.D. Ranganath	Non-Executive Director	59
Dr. (Ms.) Sunita Maheshwari**	Non-Executive Director	55
Mr. Sashidhar Jagdishan	Managing Director and Chief Executive Officer	56
Mr. Kaizad Bharucha	Executive Director	56

* Mr. Atanu Chakraborty, aged 61, was appointed as the part-time Non-Executive Chairman and Independent Director of the Bank with effect from May 5, 2021, pursuant to the approval granted by the Reserve Bank of India, and the appointment was approved by the shareholders of the Bank at its 27th Annual General Meeting held on July 17, 2021.

** Dr. (Ms.) Sunita Maheshwari was appointed as an Independent Director of the Bank with effect from March 30, 2021, and the appointment was approved by the shareholders of the Bank at its 27th Annual General Meeting held on July 17, 2021.

The following are brief biographies of our directors, including the part-time Non-Executive Chairman and Independent Director of the Bank:

Mr. Atanu Chakraborty, 61 years of age, was appointed as the part-time Non-Executive Chairman and Independent Director of the Bank with effect from May 5, 2021, pursuant to the approval granted by the Reserve Bank of India, and the appointment was approved by the shareholders of the Bank at its 27th Annual General Meeting held on July 17, 2021. He served the Government of India for a period of 35 years, as a member of the Indian Administrative Service in the Gujarat cadre. He has mainly worked in Finance and Economic Policy, Infrastructure, Petroleum and Natural Gas. In the Union Government, he held various posts such as Secretary to Government of India in the Ministry of Finance (Department of Economic Affairs) during fiscal 2020. As Secretary, he coordinated economic policy making for all ministries and departments and managed the entire budget-making process for India, including its passage in parliament. He was responsible for fiscal management policies and public debt management policies and the development and management of financial markets. Mr. Chakraborty also handled financial stability and currency, domestic and foreign-related issues. He managed the flow of funds with multilateral and bilateral financial institutions. He also headed a multi-disciplinary task force that produced the National Infrastructure Pipeline and served as Secretary to the Union Government for Disinvestment, where he was responsible for both the policy and execution of the disinvestment of the Government of India's stake in state owned enterprises.

Between 2002 and 2007, Mr. Chakraborty served as Director and subsequently as Joint Secretary, Ministry of Finance (Department of Expenditure). During this period, he reviewed projects in the Infrastructure sector and was responsible for the Government of India's subsidy regime. He also updated and modernized the Government's financial and procurement rules. Mr. Chakraborty has also held varied roles in the Gujarat State Government, including heading the Finance Department as its Secretary. He was responsible for piloting the private sector investment legislation in the State. In the State Government, he worked on the ground in both public governance and development areas. Mr. Chakraborty has also served on the Board of the World Bank as the alternate Governor as well as on the Central Board of Directors of the RBI. He was the Chairman of the National Infrastructure Investment Fund and has been on the Board of many listed companies. Mr. Chakraborty was also the CEO/MD of the GSPC group of companies as well as Gujarat State Fertilizers and Chemicals Ltd.

Mr. Chakraborty published articles in reputed journals in the areas of public finance, risk sharing in infrastructure projects and gas infrastructure. He graduated with a bachelor's degree in engineering (electronics & communications) from NIT Kurukshetra, holds a diploma in business finance (ICFAI, Hyderabad) and a master's degree in business administration from the University of Hull, U.K.

Mrs. Renu Karnad, aged 69 years, is a Non-Executive Director of the Bank. She has been the Managing Director of Housing Development Finance Corporation Limited since 2010. She has a postgraduate degree in economics from the University of Delhi and holds a degree in law from the University of Mumbai. She is also a Parvin Fellow at the Woodrow Wilson School of Public and International Affairs, Princeton University, USA. Mrs. Karnad brings with her significant experience and knowledge of the mortgage sector, having been associated with the real estate and mortgage industry in India for over 40 years. Over the years, she has been the recipient of numerous awards and accolades, such as the "Outstanding Woman Business Leader" award granted by CBNC-TV18 India Business Leader Awards 2012. She has also been induced into the Hall of Fame, Fortune India magazine's most powerful women from 2011 to 2019 and named as one of the "Top Ten Powerful Women to watch out for in Asia" by Wall Street Journal Asia in 2006. She has previously been a Non-Executive Director on the Board of the Bank.

Mr. Malay Patel, aged 44 years, is a Non-Executive Director of the Bank. He holds a major in engineering (mechanical) from Rutgers University, Livingston, NJ, USA, and an A.A.B.A. in business from Bergen County College, Fairlawn, New Jersey, USA. He is a director on the Board of Eewa Engineering Company Private Limited, a company in the plastics and packaging industry with exports to more than 50 countries. He has been involved in varied roles such as export, import, procurement, sales and marketing, among others in Eewa Engineering Company Private Limited. Mr. Malay Patel has special knowledge and practical experience in matters relating to small scale industries in terms of Section 10-A (2)(a) of the BR Act.

Mr. Umesh Chandra Sarangi, aged 69 years, is a Non-Executive Director of the Bank. He holds a master's degree in science (botany) from Utkal University, where he was a gold medalist. Mr. Sarangi has over three decades of experience in the Indian Administrative Service and introduced significant reforms in modernizing agriculture, with a focus on agricultural processing and export. As the erstwhile Chairman of the National Bank for Agricultural and Rural Development (NABARD) from December 2007 to December 2010, Mr. Sarangi focused on rural infrastructure, accelerated initiatives such as microfinance, financial inclusion, watershed development and tribal development. Mr. Sarangi has been appointed as a Director having specialized knowledge and experience in agriculture and rural economy pursuant to Section 10-A (2)(a) of the BR Act. Mr. Srikanth Nadhamuni, aged 57 years, is a Non-Executive

Director of the Bank. He holds a bachelor's degree in electronics and communications from the National Institute of Engineering and a master's degree in electrical engineering from Louisiana State University. Mr. Nadhamuni is a technologist and an entrepreneur with 30 years of experience in CPU design, healthcare, e-governance, national ID, biometrics, financial technology and banking sectors. Mr. Nadhamuni is presently the Chairman of Novopay Solutions Private Limited, a company involved in mobile payments and is the CEO of Khosla Labs Private Limited, a start-up incubator. He was a co-founder of the e-Governments Foundation, with Mr. Nandan Nilekani which aims to improve governance in Indian cities and which created the Municipal ERP suite, which improves the service delivery of cities. Mr. Nadhamuni has extensive experience in information technology, particularly in the banking and financial services industry. He was the Chief Technology Officer of Aadhaar (UID Authority of India) from 2009 to 2012, where he participated in the design and development of the world's largest biometric based ID system. He was instrumental in the development of Aadhaar technology, several banking and financial protocols including MicroATM, Aadhaar Enabled Payment System (AEPS) and Aadhaar Payment Bridge (APB). Mr. Nadhamuni spent 14 years in Silicon Valley (California, US) working for several global companies such as Sun Microsystems (CPU design), Intel Corporation (CPU design), Silicon Graphics (interactive TV) and WebMD (internet healthcare). Mr. Nadhamuni has been appointed as a Director given his expertise in the field of information technology.

Mr. Sanjiv Sachar, aged 63 years, is a Non-Executive Director of the Bank. He is a Fellow Associate of the Institute of Chartered Accountants of India and the former Senior Partner of Egon Zehnder, the world's largest privately held executive search firm. Mr. Sachar set up the Egon Zehnder practice in India in 1995 and played a key role in establishing the firm as a market leader in the executive search space across various country segments. Over the course of his two decades at Egon Zehnder, Mr. Sachar has mentored senior executives across industry sectors who are today either board members, CEOs or CFOs of large corporates in India and overseas. Mr. Sachar has also been the co-founder of the chartered accountancy and management consulting firm, Sachar Vasudeva & Associates, and co-founded executive search firm, Direct Impact.

Mr. Sandeep Parekh, aged 50 years, is a Non-Executive Director of the Bank. He holds an LL.M. (securities and financial regulations) degree from Georgetown University and an LL.B. degree from Delhi University. He is the managing partner of Finsec Law Advisors, a financial sector law firm based in Mumbai. He was an Executive Director at the Securities and Exchange Board of India from 2006 to 2008, heading the Enforcement and Legal Affairs departments. He is a faculty at the Indian Institute of Management, Ahmedabad. He has worked for law firms in Delhi, Mumbai and Washington, D.C. Mr. Parekh focuses on securities regulations, investment regulations, private equity, corporate governance and financial regulations. He is admitted to practice law in New York. He was recognized by the World Economic Forum as a "Young Global Leader" in 2008. He was Chairman and a member of various SEBI and RBI committees and sub-committees and is presently a member of SEBI's Mutual Fund Advisory Committee.

Mr. M.D. Ranganath, aged 59 years, is a Non-Executive Director of the Bank. He holds a master's degree in technology from IIT, Madras and a bachelor's degree in engineering from the University of Mysore. He holds a PGDM from IIM, Ahmedabad and is a member of CPA, Australia. Mr. Ranganath has over 28 years of experience in the global IT services and financial services industries. He was Chief Financial Officer of Infosys Limited, a globally listed IT services company, until November, 2018. During his tenure of 18 years at Infosys, he was an integral part of the growth and transformation of Infosys into a globally respected IT services company and successfully held leadership roles in a wide spectrum of areas, including strategy, finance, mergers and acquisitions (M&A), consulting, risk management, and corporate planning, culminating in the role of Chief Financial Officer, in which he worked closely with the Board of Infosys and its committees in formulating and executing its strategic priorities. Prior to Infosys, he worked at ICICI Limited for eight years and executed responsibilities in credit, treasury, equity portfolio management and corporate planning. In the years 2017 and 2018, Mr. Ranganath was the recipient of the Best CFO Asia award in the technology sector, by the Institutional Investor publication, based on a poll of the buy-side and sell-side investor community.

Dr. (Ms.) Sunita Maheshwari, aged 55 years, is a Non-Executive Director of the Bank. Ms. Sunita Maheshwari was appointed as an Independent Director. She is a United States board certified Pediatric Cardiologist, and completed her MBBS at Osmania Medical College followed by her post-graduate studies at AIIMS in Delhi and at Yale University in the United States. With over 30 years of experience, she has lived and worked in the US and India. In addition to being a clinician, Dr. (Ms.) Maheshwari is a medical entrepreneur and co-founder of (i) Teleradiology Solutions (India's first and largest teleradiology company that has provided over five million diagnostic reports to patients and hospitals globally including for the Tripura state government), (ii) Telrad Tech which builds AI-enabled telehealth software and (iii) RXDX healthcare – a chain of multi-specialty neighborhood clinics in Bangalore. She has also incubated other start-up companies in the telehealth space, such as Healtheminds, a tele-counselling platform. She is active in the social arena in India where she runs two charitable foundations. 'People4people' has built over 450 playgrounds in government schools and Telrad Foundation provides teleradiology and telemedicine services to poor areas in Asia, that do not have access to high-quality medical care. Her other interests include teaching. She has been running India's e-teaching program for postgraduates in Pediatric Cardiology for over a decade.

In 2019, Dr. (Ms.) Maheshwari helped the Kerala National health mission, Hridayam, launch e-classes in pediatric cardiology for pediatricians in the State of Kerala, India. She has over 200 academic presentations and publications and is an inspirational speaker having given over 200 lectures, including several TEDx talks. Dr. (Ms.) Maheshwari is the recipient of several prestigious awards and honours including: WOW (Woman of Worth) 2019 award, Outlook Business; 50 most powerful women of India, March 2016; Amazing Indian award-Times Now 2014; Top 20 women health care achievers in India, Modern Medicare 2009; Yale University- Outstanding Fellow Teacher of the Year Award, 1995, amongst others.

Mr. Sashidhar Jagdishan, aged 56 years, is the Managing Director and Chief Executive Officer of the Bank. He has an overall experience of 30 years. He completed his graduation degree in science with a specialization in physics, is a chartered accountant by profession and holds a master's degree in economics from the University of Sheffield, United Kingdom. Mr. Jagdishan joined the Bank in the year 1996 as a Manager in the Finance department. He became Business Head of Finance in 1999 and was appointed as Chief Financial Officer in the year 2008. He played a critical role in supporting the growth trajectory of the Bank, and led the finance function with a pivotal role in aligning the organization to achieve its strategic objectives over the years. Prior to his appointment as Managing Director and Chief Executive Officer of the Bank, he was the Strategic Change Agent of the Bank and oversaw the finance, human resources, legal and secretarial, administration, infrastructure, corporate communications and corporate social responsibility functions. Mr. Jagdishan is not a director in any other company.

Mr. Kaizad Bharucha, aged 56 years, is the Executive Director of the Bank. He holds a bachelor of commerce degree from University of Mumbai. He has been associated with the Bank since 1995. In his current position as Executive Director, he is responsible for Wholesale Banking covering areas of Corporate Banking, Emerging Corporate Group, Business Banking, Capital Markets & Commodities Business, Agricultural Lending, Investment Banking, Financial Institutions & Government Business and Department for Special Operations. In his previous position as Group Head – Credit & Market Risk, he was responsible for the risk management activities in the Bank, namely, the Credit Risk, Market Risk, Debt Management, Risk Intelligence and Control functions. Mr. Bharucha has been a career banker with over three decades of banking experience. Prior to joining the Bank, he worked at SBI Commercial and International Bank in various areas including Trade Finance and Corporate Banking. He has represented HDFC Bank as a member of the working group constituted by the RBI to examine the role of the Credit Information Bureau and on the sub-committee with regard to adoption of the Basel II guidelines. Mr. Bharucha is not a director of any other company.

Senior Management

Our senior management is comprised of the following:

Name	Position	Age
Mr. Sashidhar Jagdishan	Managing Director and Chief Executive Officer	56
Mr. Kaizad Bharucha	Executive Director	56
Mr. Ashish Parthasarthy	Head – Treasury, GIB, NRI, Overseas and Tele-Service Channels	53
Ms. Ashima Bhat	Head – Business Finance & Strategy, Administration, Infrastructure, ESH & CSR	50
Mr. Arvind Kapil	Head – Retail Assets and SLI	49
Mr. Arvind Vohra	Head – Retail Branch Banking	49
Mr. Anjani Kumar Rathor	Chief Digital Officer	48
Mr. Bhavesh Zaveri	Head – Operations, ATM and Cash Management Product	55
Mr. Benjamin Frank	Head – Wholesale Credit	56
Mr. Chakrapani Venkatachari	Head – Internal Audit and Quality Initiatives Group	57
Mr. Dhiraj Relli	Currently on secondment to HDFC Securities Limited (HSL), our subsidiary	50
Mr. Jimmy Tata	Chief Credit Officer	54
Mr. Ramesh Lakshminarayanan	Chief Information Officer	50
Mr. Nirav Shah	Head – Corporate Banking and PSUs	49
Mr. Parag Rao	Head – Payments Business, Digital & IT	55
Mr. Rakesh Singh	Head – Investment Banking, Private Banking, Marketing and Products	52
Mr. Rahul Shukla	Head – Commercial Banking and Rural Business	52
Ms. Smita Bhagat	Head – Government, Institutional Business, BC Partnerships, Inclusive Banking and Start-ups	55

Name	Position	Age
Mr. Srinivasan Vaidyanathan	Chief Financial Officer	57
Mr. S Sampathkumar	Head – NRI Domestic & Overseas Business, Third Party Products and Tele-Sales & Service Relationships	48
Mr. Vinay Razdan	Chief Human Resources Officer	54
Mr. Arup Rakshit	Head – Treasury-Sales, Analytics and Overseas	52
Mr. Raveesh Bhatia	Head – Emerging Corporates Group	55

A brief biography of each of the members of the Bank's senior management is set out below:

Mr. Ashish Parthasarthy is the Head of Treasury, GIB, NRI, Overseas and Tele-Service Channels. He holds a bachelor's degree in engineering from the National Institute of Technology, Karnataka (NIT-K) and has a postgraduate diploma in management from the Indian Institute of Management, Bangalore (IIM-B). He has over 31 years of experience in banking, with particular expertise in the interest rate and currency markets.

Ms. Ashima Bhat is the Head of Business Finance & Strategy, Administration, Infrastructure, ESG& CSR. Ms. Bhat has over 27 years of experience in banking. She completed a master's degree in management studies, majoring in marketing, from Narsee Monjee Institute of Management Studies. Ms. Bhat joined the Bank in 1994 in its start-up stage. She has worked within and headed businesses in various positions across the Bank, including Corporate Banking, Supply Chain, SME, Commercial Banking and Emerging Corporates Group.

Mr. Arvind Kapil is the Head of Retail Assets and SLI. He is an alumnus of the Harvard Business School advanced management program, holds a master's degree in management studies from Bharati Vidyapeeth Institute of Management Studies and Research and a bachelor's degree in engineering from K.J. Somaiya College of Engineering in Mumbai. Mr. Kapil has been with the Bank for over two decades and has a vast experience in the Liabilities and Assets sector. He joined the Bank from Countrywide Consumer Financial Services.

Mr. Arvind Vohra is the Head of Retail Branch Banking. He completed a bachelor's degree in electronics and communication engineering, a postgraduate degree in management with a specialization in marketing and finance from Xavier Institute of Management, Bhubaneswar, and has also completed a senior leadership program at London Business School. He has nearly two and a half decades of experience working across consumer goods, telecommunications and banking sectors. He has held leadership positions in sales, marketing and business leadership roles in global organizations such as Whirlpool, Philips, Standard Chartered Bank and Vodafone India. Mr. Vohra led business operations at Vodafone India, was on the board of directors for Vodafone India's consumer fixed line subsidiary and led the incubation of the consumer IOT ("**Internet of Things**") business. He joined the Bank from Vodafone India in September 2018.

Mr. Anjani Rathor is the Chief Digital Officer. He holds a postgraduate diploma from IIM Calcutta and a bachelor of technology degree from IIT Kharagpur. He has over 20 years of experience across Telecom, Aviation, Consulting and Financial Services in companies such as Airtel, Boeing, Accenture and CitiCorp. He joined the Bank in February 2020.

Mr. Bhavesh Zaveri is the Head of Operations, ATM and Cash Management Product. He holds a master's degree in commerce from Mumbai University and is a Certified Associate of the Indian Institute of Bankers. He has over 32 years of experience in banking, having worked with Oman International Bank and Barclays Bank prior to joining the Bank in April 1998. Mr. Zaveri has been on various RBI & IBA committees and served as a director on the Board of National Payment Corporation of India Ltd, SWIFT SCRL, Brussels, The Clearing Corporation of India Ltd. (CCIL), SWIFT India Domestic Services Pvt Ltd, HDB Financial Services Ltd, HDFC Securities Ltd, and the Goods and Service Tax Network (GSTN).

Mr. Benjamin Frank is Head of Wholesale Credit. He has a Bachelor of Science degree from the University of Madras, a master's degree in business administration from ICFAI University and is a Certified Financial Risk Manager from the Global Association of Risk Professionals. He has over 34 years of experience in the banking industry across Branch Banking, International Banking, Corporate Banking and Credit Risk Management. He previously worked at IDBI Bank and State Bank of India. He joined the Bank in April 2004.

Mr. Chakrapani Venkatachari is the Head of Internal Audit and Quality Initiatives Group. He holds a bachelor's degree in commerce from Mumbai University, is an Associate Member of the Institute of Company Secretaries of India, a Certified Associate of the Indian Institute of Bankers and a Certified Information System Auditor. He has over 33 years of banking experience, having worked with the Bank of Baroda and Standard Chartered Bank prior to joining the Bank in 1994.

Mr. Dhiraj Relli is a Group Head at HDFC Bank and is currently on secondment to HDFC Securities Limited (HSL), our subsidiary, where he holds the position of Managing Director and Chief Executive Officer. An employee of HDFC Bank since 2008, he has served as Senior Executive Vice President and Head of Branch Banking at HDFC Bank. Mr. Relli is a member of the advisory committees of Central Depository Services, National Stock Exchange and Bombay Stock Exchange. Mr. Relli is a B.Com.(Honors) graduate from Delhi University and a qualified chartered accountant from the Institute of Chartered Accountants of India. He completed the Advance Management Program from the Indian Institute of Management, Bangalore.

Mr. Jimmy Tata is HDFC Bank's Chief Credit Officer. He holds a master's degree in Financial Management from the Jamnalal Bajaj Institute of Management Studies at Mumbai University and is a qualified Chartered Financial Analyst with the Institute of Chartered Financial Analysts in Hyderabad. Mr. Tata has been with the Bank since 1994 and has over 30 years of broad experience across the financial sector. Prior to joining the Bank he worked at Apple Industries Limited in various capacities in their financial services division.

Mr. Nirav Shah is the Head of Corporate Banking and PSUs. He has approximately 26 years of experience, 22 of which have been with the Bank. He joined the Bank in 1999 as a Relationship Manager and in just over a decade, went on to head businesses such as the Emerging Corporates Group, Infrastructure Finance Group, Rural Banking Group, and Transportation Finance, before taking up his current role in 2020. This is his second role with the Corporate Bank. In his earlier role in 2011, he was Western Region Head, during which he was responsible for acquiring and developing several large corporate relationships. He is a commerce graduate and holds a MMS in Finance from Mumbai University.

Mr. Parag Rao is the Head of Payments Business, Digital & IT. He holds a master's degree in management studies degree from S.P. Jain Institute of Management at Mumbai University and a bachelor's degree in engineering from the Regional Engineering College in Jamshedpur. He has over 28 years of professional experience in FMCG companies such as Cadbury's, Hindustan Unilever and Pepsico India. He joined the Bank from IBM Global Services in April 2002.

Mr. Rakesh Singh is the Head of Investment Banking, Private Banking, Marketing and Products. He holds a master's degree in business administration from the Institute of Management Technology, Ghaziabad and has over 28 years of experience in the financial sector. Prior to joining HDFC Bank, he worked at Rothschild, Morgan Stanley, DSP Merrill Lynch, Standard Chartered Bank and ANZ Investment Bank. He also serves as a Trustee on the board of Society for Nutrition, Education and Health Action.

Mr. Rahul Shukla is the Head of Commercial Banking and Rural Business. He holds a bachelor's degree in technology from IIT Varanasi and an MBA from IIM Bangalore. He started his career in Citibank and in 2010 he took over as Managing Director and Head of Corporate Banking for the South Asia Region, and was a member of the Indian Management Committee and various regulatory governance committees. He has over 29 years of banking experience, joining the Bank from Citibank in March 2018.

Ms. Smita Bhagat is the Head of Government, Institutional Business, BC Partnerships, Inclusive Banking and Start-ups. She holds a Bachelor of Arts degree in economics and statistics, a Master of Commerce degree in financial management and a master's degree in business administration from the University of Rajasthan. She has more than 25 years of experience in banking and joined the Bank from ICICI Bank in 1999.

Mr. Srinivasan Vaidyanathan is the Chief Financial Officer. He is a commerce graduate, a Fellow of the Institute of Chartered Accountants of India, a Fellow of the Institute of Cost and Works Accountants of India, a Fellow of the Association of International Accountants, U.K., Member of CMA, USA, and has a master's degree in business administration. He has over 28 years of experience in the financial services industry. He joined the Bank from Citigroup in 2018.

Mr. S. Sampath Kumar is the Head of NRI Domestic & Overseas Business, Third Party Products and Tele-Sales & Service Relationships. He has over two decades of experience and is an alumnus of the University of Madras, Tamil Nadu.

Mr. Vinay Razdan is the Chief Human Resources Officer. He is an alumnus of Delhi University and holds a postgraduate qualification in personnel management and industrial relations from XLRI, Jamshedpur. Mr. Razdan has over three decades of experience in different roles within the human resources function and has worked across geographies and industry segments. He has held leadership positions with leading organizations in the FMCG, IT Services and Telecommunication sectors. He joined the Bank in September 2018.

Mr. Arup Rakshit is the Head of Treasury-Sales, Analytics and Overseas. He holds a BTech degree from IIT BHU, Varanasi and an MBA degree from IIM Calcutta. Mr. Rakshit has more than 27 years of experience. Prior to joining HDFC Bank, he worked with different banks, including Deutsche Bank and ABN AMRO Bank. Mr. Rakshit is also an active member of the management committee of the Foreign Exchange Dealers Association of India and the India Forex Committee.

Mr. Raveesh K. Bhatia is Head of Emerging Corporates Group. He holds an MBA from IIM Ahmedabad and has over three decades of work experience. Prior to joining HDFC Bank, he worked with international banks, such as ABN AMRO Bank, BNP Paribas, Standard Chartered Bank, as well as in a consulting role with SB Billimoria.

Mr. Ramesh Lakshminarayanan is the Chief Information Officer. Mr. Lakshminarayanan holds a bachelor's degree in physics from Mumbai University and an MBA from the University of Pune. Prior to joining HDFC Bank, he worked at CRISIL, where he spent 3 years as Chief Technology and Information Officer. He has over 25 years of experience and has held leadership positions within organizations such as Citibank, ABN AMRO Bank, and Kotak Mahindra Group.

Corporate Governance

Audit Committee

The Audit Committee of the Bank, as of March 31, 2021, has Mr. M.D Ranganath, Mr. Umesh Chandra Sarangi and Mr. Sanjiv Sachar as its members. Each member of the Audit Committee is an Independent Director. Mr. M. D. Ranganath and Mr. Sanjiv Sachar are the members of Audit Committee with financial expertise. During the year, Mrs. Shyamala Gopinath ceased to be a member of the Committee pursuant to the completion of her tenure as a director of the Bank. The Audit Committee is chaired by Mr. M.D Ranganath. The Audit Committee met 15 times during fiscal 2021.

The terms of reference of the Audit Committee include, *inter alia*, the following:

a. overseeing the Bank's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible;

b. recommending the appointment and removal of external auditors and the fixing of their fees;

c. reviewing with management the annual financial statements and auditors report before their submission to the Board, with special emphasis on accounting policies and practices, compliance with accounting standards, disclosure of related party transactions and other legal requirements relating to financial statements;

d. reviewing the adequacy of the audit and compliance functions, including their policies, procedures, techniques and other regulatory requirements;

e. any other terms of reference as may be included from time to time in the Companies Act, 2013, SEBI Listing Regulations, 2015, including any amendments or re-enactments thereof from time to time.

The Board has also adopted a charter for the Audit Committee in connection with certain United States regulatory standards as the Bank's securities are also listed on the New York Stock Exchange.

Nomination and Remuneration Committee

The terms of reference of the Nomination and Remuneration Committee ("**NRC**") include scrutinizing the nominations of the directors with reference to their qualifications and experience, identifying "fit and proper" persons, assessing their competency and reviewing compensation levels of the Bank's employees vis-à-vis other banks and the banking industry in general.

The NRC has formulated a Policy for Appointment and Fit and Proper Criteria of Directors, which inter-alia provides for criteria to assess the competency of the persons nominated, which includes:

- Academic qualifications;
- Previous experience;
- Track record; and
- Integrity of the candidate.

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 practices are considered.

The Bank's compensation policy provides a fair and consistent basis for motivating and rewarding employees appropriately according to their job profile or role size, performance, contribution, skill and competence.

The NRC also formulates criteria for the evaluation of performance of individual Directors including Independent Directors, the Board of Directors and its committees. The criteria for the evaluation of performance of Directors (including Independent Directors) include personal attributes, such as attendance at meetings, communication skills, leadership skills and adaptability, and professional attributes such as their understanding of the Bank's core business and strategic objectives, industry knowledge, independent judgment, and adherence to the Bank's Code of Conduct, Ethics and Values. Mr. Sanjiv Sachar, Mr. Sandeep Parekh, Mr. M.D Ranganath, Mr. Umesh Chandra Sarangi were the members of the Nomination and Remuneration Committee as of March 31, 2021. During the year, Mrs. Shyamala Gopinath ceased to be a member of the NRC pursuant to the completion of her tenure as a director of the Bank, while Mr. Sarangi (with effect from November 25, 2020) was inducted as a member of the NRC. Mr. Atanu Chakraborty (with effect from June 9, 2021) was inducted as member of the NRC. All members of the Nomination and Remuneration Committee are Independent Directors. The Nomination and Remuneration Committee is chaired by Mr. Sanjiv Sachar. The NRC met 28 times during fiscal 2021.

Stakeholders' Relationship Committee ("SRC")

The SRC approves and monitors the transfer, transmission, splitting and consolidation of shares and considers requests for dematerialization of shares. Allotments of shares to employees exercising stock options are granted under the various Employees Stock Option Schemes, which are made in terms of the powers delegated by the Board in this regard. The SRC also monitors the redressal of grievances from shareholders relating to matters such as the transfer of shares and non-receipt of our annual report and dividends etc.

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 SRC. Mr. Santosh Haldankar, Company Secretary of the Bank is the Compliance Officer responsible for expediting the share transfer formalities.

As of March 31, 2021, the SRC consisted of Mr. Umesh Chandra Sarangi, Mr. Malay Patel, Mr. Sandeep Parekh and Mrs. Renu Karnad. During the year, Mr. Aditya Puri ceased to be a member of the Committee pursuant to the completion of his tenure as a director of the Bank and Mrs. Karnad was inducted as a member of the SRC (with effect from June 3, 2020). The Stakeholders' Relationship Committee is chaired by Mr. Umesh Chandra Sarangi, who is an Independent Director. The SRC met three times during fiscal 2021.

As of March 31, 2021, no instruments of transfer were pending for transfer. The details of the transfers are reported to the SRC from time to time. During the year ended March 31, 2021, the Bank received 26 complaints from the shareholders. The Bank has attended to all the complaints and no complaints were pending or remained unsolved to the satisfaction of the shareholders as of March 31, 2021.

2,308 letters were received from the shareholders relating to change of address, nomination requests, updating of email IDs and PAN No(s)., updating of complete bank account details, such as core banking account numbers,IFSC and/MICR code, mandating paying for dividends by the National Automated Clearing House (NACH) and National Electronic Fund Transfer (NEFT), claim of shares from Unclaimed Suspense account, and from the Authority of Investors Education and Protection Fund, queries relating to the annual reports, non-receipt of share certificates upon sub-division of the Bank's shares from the face value of Rs. 2/- each to the face value of Rs. 1/- each, amalgamation, request for revalidation of dividend warrants and various other investor related matters. These letters have also been responded to.

Risk Policy and Monitoring Committee ("RPMC")

The RPMC has been formed as per the guidelines of the RBI on asset liability management and risk management systems. The RPMC is a board-level committee, which supports the Board by supervising the implementation of the risk strategy. It guides the development of policies, procedures and systems for managing risk. It 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 RPMC monitors the compliance of risk parameters and aggregate exposures with the risk appetite set by the Board. It ensures that frameworks are established for assessing and managing various risks faced by the Bank, systems are developed to relate risk to the Bank's capital level and methods are in place for monitoring compliance with internal risk management policies and processes. The RPMC ensures that the Bank has a suitable framework for risk management and oversees the implementation of the risk management policy.

The functions of the RPMC also include the review of the enterprise-wide risk frameworks such as the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP), stress testing framework, etc. The RPMC also reviews the cyber security framework in the Bank from time to time.

Further, as per RBI guidelines, the Chief Risk Officer of the Bank regularly interacts with members of the RPMC without the presence of management at meetings of the RPMC. As of March 31, 2021, the Risk Policy and Monitoring Committee consisted of Mr. Srikanth Nadhamuni, Mr. M.D Ranganath Mrs. Renu Karnad, Mr. Sashidhar Jagdishan, and Mr. Sanjiv Sachar. During the year, Mr. Aditya Puri and Mrs. Shyamala Gopinath ceased to be members of the Committee pursuant to the completion of their tenure as directors of the Bank while Mrs. Karnad (with effect from June 3, 2020), Mr. Sachar (with effect from November 25, 2020) and Mr. Jagdishan (with effect from November 25, 2020) were inducted as members of the RPMC. Mr. Atanu Chakraborty was inducted as a member of the Committee with effect from June 9, 2021. The RPMC is chaired by Mr. Srikanth Nadhamuni. The RPMC met five times during fiscal 2021.

Credit Approval Committee

The committee considers proposals for approval, renewal, or modification of various types of funded and non-funded credit facilities to the customers of the Bank within its authority as delegated to it by the Board from time to time. This facilitates a quick response to the needs of the customers and timely disbursement of loans. As of March 31, 2021, the Credit Approval Committee consisted of Mr. Malay Patel, Mr. Kaizad Bharucha, Mr. Srikanth Nadhamuni and Mrs. Renu Karnad. During the year, Mr. Aditya Puri ceased to be a member of the Committee pursuant to the completion of his tenure as a director of the Bank and Mrs. Karnad was inducted as a member on the Committee (with effect from November 25, 2020). The Credit Approval Committee met 37 times during fiscal 2021.

Premises Committee

The committee approves purchases and leasing of land parcels for proposed buildings and premises for the use of the Bank's branches, back offices, ATMs, residential training centre(s), currency chests, guest houses, (including relocation and renewals) and of residential premises for Bank employees in accordance with the guidelines laid down by the Board from time to time. As of March 31, 2021, Mr. Malay Patel, Mrs. Renu Karnad, and Mr. Sandeep Parekh were the members of the Premises Committee. During the year, Mr. Aditya Puri ceased to be a member of the Committee pursuant to the completion of his tenure as a director of the Bank while Mrs. Karnad (with effect from June 2, 2020) and Mr. Parekh (with effect from January 1, 2021) were inducted as members on the Committee. The Premises Committee met three times during fiscal 2021.

Fraud Monitoring Committee

Pursuant to the directions of the RBI, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs. 1 crore and above. The objectives of the Fraud Monitoring Committee are the effective detection and immediate reporting of fraud, and actions taken against the perpetrators of fraud with the concerned regulatory and enforcement agencies. The terms of reference of the Fraud Monitoring Committee include:

a. identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;

b. identify the reasons for delay in detection, if any, and report to the top management of the Bank and the RBI;

c. monitor the progress of any Central Bureau of Investigation and/or any police investigation and any appropriate recovery position;

d. ensure that staff accountability is examined at all levels in all cases of fraud and that staff side action, if required, is completed quickly without loss of time;

e. review the efficacy of the remedial action taken to prevent any recurrence of fraud, such as the strengthening of internal controls; and

f. put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

As of March 31, 2021, the members of the Fraud Monitoring Committee were Mr. Malay Patel. Mr. Umesh Chandra Sarangi, Mr. Sandeep Parekh, Mr. Sanjiv Sachar, and Mr. Sashidhar Jagdishan. During the year, Mr. Aditya Puri and Mrs. Shyamala Gopinath ceased to be members of the Committee pursuant to the completion of their respective tenures as directors of the Bank, while Mr. Sachar and Mr. Jagdishan were inducted as members on the Committee (with effect from November 25, 2020). During the year, the Fraud Monitoring Committee met three times during fiscal 2021.

Customer Service Committee

The Customer Service Committee has been constituted to monitor and bring about continuous improvements in the quality of services rendered to the Bank's customers and ensure implementation of directives received from the RBI in this regard. The terms of reference of the Customer Service Committee are to formulate a comprehensive deposit policy incorporating the issues arising out of the demise of a depositor for the operation of his account, the product approval process, annual survey of depositor satisfaction and the triennial audit of such services. The Customer Service Committee is constituted to bring about continuous improvements in the quality of customer services provided by the Bank. The Customer Service Committee would also oversee the functioning of the Standing Committee on Customer Service, and also bring out innovative measures for enhancing the customer experience and quality of customer service thereby enhancing the customer satisfaction level across all categories of clientele, at all times.

As of March 31, 2021, the members of the Customer Service Committee were Mr. Malay Patel, Mr. Srikanth Nadhamuni, Mr. Sandeep Parekh and Mr. Sashidhar Jagdishan. During the year, Mr. Aditya Puri and Mrs. Shyamala Gopinath ceased to be members of the CSC pursuant to the completion of their tenure as directors of the Bank, while Mr. Jagdishan was inducted as a member on the Customer Service Committee (with effect from November 25, 2020). The Customer Service Committee met three times during fiscal 2021.

Corporate Social Responsibility & ESG Committee ("CSR & ESG") Committee

The CSR & ESG Committee of the Board was constituted to identify, execute and monitor CSR projects and assist the Board and the Bank in fulfilling its corporate social responsibility objectives and achieving the desired results. The CSR & ESG Committee also ensures legal and regulatory compliance from a CSR perspective and reporting, as well as communication to all the stakeholders on the Bank's CSR initiatives.

The Board has constituted a CSR & ESG Committee with the following terms of reference:

a. to formulate the Bank's CSR strategy, policy and goals;

b. to monitor the Bank's CSR policy and performance;

c. to review the CSR projects and initiatives from time to time;

d. to ensure legal and regulatory compliance from a CSR viewpoint;

e. to ensure reporting and communication to the Bank's stakeholders on the Bank's CSR; and

f. to monitor the Bank's ESG framework, strategy, goals and disclosures.

As of March 31, 2021, the members of CSR Committee were Mr. Umesh Chandra Sarangi, Mr. Sanjiv Sachar, Mr. Malay Patel, Mrs. Renu Karnad, Mr. Kaizad Bharucha and Dr. (Ms.) Sunita Maheshwari. During the year, Mr. Aditya Puri ceased to be a member of the CSR & ESG Committee pursuant to the completion of his tenure as a director of the Bank, while Mrs. Karnad, Mr. Bharucha (with effect from November 25, 2020) and Dr. Maheshwari (with effect from June 9, 2021) were inducted as members on the CSR & ESG Committee. The CSR & ESG Committee met three times during fiscal 2021.

Digital Transaction Monitoring Committee

In order to promote digital transactions of the Bank and to provide directions in terms of strategy and action plans including monitoring the progress of achievement in the digital transactions space the terms of reference of the Digital Transaction Monitoring Committee include:

a. framing of the Bank-level strategy and action plans for achieving the target of digital transactions in an organized manner, as may be set by the Government, regulatory authorities and Indian Banks' Association, etc. from time to time;

b. monitoring the progress of achievement in digital transactions in line with the Bank's strategy and action plans;

c. reviewing and exploring new opportunities for increasing the digital transactions of the Bank from time to time and giving the necessary directions in implementing and improving a high level of digitalization in the Bank;

d. reviewing the Digital Banking strategy of the Bank as and when required, thereby providing direction on focus areas;

e. reviewing the progress made on the initiatives relating to Digital Banking covering performance initiatives as determined by the Board of Directors and Government of India from time to time;

f. reviewing customer services rendered on digital platforms from time to time; and

g. any other terms of reference as may be specified by the Government, regulatory authorities and Indian Banks' Association, etc. from time to time.

As of March 31, 2021, the members of Digital Transaction Monitoring Committee were Mr. Srikanth Nadhamuni, Mr. Malay Patel, Mr. Sandeep Parekh, and Mr. M.D. Ranganath. During the year, Mr. Aditya Puri ceased to be a member of the Digital Transaction Monitoring Committee pursuant to the completion of his tenure as a director of the Bank and Mr. Parekh was inducted as a member on the Digital Transaction Monitoring Committee (with effect from November 25, 2020). The Committee met three times during fiscal 2021.

Review Committee for Willful Defaulters' Identification

The Board has constituted a Review Committee for Willful Defaulters' Identification to review the orders passed by the Committee of Executives for Identification of Wilful Defaulters and provide the final decision with regard to identified willful defaulters and any other matters as may be decided by the Board from time to time. As of March 31, 2021, Mr. Umesh Chandra Sarangi, Mr. Sandeep Parekh, Mr. Sanjiv Sachar, Mr. M. D. Ranganath, and Mr. Sashidhar Jagdishan were the members of the Review Committee for Willful Defaulters' Identification. During the year, Mr. Aditya Puri and Mrs. Shyamala Gopinath ceased to be members of the Review Committee for Willful Defaulters' Identification pursuant to the cessation of their tenure as directors of the Bank, while Mr. Ranganath (with effect from November 25, 2020) and Mr. Jagdishan (with effect from January 1, 2021) were inducted as members on the Review Committee for Willful Defaulters' Identification. No meetings of the Review Committee for Willful Defaulters' Identification were held during the year.

Review Committee for Non-Cooperative Borrowers

The Board has constituted a Review Committee to review matters related to non-cooperative borrowers, which are handled by the Internal Committee of Executives appointed for this purpose and any other matters as may be decided by the Board from time to time. As of March 31, 2021, Mr. Umesh Chandra Sarangi, Mr. Sandeep Parekh, Mr. Sanjiv Sachar, Mr. M. D. Ranganath, and Mr. Sashidhar Jagdishan were the members of the Review Committee for Non-Cooperative Borrowers. During the year, Mr. Aditya Puri and Mrs. Shyamala Gopinath ceased to be members of the Review Committee for Non-Cooperative Borrowers pursuant to the completion of their tenure as directors of the Bank while Mr. Ranganath (with effect from November 25, 2020) and Mr. Jagdishan (with effect from January 1, 2021) were inducted as members on the Review Committee for Non-Cooperative Borrowers. No meetings of the Review Committee for Non-Cooperative Borrowers were held during fiscal 2021.

Meeting of the Independent Directors

The Independent Directors of the Bank held four meetings on June 20, 2020, July 3, 2020, November 6, 2020, and November 8, 2020. All Independent Directors as at the date of the respective meetings were present.

Committees of Executives

We have also established committees of executives that meet frequently to discuss and determine the management of assets and liabilities and other operations and personnel issues.

Borrowing Powers of Directors

At its 21st Annual General Meeting held on July 21, 2015, the Bank's shareholders passed a special resolution pursuant to Section 180(1)(c) of the Companies Act, 1956 authorizing the Board to borrow, for the purpose of conducting the Bank's business, such sum or sums of money as they may deem necessary, notwithstanding the fact that the money so borrowed and the monies to be borrowed from time to time (apart from (i) temporary loans obtained from the companies banker in the ordinary course of business and (ii) acceptances of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise and/or temporary loans obtained in the ordinary course of business from banks, whether in India or outside India) will exceed the aggregate of the paid-up capital of the Bank and its free reserves, provided that the total outstanding amount of such borrowings shall not exceed Rs. 500.0 billion over and above the aggregate of the paid-up capital of the Bank and its free reserves at any time.

Compensation of Directors and Members of Our Senior Management

The compensation arrangements for our Chairperson, Managing Director and Executive Directors are approved by the shareholders and the RBI on the recommendation of our Board of Directors.

During fiscal 2021, the aggregate amount of compensation paid to our Managing Director, Executive Director and members of our senior management as on March 31, 2021 was Rs. 836.8 million. This remuneration includes basic salary, allowances, performance bonus, and cash allowances in lieu of perquisites or the taxable value of perquisites (if availed of) as computed under the income tax rules, but excludes gratuities, provident fund settlements, superannuation settlements and perquisites upon the exercise of stock options.

Under our organizational documents, each director, except the Managing Director and Executive Director, is entitled to sitting fees for attending each meeting of the Board of Directors or of a Board committee. The amount of sitting fees is decided by the Board from time to time in accordance with applicable regulations prescribed by the Companies Act or the Government of India. Directors are paid sitting fees at the rate of Rs. 50,000 for attending committee meetings and Rs. 100,000 for attending Board meetings, respectively. The Board of Directors increased the sitting fees of certain Committee meetings to Rs. 100,000 per meeting with effect from April 1, 2021, namely, Audit Committee, Risk Policy & Monitoring Committee, Nomination & Remuneration Committee, Credit Approval Committee and IT Strategy Committee.

We reimburse directors for travel and related expenses in connection with Board and committee meetings and related matters. Stock options have not been granted to Non-Executive Directors.

Mrs. Shyamala Gopinath, Chairperson, was paid remuneration of Rs. 2.6 million during fiscal 2021. Mrs. Shyamala Gopinath is also paid sitting fees for attending Board and Committee meetings. She ceased to be a Director of the Bank with effect from January 1, 2021.

The details of the remuneration paid during fiscal 2021 to Mr. Aditya Puri, Managing Director, Mr. Sashidhar Jagdishan, Managing Director and Chief Executive Officer and Mr. Kaizad Bharucha, Executive Director are as follows:

Particulars	Aditya Puri#	Sashidhar Jagdishan@	Kaizad Bharucha
	(Rs. in million, except stock options)		
Basic	37.2	13.6	22.7
Allowances and perquisites	73.8	22.8	25.0
Provident fund	4.5	1.6	2.7
Superannuation	5.6	2.0	3.4
Performance bonus*	17.3**	7.7***	6.2****
Number of stock options granted during the year***	–	260,000	–

\# Mr. Aditya Puri retired on October 26, 2020. He was paid an ex-gratia payment of Rs. 35.0 million on retirement as part of his post-retirement benefits.

@ Mr. Sashidhar Jagdishan was appointed as Managing Director and Chief Executive Officer of the Bank, effective October 27, 2020.

* The performance bonus reported above includes the deferred tranches belonging to previous years paid in financial year 2020-21.

** Performance bonuses paid relating to fiscals 2018 and 2019, were Rs. 5.8 million and Rs. 6.9 million respectively. The performance bonus for fiscal 2020 was Rs. 43.4 million, as approved by RBI on April 29, 2021.

*** Performance bonuses paid relating to fiscal 2020.

**** Performance bonuses paid relating to fiscal 2018 and 2019, were Rs. 2.9 million and Rs. 3.3 million, respectively. Performance bonus for fiscal 2020 was Rs. 20.8 million, as approved by RBI on April 29, 2021.

Mr. Aditya Puri was granted a total quantum of 406,140 employee stock options for the performance year 2019-20 based on approval from RBI on April 29, 2021. Mr. Kaizad Bharucha was granted a total quantum of 153,300 employee stock options for the performance year 2019-20 based on approval from the RBI on April 29, 2021.

The Bank provides a gratuity scheme for the benefit of all employees who have completed a minimum of five years of continuous service, including our Managing Director, Executive Director and Officers. This scheme provides for the payment of a gratuity in the form of a lump-sum payment upon the retirement, termination or resignation of employment or death while in employment of its employees in an amount equal to 15 days' basic salary, payable for each completed year of service. The Bank makes annual contributions to a gratuity fund administered by trustees and managed by insurance companies. The Bank accounts for the liability of future gratuity benefits based on an independent external actuarial valuation, which is carried out annually. Perquisites, which are evaluated as per the income tax rules, where applicable, or, alternatively, at the actual cost to the Bank, are also provided to directors. Available perquisites include furnished accommodation, including gas, electricity, water, telephone, furnishings and the use of a vehicle, club fees, personal accident insurance, reimbursement for medical expenses, leave travel concessions and retirement benefits, such as provident funds, superannuation fund gratuity and National Pension Scheme.

The details of sitting fees paid to Non-Executive Directors during fiscal 2021 are as follows:

Name of the Director	**Sitting Fees**	**Commission[#] (Rs.)**
Mrs. Shyamala Gopinath[1]	4,050,000	–
Mr. Keki Mistry[2]	–	1,000,000
Mr. Malay Patel	4,700,000	1,000,000
Mr. Umesh Chandra Sarangi	3,850,000	1,000,000
Mr. Srikanth Nadhamuni	5,300,000	1,000,000
Mr. Sanjiv Sachar	5,100,000	1,000,000
Mr. Sandeep Parekh	4,600,000	1,000,000
Mr. M.D. Ranganath	5,400,000	1,000,000
Mrs. Renu Karnad	4,250,000	1,000,000
Dr, (Ms.) Sunita Maheshwari[3]	–	–

\# Refers to commission for fiscal 2020, paid out in fiscal 2021.

1 Mrs. Shyamala Gopinath ceased to be a director of the Bank with effect from January 1, 2021.

2 Mr. Keki Mistry ceased to be a director of the Bank with effect from January 18, 2020. Since he received the commission pertaining to fiscal 2020, paid out in fiscal 2021, the above disclosure has been made.

3 Dr. (Ms.) Sunita Maheshwari was appointed as an Independent Director of the Bank with effect from March 30, 2021 and the appointment was approved by the shareholders of the Bank at its 27th Annual General Meeting held on July 17, 2021.

During fiscal 2021 there were no other pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the Bank, except banking transactions in the ordinary course of business done on an arm's-length basis.

At the 22nd annual general meeting of the Bank held on July 21, 2016 the shareholders approved the payment of profit-related commission to Non-Executive Directors, including Independent Directors, but excluding the Chairperson with effect from fiscal 2016 (being the year in which RBI issued guidelines on compensation to non-executive directors of private sector banks), not exceeding in aggregate 1 percent of the net profit of the Bank for the relevant fiscal subject to a maximum of Rupees one million per annum per Director. Pursuant to the Reserve Bank of India Guidelines on Corporate Governance in Banks – Appointment of Directors and Constitution of Committees of the Board dated April 26, 2021, the shareholders in their annual general meeting held on July 17, 2021 increased the cap to Rs. 2 million from fiscal 2022.

The details of remuneration paid to employees who were employed throughout the year and were in receipt of remuneration of more than Rs. 10.2 million per annum and those employed for part of the year and were in receipt of remuneration of more than Rs. 0.85 million per month are given in Annexure 6 to the Directors' Report.

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

Loans to Members of Our Senior Management

Loans to members of our senior management are granted in the normal course of business, as is the case with employees of the Bank. All loans granted to members of senior management are in accordance with the provisions of local regulations. The table below provides the details of staff loans granted to our senior management as of March 31, 2021:

Name	Largest amount outstanding since March 31, 2020	Amount outstanding as of March 31, 2021	Interest rate as of March 31, 2021	Nature of Loan
			%	
	(Rs. in millions, except percentages)			
Mr. Kaizad Barucha	3.96	3.87	2.50	Housing Loan
Ms. Ashima Bhat	3.99	3.91	7.80	Housing Loan
Mr. Ashish Parthasarthy	4.91	4.81	7.80	Housing Loan
Mr. Arvind Vora	2.44	2.44	7.80	Housing Loan
Mr. Bhavesh Zaveri	13.98	13.42	7.80	Housing Loan
Mr. Bhavesh Zaveri	0.34	0.25	5.00	Personal Loan
Mr. Benjamin Frank	0.48	0.36	7.80	Housing Loan
Mr. Benjamin Frank	0.60	0.60	5.00	Personal Loan
Mr. Chakrapani Venkatachari	9.82	8.44	7.80	Housing Loan
Mr. Arup Rakshit	1.57	1.54	7.80	Housing Loan
Mr. Raveesh K Bhatia	0.56	0.56	5.00	Personal Loan
Mr. Nirav Shah	13.94	13.71	7.80	Housing Loan
Mr. Nirav Shah	0.16	0.07	5.00	Personal Loan
Mr. Rakesh Singh	13.86	13.53	7.80	Housing Loan
Mr. Sashidhar Jagdishan	5.46	5.33	7.80	Housing Loan
Ms. Smita Bhagat	14.03	13.42	7.80	Housing Loan
Mr. S. Sampathkumar	1.80	1.76	7.80	Housing Loan
Mr. S. Sampathkumar	0.40	0.26	5.00	Personal Loan

Employees Stock Options

Our shareholders approved plan “A” in January 2000, plan “B” in June 2003, plan “C” in June 2005, plan “D” in June 2007, plan “E” in June 2010, plan “F” in June 2013 and Plan “G” in July 2016 for the issuance of stock options to employees and directors of the Bank under the ESOSs, namely ESOS-001 to ESOS-035. Under plan “A”, the option price is set as the average of the daily closing prices on the BSE during the 60 days preceding the grant date. Under plan “B”, the option price is set as the closing price on the business day preceding the grant date on whichever stock exchange in India has the highest trading volume for our shares during the two weeks preceding the date of grant. Under plans “C”, “D”, “E”, “F” and “G”, the option price is set as the closing price on the business day preceding the grant date on the stock exchange which has the highest trading volume. Our Nomination and Remuneration Committee (formerly, the Compensation Committee) has issued options under these plans several times since January 2000. Stock options granted under ESOS-001 to ESOS-009 vest at the rate of 30.0 percent, 30.0 percent and 40.0 percent on each of the three successive anniversaries following the date of grant, stock options granted under ESOS-010 to ESOS-013 vest at the rate of 50.0 percent on each of the two successive anniversaries following the date of grant, those granted under ESOS-014 and ESOS-015 vest completely on the first anniversary of the date of the grant, stock options granted under ESOS-016 to ESOS-018 vest at the rate of 75.0 percent and 25.0 percent on each of the two successive anniversaries following the date of grant, stock options granted under ESOS-019 to ESOS-026 vest at the rate of 40.0 percent, 30.0 percent and 30.0 percent on each of the three successive anniversaries, stock options granted under ESOS-027 and ESOS-028 vest at the rate of 40.0 percent, 30.0 percent and 30.0 percent at intervals of fifteen months, twenty-seven months and thirty-nine months, options granted under ESOS-029 to ESOS-32 vest at the rate of 35.0 percent, 30.0 percent, 20.0 percent and 15.0 percent on each of the four successive anniversaries and ESOS-33 to ESOS 35 vest at the rate of 25.0 percent on each of the four successive anniversaries. All of the above are subject to standard vesting conditions. In fiscal 2021, 29.4 million equity shares having a face value of Rs. 1.0 each were allotted as a result of the exercise of stock options by the employees of the Bank. This resulted in our paid-up capital increasing by Rs. 29.4 million and the share premium by Rs. 17,571.5 million. As of March 31, 2021, 168,168,760 options convertible to equity shares of Rs. 1.0 each were outstanding.

Other Compensation

All employees, including our Managing Director, Executive Director and officers, receive the benefit of our gratuity and provident fund retirement schemes. Our superannuation fund covers all employees at a senior manager level and above, including our Managing Director. Our gratuity fund, required under Indian law to be paid to an employee following the completion of a minimum of five years of continuous service, is a defined benefit plan which, upon the retirement, termination of employment or death while in employment of such employee, pays a lump sum equal to 15 days' basic salary for each completed year of service. The superannuation fund is a retirement plan under which we contribute annually 13.0 percent (15.0 percent for the Managing Director, Executive Director and certain employees of CBoP) of the eligible employee's annual salary to the administrator of the fund. In the case of the provident fund ("PF"), as required by Indian law, each of the employer and the employee contribute monthly at a determined rate of 12.0 percent of the employee's PF base salary. Of this 12.0 percent, the Bank contributes a specified amount (8.33 percent of the lower of Rs. 15,000 or the employee's PF base salary) to the pension scheme administered by the Regional Provident Fund Commissioner, and the balance is contributed to a fund set up by the Bank and administered by a board of trustees.

Controls and Procedures

Disclosure Controls and Procedures

The Bank performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2021. Based on this evaluation, our Principal Executive Officer, Mr. Sashidhar Jagdishan, and our Principal Financial Officer, Mr. Srinivasan Vaidyanathan, have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), are effective to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisitions, use or dispositions of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness for future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2021. In conducting its assessment, management based its evaluation on the framework contained in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2021. Our independent registered public accounting firm, KPMG Assurance and Consulting Services LLP ("KPMG"), has performed an integrated audit and has issued their report, included herein, on (1) our consolidated financial statements, and (2) the effectiveness of our internal controls over financial reporting as of March 31, 2021.

Changes in Internal Controls

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

Audit Committee Financial Expert

Mr. M.D Ranganath and Mr. Sanjiv Sachar are the Audit Committee financial experts, as defined in Item 401(h) of Regulation S-K, and are independent pursuant to the applicable SEC rules.

Code of Ethics

We have a written Code of Ethics, which is applicable to the Board Members and officials of the Bank one level below the Board. We believe the code constitutes a "code of ethics", as defined in Item 16B of Form 20-F. We will provide a copy of such Code of Ethics to any person without charge upon request. Requests may be made by writing to shareholder.grievances@hdfcbank.com.

We also have a whistleblower policy that contains procedures for receiving, retaining and treating complaints received, and procedures for the confidential and anonymous submission by employees of complaints, regarding questionable accounting or auditing matters or conduct which results in a violation of law by the Bank or in a substantial mismanagement of the Bank's resources. Under this whistleblower policy, our employees are encouraged to report questionable accounting matters or any fraudulent financial information provided to our shareholders, the government or the financial markets, or any conduct that results in a violation of law by the Bank, to our management (on an anonymous basis, if employees so desire). Under this policy we have also prohibited discrimination, retaliation or harassment of any kind against any employee who, based on the employee's reasonable belief that such conduct or practices have occurred or are occurring, reports such information or participates in an investigation.

Principal Accountant Fees and Services

The following table sets forth for the fiscal years indicated the fees pertaining to our principal accountant and its associated entities for various services provided during these periods:

	Fiscal Year Ended		
Type of Services	**March 31, 2020**	**March 31, 2021**	**Description of Services**
	(in millions)		
Audit services	Rs. 50.8	Rs. 61.7	Audit of financial statements
Audit-related services	5.1	6.7	Limited review
Tax services	–	–	Tax services
Other services	5.7	2.5	Certification/other services
Total	Rs. 61.6	Rs. 70.9	

Our Audit Committee charter requires us to receive the approval of our Audit Committee on every occasion on which we engage our principal accountants or their associated entities to provide any non-audit services to us. All of the non-audit services provided to us by our principal accountants or their associated entities in the previous two fiscal years have been pre-approved by our Audit Committee.

Memorandum and Articles of Association

Our main objective is to carry on banking and related activities. Our objective and purpose can be found in clauses A and B of our Articles.

Under the Articles, a director may not vote, participate in discussions or be counted for the purpose of a quorum with respect to any decision relating to whether we will enter into any contract or arrangement if the director is directly or indirectly interested in such contract or arrangement. The Board of Directors may not hold meetings in the absence of a quorum. Under the Companies Act, the quorum for meetings of the Board is one-third of the total number of directors (any fraction contained in that one-third being rounded off as one) or two directors, whichever is higher. However, where the number of interested directors is equal to or exceeds two-thirds of the total number of directors present, the remaining number of directors (i.e., directors who are not interested) present at the meeting, being not less than two, will constitute the quorum during such time. Pursuant to the Companies Act, our directors have the power to borrow money for business purposes only with the consent of the shareholders (with certain limited exceptions) through a special resolution (with three-fourths majority).

Sections 172 to 187 of the Articles set forth certain rights and restrictions relating to dividend distributions. One of these restrictions is that dividends may be approved only at a general meeting of shareholders, but in no event in an amount greater than the amount recommended by the Board of Directors.

Subject to the Companies Act, the profits of a company are divisible among shareholders in proportion to the amount of capital paid up on the shares held by those shareholders. In the event of liquidation, any surplus will be distributed in proportion to the capital paid up or which ought to have been paid up on the shares held by the shareholders at the time of commencement of the winding-up. The Board of Directors may make calls on shareholders in respect of all money unpaid on the shares held by them and not by the conditions of allotment thereof.

The rights and privileges of any class of shareholders may not be modified without the approval of three-fourths of the issued shares of that class or the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class.

The annual general meeting shall be called for at a time during business hours at our registered office or at some other place within Mumbai as the Board of Directors may determine. The notice of the meeting shall specify it as the "annual general meeting". Any general meeting of the shareholders of the Bank other than its annual general meeting is called an "extraordinary general meeting". The Board of Directors is required to call an extraordinary general meeting upon the request of a set number of shareholders, as set forth in the Companies Act.

PRINCIPAL SHAREHOLDERS

The following table contains information relating to the beneficial ownership of our equity shares as of March 31, 2021 by:

- each person or group of affiliated persons known by us to beneficially own 5 percent or more of our equity shares; and

- our individual directors and their relatives as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons listed in the table have sole voting and sole investment control with respect to all equity shares beneficially owned. All shares issued in India have the same voting rights. We have not issued different classes of securities.

We were founded by our promoter HDFC Limited, a housing finance company in India. As of March 31, 2021, HDFC Group, held an aggregate of 21.1 percent of our equity shares.

	Number of Shares	Percentage of Total Equity Shares Outstanding
HDFC Group	1,164,625,834	21.1%
Directors and relatives	4,067,984	0.1%

THE INDIAN FINANCIAL SECTOR

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government and its various ministries, the RBI and the Indian Banks Association, and has not been prepared or independently verified by the Bank, the Arrangers, the Dealers, the Trustee or any of their affiliates or advisers.

Introduction

The RBI, the central banking and monetary authority of India, is the central regulatory and supervisory authority for Indian banks and non-banking finance companies. A variety of financial intermediaries in the public and private sectors participate in India's financial sector, including the following:

- scheduled commercial banks;
- co-operative banks;
- small banks and payment banks;
- long-term lending institutions;
- non-banking financial companies, including housing finance companies;
- other specialised financial institutions and state-level financial institutions;
- insurance companies; and
- mutual funds.

Until the 1990s, the Indian financial system was strictly controlled. Interest rates were administered by the Government. Formal and informal parameters governed asset allocation and strict controls limited entry into and expansion within the financial sector. Bank profitability was low, NPAs were comparatively high, capital adequacy was diminished and operational flexibility was hindered. The Government's economic reform programme, which began in 1991, encompassed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, namely the Narasimham Committee I. Following that, reports were submitted in 1997 and 1998 by other committees, such as the second Committee on Banking Sector Reform, namely the Narasimham Committee II, and the Tarapore Committee on Capital Account Convertibility. This, in turn, led to the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalised domestic capital market and the entry of new private sector banks have progressively intensified the competition among banks. Banks in India may be categorised as scheduled banks and non-scheduled banks, where the former are banks which are included in the second schedule to the RBI Act as amended. These banks comprise scheduled commercial banks and scheduled cooperative banks.

This discussion presents an overview of the role and activities of the RBI and of each of the major participants in the Indian financial system, with a focus on commercial banks. This is followed by a brief summary of the banking reform process along with the recommendations of various committees that have played a key role in the reform process. A brief discussion on the impact of the liberalisation process on long-term lending institutions and commercial banks is then presented. Finally, reforms in the non-banking financial sector are briefly reviewed.

The Reserve Bank of India

The RBI, established in 1935, is the central banking and monetary authority in India. The RBI manages the country's money supply and foreign exchange and also serves as a bank for the Government and for the country's commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional roles.

The RBI issues guidelines on exposure limits, income recognition, asset classification, provisioning for non-performing and restructured assets, investment valuation and capital adequacy for commercial banks, long-term lending institutions and non-banking financial companies. The RBI requires these institutions to furnish information relating to their businesses to it on a regular basis. For further discussion regarding the RBI's role as the regulatory and supervisory authority of India's financial system and its impact on the Bank, see "*Supervision and Regulation*".

Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. In recent years they have also focused on increasing long-term financing to sectors like infrastructure. As of March 2021, there were 131 scheduled commercial banks in the country, including 43 regional rural banks (RRBs). Scheduled commercial banks are banks that are listed in the schedule to the Reserve Bank of India Act, 1934 (the "**RBI Act**") and are further categorised as public sector banks, private sector banks and foreign banks. Scheduled commercial banks have a presence throughout India with a network of 150,207 branches, and approximately 63.19% of these branches were located in rural or semi-urban areas of the country as at March 2021. A large number of these branches belong to the public sector banks (*Source: Commercial Banks at a Glance, Quarterly Statistics, RBI*).

Public Sector Banks

Public sector banks make up the largest category in the Indian banking system. As at October 2020, they included the 12 nationalised banks, including the State Bank of India (SBI), taking into account the amalgamation of certain public sector banks in March 2020. Excluding the RRBs, the remaining public sector banks have accounted for 49.9% of gross bank credit and 52.81% of the aggregate deposits of the scheduled commercial banks as of March 31, 2021. The public sector banks' large network of branches enables them to fund themselves out of low cost savings and current accounts.

RRBs were established from 1976 to 1987 by the Government, state governments and sponsoring commercial banks jointly with a view to develop the rural economy. RRBs provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. The National Bank for Agriculture and Rural Development ("**NABARD**") is responsible for supervising the functions of the RRBs. In 1986, the Kelkar Committee made comprehensive recommendations covering both the organisational and operational aspects of RRBs, several of which were adopted as amendments to the Regional Rural Bank Act, 1976. As part of a comprehensive restructuring programme, re-capitalisation of the RRBs was initiated in fiscal 1995, a process which continued until fiscal 2000 and covered 187 RRBs, with aggregate financial support of Rs. 21.9 billion from the stakeholders. Simultaneously, prudential norms on income recognition, asset classification and provisioning for loan losses following customary banking benchmarks were introduced.

As at March 31, 2021, RRBs accounted for 3.35% of aggregate deposits and 3.07% of gross bank credit outstanding of scheduled commercial banks.

Private Sector Banks

Most large banks in India were nationalised in 1969, resulting in public sector banks making up the largest portion of Indian banking. The Government's focus on public sector banks was maintained throughout the 1970s and 1980s. In addition, existing private sector banks that showed signs of an eventual default were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, the RBI permitted entry of the private sector into the banking system. This resulted in the introduction of private sector banks. These banks are collectively known as the "new" private sector banks. As at October 2020 there were a total of 22 private banks.

As at 31 March 2021, private sector banks accounted for approximately 29.95% of aggregate deposits and 35.49% of gross bank credit outstanding of the scheduled commercial banks.

In February 2013, the RBI issued guidelines on the entry of "new" private sector banks into the banking industry, specifying that select entities or groups in the private sector, entities in the public sector or non-banking financial companies with a successful track record of at least 10 years and not receiving over 10 percent of income from real estate, construction and/or broking activities are eligible to promote banks. The initial minimum capital requirement for these entities is Rs. 5.0 billion, with foreign shareholding not exceeding 49.0 percent for the first five years, and the new banks could be set up only through a wholly owned non-operative financial holding company registered with the RBI. The business plan for the bank should cover a realistic plan for achieving financial inclusion.

On 2 April 2014, the RBI granted "in-principle" approval to two applicants (IDFC Limited and Bandhan Financial Services Private Limited) to set up banks under the New Banks Licensing Guidelines. As at the date of this Offering Memorandum, these two banks had started functioning. In the future, the RBI intends to issue licences on an on-going basis, subject to the RBI's qualification criteria.

The RBI also issued guidelines in November 2014 on the entry of "Small Finance Banks" and "Payments Banks" into the private sector in the banking industry, including the eligibility criteria, structure, capital requirements, shareholding structure and corporate governance practices applicable to such proposed entities. During fiscal 2016, the RBI issued new bank licences to "Small Finance Banks" and "Payments Banks" in the private sector, which, apart from providing an impetus to financial inclusion, is expected to intensify competition in the banking sector in the medium term. As at 30 June 2018, six entities had functioning payment banks. In addition, 10 entities had a functioning small finance bank.

Foreign Banks

As at July 14, 2020, there were over 46 foreign banks operating in India with a combined total of 269 branches. As at March 31, 2021, they accounted for 4.87% of aggregate deposits and 3.96% of outstanding gross bank credit of scheduled commercial banks. In 2009, as part of the liberalisation process that accompanied the second phase of the reform process that began in 2005, the RBI began permitting foreign banks to operate more freely, subject to requirements largely similar to those imposed on domestic banks. The primary activity of most foreign banks in India has been in the corporate segment. However, some of the larger foreign banks have made retail banking a significant part of their portfolios. Most foreign banks operate in India through branches of the parent bank. Certain foreign banks also have wholly owned non-banking financial company subsidiaries or joint ventures for both corporate and retail lending. In 2004, the RBI stipulated that banks, including foreign banks operating in India, should not acquire any fresh stake in another bank's equity shares if, by such acquisition, the investing bank's holding would exceed 5.0 percent of the investee bank's equity capital.

In February 2005, the Government and the RBI released the "Roadmap for Presence of Foreign Banks in India", which laid out a two-track, gradual approach aimed at increasing the efficiency and stability of the banking sector in India. The first track was the consolidation of the domestic banking system, both in the private and public sectors; the second track was the gradual enhancement of the presence of foreign banks in a synchronised manner. The roadmap was divided into two phases, the first phase spanning the period from March 2005 to March 2009, and the second phase beginning in April 2009. However, the second phase was delayed due to the global financial crisis in 2009. In January 2011, the RBI released a draft discussion paper on the mode of presence of foreign banks in India. The paper indicates a preference for a wholly owned subsidiary model of presence over a branch model.

Based on the comments received, the RBI in its annual policy statement for fiscal 2012 stated that it was in the process of framing comprehensive guidelines in this regard. On 20 July 2012, the RBI revised priority sector lending guidelines for foreign banks. The RBI now requires foreign banks with 20 or more branches to achieve the same priority sector lending targets as domestic banks within the five-year period commencing on 1 April 2013. All other foreign banks will continue to be subject to the existing overall target of 32 percent.

On 6 November 2013, the RBI issued a framework for the establishment of wholly owned subsidiaries ("**WOS**") by foreign banks in India. The framework requires that foreign banks must establish a WOS to operate in India if they (i) have complicated holding structures, (ii) do not provide adequate disclosure in their home jurisdiction or (iii) are from jurisdictions that give a preferential claim to depositors of its home country in a winding-up proceeding. Banks not fitting these criteria may operate as either a branch or a WOS. The framework does not require existing foreign banks (which established a presence in India before 31 August 2010) to convert into a WOS. However, foreign banks are incentivised to convert into a WOS because the regulatory regime for a WOS is similar to that for local banks. For example, a foreign bank WOS would benefit from policies such as the lifting of nearly all branch expansion restrictions. However, foreign banks converting into a WOS would have to abide by the RBI's 40 percent priority sector lending requirement and increase their involvement in the financing of sectors such as agriculture and small-scale industries, following an adequate transition period.

Co-operative Banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In response to liquidity and insolvency problems experienced by some cooperative banks in fiscal 2001, the RBI undertook several interim measures, pending formal legislative changes, including measures relating to lending against shares, borrowing in the call market and term deposits placed with other urban cooperative banks. Currently the RBI is responsible for the supervision and regulation of urban cooperative banks, and NABARD for state co-operative banks and district central cooperative banks.

In its annual policy statement for fiscal 2010, the RBI proposed expanding the area of operation of Tier II urban cooperative banks in Grade Ito the entire state of registration with the prior approval of the RBI. It also proposed reviewing the existing instructions and issuing appropriate guidelines to urban cooperative banks on internal controls, risk management systems, asset liability management and disclosure norms and applying a capital charge for market risks in respect of large-sized and systemically important urban cooperative banks with effect from 1 April 2010. Urban cooperative banks that fulfil certain eligibility criteria are allowed direct access to the negotiated dealing system (NDS) order matching (OM), subject to obtaining prior approval from the RBI. This helps deepen the bond market by increasing the number of participants.

Long-Term Lending Institutions

The long-term lending institutions were established to provide medium-term and long-term financial assistance to various industries for setting up new projects and for the expansion and modernisation of existing facilities. These institutions provided fund-based and non-fund-based assistance to industry in the form of loans, underwriting, direct subscription to shares, debentures and guarantees. The primary long-term lending institutions included Industrial Development Bank of India (now IDBI Bank), IFCI Limited, the Industrial Investment Bank of India and ICICI prior to its amalgamation with ICICI Bank Limited.

The long-term lending institutions were expected to play a critical role in Indian industrial growth and, accordingly, had access to concessional Government funding. However, in recent years, the operating environment of the long-term lending institutions has changed substantially. Although the initial role of these institutions was largely limited to providing a channel for Government funding to industry, the reform process required such institutions to expand the scope of their business activities, including into:

- fee-based activities such as investment banking and advisory services; and

- short-term lending activity, including making corporate finance and working capital loans.

Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group in 1998, a working group was created in 1999 to harmonise the role and operations of long-term lending institutions and banks. The RBI, in its mid-term review of monetary and credit policy for fiscal 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms applicable to banks.

Several mergers resulted from this reform effort. In April 2002, ICICI merged with ICICI Bank. The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003 converted the Industrial Development Bank of India into a banking company incorporated under the Companies Act, 1956 on 27 September 2004, with exemptions from certain statutory and regulatory norms applicable to banks, including an exemption for a certain period of time from the statutory liquidity ratio ("**SLR**"). IDBI Bank Limited, a public sector bank that was a subsidiary of the Industrial Development Bank of India, was merged with the Industrial Development Bank of India in April 2005. The long-term funding needs of Indian companies are now primarily met by banks, Life Insurance Corporation of India and specialised non-banking financial companies such as Infrastructure Development Finance Corporation. Indian banking companies also make bond issuances to institutional and retail investors.

Non-Banking Financial Companies

According to the RBI's Financial Stability Report, July 2021, there were about 9,601 non-banking financial companies in India as of March 31, 2021, mostly in the private sector. All non-banking financial companies are required to register with the RBI. The non-banking financial companies may be categorised into entities which take public deposits and those which do not. The companies which take public deposits are subject to strict supervision and the capital adequacy requirements of the RBI. The RBI classifies non-banking financial companies into three categories: asset finance companies, loan companies and investment companies. In February 2010, the RBI introduced a fourth category of non-banking financial company called infrastructure finance companies and followed up in December 2011 with the announcement of a separate category of non-banking financial company – microfinance institutions. The primary activities of the non-banking financial companies are providing consumer credit, including automobile finance, home finance and consumer durable products finance, wholesale finance products such as bill discounting for small and medium companies and infrastructure finance, and fee-based services such as investment banking and underwriting. In 2003, Kotak Mahindra Finance Limited, a large non-banking financial company, was granted a banking licence by the RBI and converted itself into Kotak Mahindra Bank.

During fiscal 2006, the RBI issued guidelines on the financial regulation of systemically important non-banking financial companies and banks' relationships with them with a view to removing the possibility of regulatory arbitrage leading to an uneven playing field and potential systemic risk.

Within non-deposit taking non-banking financial companies, the guidelines classify those with an asset size above Rs. 1.0 billion as per the last audited balance sheet as systemically important. These non-banking financial companies were required to maintain a minimum capital to risk-weighted assets ratio of 10.0 percent, in addition to conforming to single and group exposure norms. In August 2008, the RBI issued draft guidelines covering non-deposit taking non-banking financial companies. It was proposed that non-deposit taking non-banking financial companies with an asset size of Rs. 1.0 billion and above would have to maintain a capital to risk-weighted assets ratio of 12.0 percent instead of the current minimum of 10.0 percent.

The capital adequacy ratio was proposed to be increased to 15.0 percent from April 2009. In its 2009 annual policy statement, the RBI deferred the implementation of the capital to risk-weighted assets ratio of 12.0 percent requirement to 31 March 2010 and of 15.0 percent to 31 March 2011. In February 2011, the RBI issued guidelines mandating deposit taking non-banking financial companies to maintain a capital to risk-weighted assets ratio of 15.0 percent against the current minimum of 12.1 percent.

With the purpose of enhancing the flow of funds to infrastructure projects, the RBI issued guidelines in November 2011 for the establishment of infrastructure debt funds. An infrastructure debt fund may be set up either as a trust or as a company. A trust-based infrastructure debt fund would be a mutual fund which would be regulated by SEBI, while a company-based infrastructure debt fund would be a non-banking financial company which would be regulated by the RBI. All non-banking financial companies, including infrastructure finance companies, may sponsor infrastructure debt funds set up as mutual funds. However, only infrastructure finance companies can sponsor infrastructure debt funds set up as non-banking financial companies. Banks are allowed to sponsor infrastructure debt funds in the form of mutual funds and non-banking financial companies with investments by the bank not exceeding 10 percent of the bank's paid-up capital. In August 2011, the RBI released a working group report on issues and concerns in the non-banking financial companies sector. Some key recommendations of the report included a minimum asset size of Rs. 500 million with a minimum net-owned fund of Rs. 20 million for registering as a non-banking financial company, a minimum Tier I capital of 12 percent to be achieved in three years, the introduction of liquidity ratios, more stringent asset classification norms and provisioning norms, and limits on exposure to real estate. In December 2012, the RBI issued draft guidelines on the regulatory framework for non-banking financial companies based on the recommendations of the working group. The guidelines relate to entry norms, principal business criteria, prudential regulations, liquidity requirements and corporate governance of non-banking financial companies.

On 1 April 2014, the RBI temporarily suspended, for a period of one year, the issue of certificates of registration to companies proposing to conduct the business of non-banking financial institution (NBFI) under the terms of Section 45IA of the RBI Act. The report submitted by the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households made several recommendations pertaining to NBFCs. In view of the recommendation, the RBI felt the need to review the regulatory framework and streamline the sector before allowing more entities into the sector.

On 10 November 2014, the RBI revised the regulatory framework for NBFCs by raising the capital adequacy requirement and the net owned fund limit, among others, with an objective to mitigating risks in the sector and revoked, with immediate effect, its temporary suspension on issuance of a Certificate of Registration to companies proposing to conduct the business of a NBFI. The minimum Tier I capital requirement for non-deposit taking NBFC having an asset size of Rs. 5,000 million and above and all deposit taking NBFCs was raised to 10 percent from 7.5 percent in a gradual manner (8.5 percent by the end of March 2016 and 10 percent by the end of March 2017). The net owned fund requirement would be required to be raised in a phased manner from Rs. 2.5 million to Rs. 10 million by March 2016, and then further to Rs. 20 million by 2017.

The RBI circular on "Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions" dated 1 July 2016 and the master direction "Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016" dated 1 September 2016 states that the minimum capital ratio consisting of Tier I and Tier II capital shall not be less than 15 percent of its aggregated risk-weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The total of Tier I capital, at any time, shall not be less than 8.5 percent as at 31 March 2016 and 10 percent as at 31 March 2017.

Housing Finance Companies

Housing finance companies form a distinct sub-group of non-banking financial companies. As a result of the various incentives given by the Government for investing in the housing sector in recent years, the scope of this business has grown substantially. Housing Development Finance Corporation Limited is a leading provider of housing finance in India. In recent years, several other players, including banks, have entered the housing finance industry. The National Housing Bank and Housing and Urban Development Corporation Limited are the two major financial institutions instituted through acts of Parliament to improve the availability of housing finance in India. The National Housing Bank Act provides for securitisation of housing loans, foreclosure of mortgages and setting-up of the Mortgage Credit Guarantee Scheme.

In August 2019, the Central Government issued notification conferring certain powers for regulation of Housing Finance Companies (HFCs) with RBI. HFCs will henceforth be treated as one of the categories of NBFCs for regulatory purposes. Given below are the major changes envisaged in the regulatory framework for HFCs:

- Defining 'qualifying assets': Qualifying Assets refer to 'housing finance' or 'providing finance for housing' as following:

  - Not less than 50% of net assets are in the nature of 'qualifying assets' for HFCs, of which at least 75% should be towards individual housing.

  - "Net assets" shall mean total assets other than cash and bank balances and money market instruments.

- Classifying HFCs into systemically important and non-systemically important entities for regulatory purposes.

- Minimum Net Owned Fund Bank proposes to increase the minimum NOF for HFCs from the requirement of Rs.10 crore to Rs.25 crore. For existing HFCs the glide path would be to reach Rs.15 crore within 1 year and Rs.25 crore within 2 years.

- Harmonising definitions of Capital (Tier I & Tier II) with that of NBFCs: The components of Tier I and Tier II capital are similar for NBFCs and HFCs except for the treatment of perpetual debt instruments (PDI). Presently PDIs are not considered as part of capital of HFCs unlike that of NBFC.

In addition to the above, RBI released a revised regulatory framework on Oct 22,2020 where they stipulated that HFC's should have at least 60% of their net assets deployed in the business of providing finance for housing by March 31, 2024. RBI notified that any HFC not having 60% of its net assets deployed for housing loans must get 50% of its books utilised for such loans by March 31, 2022, 55% by March 31, 2023 and 60% by March 31, 2024.

Other Financial Institutions

Specialised Financial Institutions

In addition to the long-term lending institutions, there are various specialised financial institutions which cater to the specific needs of different sectors. These include NABARD, Export Import Bank of India, Small Industries Development Bank of India, Risk Capital and Technology Finance Corporation Limited, Tourism Finance Corporation of India Limited, National Housing Bank, Power Finance Corporation Limited, Infrastructure Development Finance Corporation Limited, Industrial Investment Bank of India, North Eastern Development Finance Corporation and India Infrastructure Finance Company.

State-level Financial Institutions

State financial corporations operate at the state level and form an integral part of the institutional financing system. State financial corporations were set up to finance and promote SMEs. The state financial institutions are expected to achieve balanced regional socio-economic growth by generating employment opportunities and widening the ownership base of industry. At the state level, there are also state industrial development corporations, which provide finance primarily to medium-sized and large enterprises.

Insurance Companies

At the end of March 2020, there are 68 insurers operating in India; of which 24 are life insurers and 27 are general insurers, 6 are standalone health insurers and 11 are re-insurers including foreign reinsurers branches and Lloyd's India.

The insurance sector in India is regulated by the Insurance Regulatory and Development Authority. In December 1999, the parliament of India (the "**Indian Parliament**") passed the Insurance Regulatory and Development Authority Act, 1999, which amended the Insurance Act, 1938 and opened up the Indian insurance sector for foreign and private investors. The Insurance Act allows foreign equity participation in new insurance companies of up to 26.0 percent A new company should have minimum paid-up equity capital of Rs. 1.0 billion to carry on the business of life insurance or general insurance or Rs. 2.0 billion to carry on exclusively the business of re-insurance.

In its monetary and credit policy for fiscal 2001, the RBI issued guidelines governing the entry of banks and financial institutions into the insurance business. The guidelines permit banks and financial institutions to enter the business of insurance underwriting through joint ventures provided they meet stipulated criteria relating to their net worth, capital adequacy ratios, profitability track record, level of non-performing loans and the performance of their existing subsidiary companies. The promoters of insurance companies have to divest in a phased manner their shareholding in excess of 26.0 percent (or such other percentage as may be prescribed) after a period of 10 years from the date of commencement of business or within such period as may be prescribed by Government. In December 2014, the Indian government raised the limit on foreign equity participation in private sector insurance companies from percent to 49.0 percent.

For fiscal 2020, the life insurance industry recorded a premium income of Rs. 5,729.10 billion as against a premium income of Rs. 5,081.32 billion in fiscal 2019, a growth of 12.75% as against 10.75% in the previous fiscal. While private sector insurers posted 13.42% growth for fiscal 2020 as against 21.37% in fiscal 2019 in their premium income, LIC recorded 12.41% growth for fiscal 2020 as against a growth of 6.06% in fiscal 2019. During 2020, the market share of private players increased from 33.58% in fiscal 2019 to 33.78% in fiscal 2020. While renewal premium accounted for 57.68% for fiscal 2019 of the total premium received by the life insurers, new business premium contributed the remaining 42.32%.

During fiscal 2020, growth in renewal premium was 7.00% as against a growth of 10.76%. in fiscal 2019. First year premium registered a growth of 39.71% in fiscal 2020 in comparison to a growth of 11.39% during 2019. (*Source: IRDAI Annual Report, 2020*)

Mutual Funds

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government and the RBI. From 1963 to 1987, Unit Trust of India was the only mutual fund operating in India. From 1987 onwards, several other public sector mutual funds entered this sector. These mutual funds were established by public sector banks, LIC and General Insurance Corporation of India. The mutual funds industry was opened up to the private sector in 1993. The industry is regulated by the SEBI (Mutual Fund) Regulation, 1996. As of March 31, 2021, there are 44 mutual funds in India. The mutual fund industry's assets under management has grown from Rs. 7 trillion as on 31 March 2011 to Rs. 32.17 trillion as on March 31, 2021, about 4.6x fold increase in a span of ten years. (*Source: AMFI Website*)

In June 2009, SEBI removed the entry load for all mutual fund schemes and directed that upfront commissions to distributors be paid directly by the investors. To enhance the reach and marketability of mutual fund schemes, in November 2009, SEBI permitted the use of stock exchange terminals to facilitate transactions in mutual fund schemes. As a result, mutual fund units can now be traded on recognised stock exchanges. In February 2010, SEBI introduced guidelines for the valuation of money market and debt securities with a view to ensuring that the value of the money market and debt securities in the portfolio of mutual funds schemes reflect the current market scenario. The valuation guidelines are effective from 1 August 2010. Further, the Union Budget for fiscal 2014 allowed mutual fund distributors to become members of the mutual fund segment of stock exchanges to enable them to leverage the stock exchange network to improve the reach and distribution of mutual fund products.

Banking Sector Reform

Most large banks in India were nationalised in 1969 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, these Government regulations also channelled lending into priority sectors. Banks were required to fund the public sector through the mandatory acquisition of low interest-bearing Government securities or SLR bonds to fulfil statutory liquidity requirements. As a result, bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

Committee on the Financial System (Narasimham Committee I)

The Committee on the Financial System ("**Narasimham Committee I**") was set up in August 1991 to recommend measures for reforming the financial sector. Many of the recommendations made by the committee, which addressed organisational issues, accounting practices and operating procedures, were implemented by the Government. The major recommendations that were implemented included the following:

- with fiscal stabilisation and the Government increasingly resorting to market borrowing to raise resources, the SLR or the proportion of banks' net demand and time liabilities that was required to be invested in Government securities was reduced from 38.5 percent in the pre-reform period to 25.0 percent in October 1997. The RBI currently requires banking companies to maintain a liquidity ratio of 19.50 percent with effect from 14 October 2017;

- similarly, the cash reserve ratio ("**CRR**") or the proportion of a bank's net demand and time liabilities that was required to be deposited with the RBI was reduced from 15.0 percent in the pre-reform period to a low of 4.5 percent The CRR effective from 9 February 2013 is 4.00 percent;

- special tribunals were created to resolve bad debt problems;

- most of the restrictions on interest rates for deposits were removed. Commercial banks were allowed to set their own level of interest rates for all deposits except savings bank deposits. Subsequently, on 25 October 2011, the RBI deregulated the savings bank deposit rate, after which commercial banks were also allowed to determine their savings bank deposit rate; and

- substantial capital infusion to several state-owned banks was approved in order to bring their capital adequacy closer to internationally accepted standards. By the end of fiscal 2002, aggregate re-capitalisation amounted to Rs. 217.5 billion. Stronger public sector banks were given permission to issue equity to further increase capital.

Committee on Banking Sector Reform (Narasimham Committee II)

The second Committee on Banking Sector Reform (Narasimham Committee II) submitted its report in April 1998. The major recommendations of the committee were in respect of capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The RBI accepted and began implementing many of these recommendations in October 1998.

Banks have implemented new prudential accounting norms for the classification of assets, income recognition and loan loss provisioning. Following the Bank for International Settlements guidelines, capital adequacy norms have also been prescribed. To meet additional capital requirements, public sector banks have been allowed to access the market for funds. Interest rates have been deregulated, while the rate of directed lending has been progressively reduced.

Commercial Banking Trends

Credit

The aggregate deposits have increased by 12.3% while loans and advances increased by 5.6% in the period of March 31, 2020 to March 31, 2021. As at March 31, 2021, public sector banks (including RRBs) accounted for the largest share of 52.81% of aggregate deposits and 49.90% in gross bank credit, followed by private sector banks with 29.95% aggregate deposits and 35.49% in gross bank credit. As at the end of March 2021, the credit-deposit ratio for scheduled commercial banks was 71.5%, compared to 76.0% in the previous year. (*Source: Reserve Bank of India – Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks and Weekly Statistical Supplement*)

From March 31, 2020 to March 31, 2021, private sector banks indicated a higher credit growth (9.1%) as compared to public sector banks (3.6 %).

For March 2021, credit growth to agriculture and allied activities accelerated to 12.3% in March 2021 (4.2% a year ago), the highest since April 2017. Credit growth to industry decelerated marginally to 0.4% (0.7 percent a year ago) mainly due to credit to large industries, which contracted by 0.8% in March 2021 (as compared with a growth of 0.6% a year ago). This is primarily on account of large industries obtaining financial resources from non-bank sources, while the silver lining has been provided by the robust performance of credit to medium industries which registered a growth of 28.8 per cent in March 2021 (as compared to contraction of 0.7 per cent a year ago), reflecting the positive effects of various measures taken by the Government of India and the Reserve Bank for the micro, small and medium enterprises (MSME) sector. Credit growth to micro and small industries has witnessed marginal growth in the recent period. (*Source: RBI Annual Report, 2021*)

Interest rates and inflation

Commodity price developments significantly shaped the global inflation environment during 2018 and the early months of 2019. Food prices, in particular, softened markedly in 2018, before a recovery took hold beginning 2019 on the back of firming prices of sugar, dairy products and animal proteins. Metal prices eased, especially from the second half of 2018, on weaker demand from China, although they turned up from February 2019, buoyed by improved global market sentiments and supply disruptions. Crude oil prices came off their October 2018 peak and fell by almost 30 percent by December 2018, enabled by higher shale production in the U.S. and weakening global demand. Production cuts by Organisation of the Petroleum Exporting Countries ("**OPEC**") and other major producers along with supply disruptions in Venezuela firmed up crude prices in early 2019. Oil prices dropped precipitously in 2020, with prices on some contracts briefly going into negative territory in April 2020, but since then recovered as 'OPEC+' output reduction deal was reached.

In India, headline inflation eased significantly to average 3.4 percent during 2018-19. Accordingly, inflation has undershot the target of 4 percent for the second financial year in succession under the remit of the monetary policy committee that was formally appointed in September 2016 under the new monetary policy framework. In 2019-2020, however, headline inflation increased to 4.8 percent

After breaching the upper tolerance threshold of 6% for six consecutive months (June-November 2020), CPI inflation fell to 4.6% in December 2020 on the back of easing food prices and favourable base effects. Food inflation collapsed to 3.9% in December 2020 after averaging 9.6% during the previous three months (September-November) due to a sharp correction in vegetable prices and softening of cereal prices with kharif harvest arrivals, alongside supply side interventions. On the other hand, core inflation, i.e. CPI inflation excluding food and fuel remained elevated at 5.5% in December with marginal moderation from a month ago. In the January 2021 round of the Reserve Bank's survey, inflation expectations of households softened further over a three month ahead horizon in tandem with the moderation in food inflation; one year ahead inflation expectations, however, remained unchanged.

Going forward, the inflation trajectory is likely to be shaped by uncertainties impinging on the upside and the downside. The rising trajectory of international commodity prices, especially of crude, together with logistics costs, pose upside risks to the inflation outlook. Excise duties, cess and taxes imposed by the Centre and States need to be adjusted in a coordinated manner to contain input cost pressures emanating from petrol and diesel prices. A normal south-west monsoon along with comfortable buffer stocks should help to keep cereal price pressures in check. Recent supply side interventions are expected to ameliorate the tightness in the pulses market. Further supply side measures are needed to soften pressures on pulses and edible oil prices. With declining infections, restrictions and localised lockdowns across states could ease gradually and mitigate disruptions to supply chains, reducing cost pressures. Weak demand conditions may also temper the pass-through to core inflation. Taking into consideration all these factors, CPI inflation is projected at 5.1% during 2021-22: 5.2% in Q1; 5.4% in Q2; 4.7% in Q3; and 5.3% in Q4:2021-22; with risks broadly balanced.

Asset quality

SCBs' gross non-performing advances ("**GNPA**") ratio continued to decline and stood at 7.5% and 2.4%, respectively, in March 2021. The slippage ratio, defined as new accretion to NPAs in the year as a ratio to the standard advances at the beginning of the year, contracted sharply for consecutive half-years to 2.5% in March 2021, with the decline spread across all bank groups. The improvement was aided significantly by the regulatory dispensations extended in response to the COVID-19 pandemic. SCBs' NPA provisions recorded decline of 2.2% (y-o-y), with PSBs and FBs decreasing their provisioning and PVBs increasing them. The provision coverage ratio ("**PCR**") of SCBs taken together improved across all bank groups and rose from 66.2% in March 2020 to 68.9% in March 2021. (*Source: RBI Financial Stability Report, July 2021*)

Income and profitability

The capital to risk-weighted assets ratio ("**CRAR**") of SCBs improved considerably by 130 bps to 26% in March 2021 over March 2020 (14.7%). While PSBs recorded an increase of 90 bps, the improvement was more substantial for Private Sector Banks ("**PVBs**") and Foreign Banks ("**FBs**") by 190 bps and 80 bps, respectively. In case of SCBs, Tier I leverage ratio also increased by 50 bps between March 2020 and March 2021, PVBs and FBs being the main contributors, having improved their ratio by 80 bps and 90 bps respectively, while the PSBs' ratio remained flat. However, the actual capital cushion available with banks could be overstated in view of the regulatory forbearance

SCBs' net interest income ("**NII**") grew at 13.1 in March 2021 (13.0% in March 2020). Net interest margin ("**NIM**") edged up across all banking groups in March 2021. Return on assets ("**RoA**") and return on equity ("**RoE**") improved substantially across all bank groups, with the recovery in RoE of PSBs being particularly noteworthy after languishing at sub-zero and near zero levels for the past four years. (*Source: RBI Financial Stability Report July 2021*)

Recent Structural Reforms

Amendments to the BR Act

In May 2017, the Government issued an ordinance amending the BR Act which empowers the Reserve Bank of India to participate in the resolution of stressed assets. The Banking Regulation (Amendment) Ordinance, 2017 was promulgated on 4 May 2017. The Ordinance amended section 35A of the BR Act and inserted two new sections 35AA and 35AB. Through this amendment, the Reserve Bank of India is authorised to intervene and instruct banks to resolve specific stressed assets and initiate an insolvency resolution process where required. The Reserve Bank of India is also empowered to issue other directions for resolution, and appoint or approve for appointment, authorities or committees to advise banking companies for resolution of stressed assets. In August 2017, the Banking Regulation (Amendment) Act, 2017 was notified to replace the Ordinance.

The Reserve Bank of India constituted an Internal Advisory Committee comprising its independent board members to advise on stressed accounts. On the recommendations of the Committee, in June 2017 the Reserve Bank of India issued directions to banks to file for resolution under the Insolvency and Bankruptcy Code with the National Company Law Tribunal in respect of 12 large stressed accounts. With respect to other identified stressed accounts, the banks are required to finalise a resolution plan within six months. In cases where a viable resolution plan is not agreed upon within six months, banks must be required to file for insolvency proceedings under the Insolvency and Bankruptcy Code. Further, in August 2017, the Reserve Bank of India identified an additional list of stressed accounts and directed banks to initiate insolvency resolution process under the provisions of the Insolvency and Bankruptcy Code by 31 December 2017 if a resolution plan where the residual debt was rated investment grade by two external credit rating agencies was not implemented by 13 December 2017.

The main amendments are as follows:

- permit all private banking companies to issue preference shares that will not carry any voting rights, subject to the RBI guidelines;
- make prior approval of the RBI mandatory for the acquisition of more than 5.00 percent of a banking company's paid-up capital or voting rights by any individual, firm or group, and empower the RBI to impose conditions while granting approval for such acquisitions;
- empower the RBI, after consultations with the Government, to supersede the board of a private sector bank for a total period not exceeding 12 months, during which time the RBI will have the power to appoint an administrator to manage the bank;
- give the RBI the right to inspect affiliates of enterprises or banking entities (affiliates include subsidiaries, holding companies or any joint ventures of banks); and
- restrict the maximum voting power exercisable by a shareholder in a private banking company to 26.00 percent irrespective of its total shareholding and raise the ceiling for voting rights of shareholders of a nationalised bank from 1.00 percent to 10.00 percent.

The Banking Laws (Amendment) Act, 2012 was notified in January 2013.

Legislative Framework for Recovery of Debts due to Banks

In fiscal 2003, the Indian Parliament passed the SARFAESI Act. The SARFAESI Act provides that a secured creditor may, in respect of loans classified as non-performing in accordance with RBI guidelines, give notice in writing to the borrower requiring it to discharge its liabilities within 60 days, failing which the secured creditor may take possession of the assets constituting the security for the loan and exercise management rights in relation thereto, including the right to sell or otherwise dispose of the assets. The SARFAESI Act also provides for the setting-up of asset reconstruction companies regulated by the RBI to acquire assets from banks and financial institutions. The RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by the RBI, and operations. Asset Reconstruction Company (India) Limited, set up by the Industrial Development Bank of India, State Bank of India and certain other banks and institutions, received registration from the RBI and commenced operation in August 2003. Foreign direct investment is now permitted in the equity capital of asset reconstruction companies and investment in security receipts issued by asset reconstruction companies by foreign institutional investors registered with SEBI is permitted, subject to certain conditions and restrictions.

Several petitions challenging the constitutional validity of the SARFAESI Act were filed before the Indian Supreme Court. The Supreme Court, in April 2004, upheld the constitutionality of the SARFAESI Act, other than the requirement originally included in the Act that the borrower deposit 75.0 percent of the dues with the debt recovery tribunal as a pre-condition for appeal by the borrower against the enforcement measures. In November 2004, the Government issued an ordinance amending the SARFAESI Act. The Indian Parliament has subsequently passed this ordinance as an Act. This Act, as amended, now provides that a borrower may make an objection or representation to a secured creditor after a notice is issued by the secured creditor to the borrower under the Act demanding payment of dues. The secured creditor must give reasons to the borrower for not accepting the objection or representation. The Act also introduces a deposit requirement for borrowers if they wish to appeal the decision of the debt recovery tribunal. Further, the Act permits a lender to take over the business of a borrower under the SARFAESI Act under certain circumstances (unlike the earlier provisions under which only assets could be taken over). See also "*Supervision and Regulation – Regulations Relating to Sale of Assets to Asset Reconstruction Companies*."

Earlier, following the recommendations of the Narasimham Committee, the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 was enacted. This legislation provides for the establishment of a tribunal for speedy resolution of litigation and recovery of debts owed to banks or financial institutions. The Act created tribunals before which banks or financial institutions can file a suit for recovery of the amounts due to them. However, if a scheme of reconstruction is pending before the Board for Industrial and Financial Reconstruction, under the Sick Industrial Companies (Special Provision) Act, 1985, no proceeding for recovery can be initiated or continued before the tribunals. This protection from creditor action ceases if the secured creditor takes action under the SARFAESI Act. While presenting its budget for fiscal 2002, the Government announced measures to set up additional debt recovery tribunals and the eventual repeal of the Sick Industrial Companies (Special Provision) Act, 1985.

The Central Registry of Securitisation Asset Reconstruction and Security Interest of India, a Government company licensed under the Companies Act, has been incorporated to operate and maintain the "central registry" under the provisions of the SARFAESI Act. With the existence of a central registry, it would be very difficult for a borrower to raise loans twice against the same property, or to raise loans using forged documents, since the central registry holds details of all properties against which loans have been taken.

The RBI has, in the past, issued various guidelines which aim at revitalising stressed assets in the economy. The measures taken in this direction include issuance of notifications with respect to the Strategic Debt Restructuring ("**SDR**") Mechanism (by a notification dated 8 June 2015), Framework to revitalise the Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum ("**JLF**") and Corrective Action Plan ("**CAP**") (by a notification dated 26 February 2014), Revisions to the Guidelines on Restructuring of Advances by Banks (by a notification dated 30 May 2013), Flexible structuring of Long Term Project Loans to Infrastructure and Core Industries (by a notification dated 15 December 2014) and amendments to guidelines on Sale of Financial Assets to Securitisation Companies (SC)/Reconstruction Companies (RC) (by a notification dated 28 March 2014).

The RBI has issued a revised, consolidated, comprehensive binding framework for resolution of stressed assets on 12 February 2018 ("**Framework**") for scheduled commercial banks and all India financial institutions. The key objective of the Framework is to provide for a harmonised, simplified and generic regulation – providing banks sufficient flexibility to determine their suitable resolution means and mechanisms in a time bound manner. For streamlining the resolution process, the RBI has repealed all related guidelines and specific schemes (Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme, Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets) with immediate effect, and has mandated the initiation of corporate insolvency resolution process for cases which continue to be in default or cannot be rehabilitated within the specified timelines.

Framework for Recognition of Financial Distress

In February 2014, the RBI announced the "Framework for Revitalizing Distressed Assets in the Economy". The framework outlines a corrective action plan to incentivise the following:

- early identification of problem cases;
- timely restructuring of accounts to be viable;
- prompt steps for recovery or sale of unviable accounts;
- centralised reporting and dissemination of information on large credits;
- early formation of lenders committee, with timelines to agree to a plan for resolution in relation to distressed assets;

- better regulatory treatment of stressed assets if a resolution plan is underway;
- accelerated provision if no agreements can be reached;
- improvement in current restructuring process: independent evaluation of large-value restructuring mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors; and
- making future borrowing more expensive for borrowers who do not cooperate with lenders in resolution.

Prompt Corrective Action (PCA) Framework

The Reserve Bank has specified certain regulatory trigger points, as a part of prompt corrective action ("**PCA**") Framework, in terms of three parameters, i.e. CRAR, net RoA, for initiation of certain structured and discretionary actions in respect of banks hitting such trigger points. The PCA framework is applicable only to commercial banks and not extended to co-operative banks, NBFCs and FMIs and would help to identify the banks which have stretched balance sheets by having some trigger points that help in assessing, monitoring, controlling and taking corrective actions. The salient features of PCA Framework for Banks are as below:

- Capital, asset quality and profitability are the key areas for monitoring in the revised framework.
- Leverage would be monitored additionally as part of the PCA framework.
- Breach of any risk threshold (as detailed under) would result in invocation of PCA.
- A bank will be placed under PCA framework based on the audited Annual Financial Results and the Supervisory Assessment made by RBI. However, RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant. PCA matrix – Areas, indicators and risk thresholds:

Indicator		Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
Area Capital	CRAR-Minimum regulatory prescription for capital to risk assets ratio + applicable CCB	up to 250 bps below Indicator	more than 250 bps but not exceeding 400 bps below Indicator	In excess of 312.50 bps below Indicator
(Breach of either CRAR or CET 1 ratio to trigger PCA)	Current minimum RBI prescription of 10.25 percent (9 percent minimum total capital plus 1.25 percent of CCB as on 31 March 2017)	<10.25 percent but >=7.75 percent	<7.75 percent but >=6.25 percent	<3.65 percent
Regulatory pre specified trigger of Common Equity Tier 1 (CET min) + applicable CCB	Current minimum RBI prescription of 6.75 percent (5.5 percent plus 1.25 percent of CCB as on 31 March 2017)	Up to 162.50 bps below Indicator	More than 162.50 bps below but not exceeding 312.50 bps below Indicator	
	Breach of either CRAR or CET 1 ratio to trigger PCA	<6.75 percent but >=5.125 percent	<5.125 percent but >=3.625 percent	
Asset Quality	NNPA ratio	>=6.0 percent but <9.0 percent	>=9.0 percent but <12.0 percent	>=12.0 percent

Indicator		Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
Profitability	Return on assets (ROA)	Negative ROA for two consecutive years	Negative ROA for three consecutive years	Negative ROA for four consecutive years
Leverage	Tier 1 Leverage ratio	<=4.0 percent but >=3.5 percent (leverage is over 5 times the Tier 1 capital)	<3.5 percent (leverage is over 8.6 times the Tier 1 capital)	

The Insolvency and Bankruptcy Code (Amendment) Bill, 2017

The Insolvency and Bankruptcy Code (Amendment) Bill, 2017, was passed by the Lok Sabha on 29 December 2017, and by the Rajya Sabha on 2 January 2018. It replaces the IBC (Amendment) Bill, 2017, which was promulgated on 23 November 2017.

In the corporate insolvency resolution process ("**CIRP**"), the Committee of Creditors ("**CoC**") invites resolution plans from resolution applicants, and may select one of these plans. The Code originally does not specify any restrictions on who these resolution applicants might be. The Bill has declared that some persons are ineligible to submit resolution plans:

(i) an undischarged insolvent;

(ii) a "wilful defaulter";

(iii) a borrower whose account has been identified as a non-performing asset for over a year and who has not repaid the amount before submitting a plan;

(iv) a person convicted of an offence punishable with two or more years of imprisonment;

(v) a person disqualified as a director under the Companies Act, 2013;

(vi) a person prohibited from trading in securities;

(vii) a person who is the promoter or in the management of a company which has indulged in undervalued, preferential or fraudulent transactions;

(viii) a person who has given guarantee on a liability of the defaulting company undergoing resolution or liquidation, and has not honoured the guarantee;

(ix) a person who is subject to any of the above disabilities in any jurisdiction outside India; or

The thrust of the Bill is to prevent a range of undesirable persons from bidding for the debtor. The Bill may prevent promoters from bidding for their own firms. A resolution plan would typically involve significant haircuts on the parts of the financial and operational creditors. Thus, allowing a promoter to bid without restriction would mean countenancing a situation where an owner, having driven a firm into insolvency, is now able to purchase it back at a discount. This can lead to a situation of moral hazard, where incompetent or fraudulent promoters are effectively rewarded with the control of their company, leaving the creditors to write off their debts.

The Bill, thus, seeks to achieve a balanced approach, enabling the CoC to avoid imprudent transactions, while preserving its freedom to choose the best resolution plan from amongst all the applicants.

The Insolvency and Bankruptcy Code (Second Amendment) Bill, 2018

The Parliament has further enacted the Insolvency and Bankruptcy Code (Second Amendment) Bill, 2018. This amendment has reviewed and revised the norms pertaining to enforcement of third party security which has to be provided by the corporate debtor. Further, the voting threshold has been brought down to 66 percent from 75 percent for all major decisions such as approval of resolution plan, extension of corporate insolvency resolution process period, etc. Further, in order to facilitate the corporate debtor to continue as a going concern during the corporate insolvency resolution process, the voting threshold for routine decisions has been reduced to 51 percent This amendment provides relief to home buyers who are now to be treated as financial creditors and therefore will be able to decide the future of defaulting builders alongside their lenders.

Universal Banking Guidelines

Universal banking in the Indian context means the transformation of long-term lending institutions into banks. Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group, the RBI, in its mid-term review of monetary and credit policy for fiscal 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms as applicable to banks. If a long-term lending institution chose to exercise the option available to it and formally decided to convert itself into a universal bank, it could formulate a plan for the transition path and a strategy for smooth conversion into a universal bank over a specified time frame. In May 2001, the RBI issued guidelines on several operational and regulatory issues which were required to be addressed in evolving the path for transition of a long-term lending institution into a universal bank.

Base Rate System

The benchmark prime lending (the "**BPLR**") system, introduced in 2003, fell short of its original objective of bringing transparency to lending rates. This was mainly because, under the BPLR system, banks could lend below the BPLR. For the same reason, it was also difficult to assess the transmission of policy rates of the RBI to lending rates of the bank. The base rate system replaced the BPLR with effect from 1 July 2010. The base rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy. Base rate includes all those elements of the lending rate that are common across all categories of borrowers. Banks may choose any benchmark to arrive at the base rate for a specific tenor that is required to be disclosed transparently. Banks are free to use any methodology in computing the base rate, provided it is consistent and is made available for supervisory review and scrutiny, as and when required.

Banks may determine their actual lending rates on loans and advances with reference to the base rate and by including such other customer specific charges as considered appropriate. In order to give banks some time to stabilise the system of base rate calculation, banks were permitted to change the benchmark and methodology until 30 June 2011.

On 17 December 2015, the RBI released the final guidelines on computing interest rates on advances based on the marginal cost of funds. The guidelines came into effect on 1 April 2016. Apart from helping improve the transmission of policy rates into the lending rates of banks, these measures are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost pricing of loans will help the banks become more competitive and enhance their long-run value and contribution to economic growth.

The Marginal Cost of Funds based Lending Rate ("**MCLR**") is a new methodology to set the lending rates for commercial banks. Previously, banks used to lend as per the Base Rate fixed by The Reserve Bank of India but with the introduction of MCLR, banks will have to lend using rates linked to their funding costs. Simply put, banks raise their funds through deposits, bonds and other investments. For the banks to function smoothly, there are costs involved like salaries, rents and other bills. Considering that banks also need to make profits every year, RBI has included the expenses of the relevant bank and has come up with a formula which can be used by banks to determine their lending rate. With the reduction of repo rate, some banks have reduced MCLR up to 90 basis points.

The highlights of the guidelines are as follows:

1. all rupee loans sanctioned and credit limits renewed with effect from 1 April 2016 will be priced with reference to the MCLR which will be the internal benchmark for such purposes;

2. the MCLR will be a tenor linked internal benchmark;

3. actual lending rates will be determined by adding the components of spread to the MCLR;

4. banks will review and publish their MCLR of different maturities every month on a pre-announced date;

5. banks may specify interest reset dates on their floating rate loans. They will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of the MCLR;

6. the periodicity of reset shall be one year or lower;

7. the MCLR prevailing on the day the loan is sanctioned will be applicable until the next reset date, irrespective of the changes in the benchmark during the interim period;

8. existing loans and credit limits linked to the Base Rate may continue until repayment or renewal, as the case may be. Existing borrowers will also have the option to move to the MCLR linked loan on mutually acceptable terms; and

9. banks will continue to review and publish the Base Rate as hitherto.

Banking Regulation (Amendment) Ordinance, 2020

On June 27, 2020, the President of India approved the Banking Regulation (Amendment) Ordinance, 2020 ("**2020 Ordinance**"). This amendment would bring all urban cooperative banks and multi-state cooperative banks under the supervision of the RBI. The 2020 Ordinance amends the BR Act as applicable to Cooperative Banks. The 2020 Ordinance seeks to protect the interests of depositors and strengthen cooperative banks by improving governance and oversight by extending powers already available with RBI in respect of other banks to Cooperative Banks as well for sound banking regulation, and by ensuring professionalism and enabling their access to capital.

The Ordinance also amends Section 45 of the BR Act, to enable making of a scheme of reconstruction or amalgamation of a banking company for protecting the interest of the public, depositors and the banking system and for securing its proper management, even without making an order of moratorium, so as to avoid disruption of the financial system.

Banking Regulation (Amendment) Act, 2020 notified for the Primary (Urban) Co-operative Banks (UCBs) on September 29, 2020 and deemed to have been effective from June 29, 2020 which stipulates that UCB's will not be allowed to make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms/companies/concerns in which the directors or their relatives are interested.

Prudential Framework for Resolution of Stressed Assets Directions, 2019

On June 7, 2019, RBI issued the 'Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019' (**Stressed Asset Directions**). The Stressed Asset Directions have been issued by the RBI in the wake of the judgement of the Supreme Court of India (in the matter of Dharani Sugars & Chemicals Limited v. Union of India & Ors) holding the RBI circular dated February 12, 2018 on Resolution of Stressed Assets – Revised Framework (**February 12 Circular**) as ultra vires. Pursuant to the circular, the RBI repealed restructuring schemes such as corporate debt restructuring, strategic debt restructuring and the joint lenders forum, etc. The new rule mandates the lenders to initiate insolvency resolution under the Bankruptcy Code if a Borrower fails to pay even at the end of the 180 days of first default. Directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets. These directions are issued without prejudice to issuance of specific directions, from time to time, by the RBI to banks, in terms of the provisions of Section 35AA of the BR Act, for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC).

As per the Stressed Asset Directions, in the event of a default by a borrower, all lenders to the borrower would put in place a resolution plan (**RP**) within 30 days of such default (**Review Period**). During this Review Period, the lenders would decide on a resolution strategy, which includes sale of loan, legal action for debt recovery, immediate referral to NCLT, restructuring or change in ownership. In the event a RP is implemented, the lenders would enter into an inter creditor agreement (**ICA**) during the Review Period. The ICA shall provide that any decision agreed by lenders representing 75% by value of total outstanding credit facilities (fund based as well non-fund based) and 60% of the lenders by number shall be binding upon all the lenders. In addition, the ICA would provide for rights and duties of majority lenders, duties and protection of rights of dissenting lenders and treatment of lenders with priority in cash flows and differential security interest.

Resolution Framework for COVID-19-related Stress

The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under the Prudential Framework which involves granting of any concessions on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained or upgraded to Standard, subject to the prescribed conditions. The economic fallout on account of the COVID-19 pandemic has led to significant financial stress for a number of borrowers across the board.

In this regard, on August 06, 2020, the RBI announced that a window will be provided under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard subject to specified conditions. Such conditions are considered necessary to ensure that the facility of this resolution window is available only to the COVID-19 related stressed assets. Besides, the crucial aspect of maintaining financial stability has also been suitably factored in.

The key features of the resolution framework for exposures other than personal loans are as under:

- Only those borrower accounts shall be eligible for resolution under this framework, which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation.

- The resolution plan may be invoked anytime till December 31, 2020 and shall have to be implemented within 180 days from the date of invocation.

- Lenders shall have to keep additional provisions of 10% on the post-resolution debt.

- Post-implementation, the asset classification of the account shall be retained as standard, or if the account had slipped into NPA after invocation but before implementation, the asset classification shall be restored upon implementation.

- The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years.

- Wherever the resolution plans involve conversion of a portion of debt into equity and other debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into other non-equity instruments shall be fully written down.

With respect to personal loans, a separate framework is being prescribed. The resolution plan for personal loans under this framework may be invoked till December 31, 2020 and shall be implemented within 90 days thereafter. The lending institutions are, however, encouraged to strive for early invocation in eligible cases.

The RBI on May 5, 2021 released "Resolution 2.0" which allowed lenders to carry out a fresh round on restructuring of retail and MSME accounts. The resolution process would be invoked in 30 days and the last day for invocation will be September 30, 2021. Thereafter, the resolution plan will be implemented within 90 days or latest by December 31, 2021. The moratorium period on loans will be a maximum of two years, starting soon after invocation.

Credit Policy Measures

The RBI issues an annual policy statement setting out its monetary policy stance and announcing various regulatory measures. The RBI issues a review of the annual policy statement on a bi-monthly basis.

Monetary Policy Statement for 2019-2021 YTD

First Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 2-4 April 2019

- Policy repo rate under the LAF reduced to 6.0 percent.

- Consequently, the reverse repo rate under the LAF reduced to 5.75 percent, and the MSF rate and the Bank Rate at 6.25 percent.

- Inflation projected at 2.4 percent in Q4, 2.9-3.0 percent in H1 of 2019-20 and 3.5-3.8 percent in H2:2019-20, with risks broadly balanced.

- MPC noted global economic activity has been losing pace, Economic activity also slowed down in some major EMEs, Crude oil prices have risen on production cuts by the Organisation of the Petroleum Exporting Countries and Russia as well as disruption in supplies due to U.S. sanctions on exports from Venezuela and financial markets continued to be driven by monetary policy stances of key central banks and movements in crude oil prices The MPC also notes that the output gap remains negative and the domestic economy is facing headwinds, especially on the global front. The need is to strengthen domestic growth impulses by spurring private investment which has remained sluggish.

Second Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 3-6 June 2019

- Policy repo rate under the LAF reduced to 5.75 percent by 25 basis points.

- Consequently, the reverse repo rate under the LAF stands adjusted to 5.50 per cent, and the MSF rate and the Bank Rate to 6.0 percent.

- The MPC also decided to change the stance of monetary policy from 'neutral' to 'accommodative'.

- CPI inflation projections have been revised to 3.0-3.1 percent for H1:2019-20 and to 3.4-3.7 percent for H2:2019-20, with risks broadly balanced.

- The MPC noted that growth impulses have weakened significantly as reflected in a further widening of the output gap compared to the April 2019 policy. A sharp slowdown in investment activity along with a continuing moderation in private consumption growth is a matter of concern. The headline inflation trajectory remains below the target mandated to the MPC even after taking into account the expected transmission of the past two policy rate cuts. Hence, there is scope for the MPC to accommodate growth concerns by supporting efforts to boost aggregate demand, and in particular, reinvigorate private investment activity, while remaining consistent with its flexible inflation targeting mandate.

Third Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 7 August 2019

- Policy repo rate under the LAF reduced to 5.40 percent by 35 basis points.

- Consequently, the reverse repo rate under the LAF stands reduced to 5.15 percent, and the MSF rate and the Bank Rate to 5.65 percent.

- The MPC also decided to maintain the accommodative stance of monetary policy.

- CPI inflation is projected at 3.1 percent for Q2:2019-20 and 3.5-3.7 percent for H2:2019-20, with risks evenly balanced. CPI inflation for Q1:2020-21 is projected at 3.6 percent.

- The MPC noted that inflation is currently projected to remain within the target over a 12-month ahead horizon. Since the last policy, domestic economic activity continues to be weak, with the global slowdown and escalating trade tensions posing downside risks. Private consumption, the mainstay of aggregate demand, and investment activity remain sluggish. Even as past rate cuts are being gradually transmitted to the real economy, the benign inflation outlook provides headroom for policy action to close the negative output gap. Addressing growth concerns by boosting aggregate demand, especially private investment, assumes the highest priority at this juncture while remaining consistent with the inflation mandate.

Fourth Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 4 October 2019

- Policy repo rate under the LAF reduced to 5.15 percent by 25 basis points.
- Consequently, the reverse repo rate under the LAF stands reduced to 4.90 per cent, and the MSF rate and the Bank Rate to 5.40 percent.
- The MPC also decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- CPI inflation projection is revised slightly upwards to 3.4 percent for Q2:2019-20, while projections are retained at 3.5-3.7 percent for H2:2019-20 and 3.6 percent for Q1:2020-21, with risks evenly balanced.
- The MPC noted that the negative output gap has widened further. While the recent measures announced by the government are likely to help strengthen private consumption and spur private investment activity, the continuing slowdown warrants intensified efforts to restore the growth momentum. With inflation expected to remain below target in the remaining period of 2019-20 and Q1:2020-21, there is policy space to address these growth concerns by reinvigorating domestic demand within the flexible inflation targeting mandate. It is in this context that the MPC decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.

Fifth Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 3-5 December 2019

- Policy repo rate under the LAF unchanged at 5.15 percent.
- Consequently, the reverse repo rate under the LAF remains unchanged at 4.90 per cent, and the MSF rate and the Bank Rate at 5.40 percent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- Inflation was projected at 3.4 percent for Q2:2019-20, 3.5-3.7 percent for H2:2019-20 and 3.6 percent for Q1:2020-21 with risks evenly balanced.
- The MPC noted that economic activity has weakened further and the output gap remains negative. However, several measures already initiated by the Government and the monetary easing undertaken by the Reserve Bank since February 2019 are gradually expected to further feed into the real economy. Data on corporate finance and on projects sanctioned by banks and financial institutions suggest some early signs of recovery in investment activity, though its sustainability needs to be watched closely. The need at this juncture is to address impediments, which are holding back investments. The introduction of external benchmarks is expected to strengthen monetary transmission. In this context, there is also a need for greater flexibility in the adjustment in interest rates on small saving schemes. Similarly, the forthcoming union budget will provide better insight into further measures to be undertaken by the Government and their impact on growth.

Sixth Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 4-6 February 2020

- Policy repo rate under the LAF unchanged at 5.15 percent.
- Consequently, the reverse repo rate under the LAF remains unchanged at 4.90 percent and the MSF rate and the Bank Rate at 5.40 percent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- Inflation was projected at 5.1-4.7 percent for H2:2019-20 and 4.0-3.8 percent for H1:2020-21, with risks broadly balanced.
- The MPC noted that inflation has surged above the upper tolerance band around the target in December 2019, primarily on the back of the unusual spike in onion prices. Over the coming weeks and months, onion prices are likely to ebb as supply conditions improve. The salutary effects on headline inflation are, however, likely to be tempered by hardening of prices of other food items, notably those of pulses and proteins. Meanwhile adjustments to telecom charges are imparting cost-push pressures to CPI inflation excluding food and fuel. Going forward, the trajectory of inflation excluding food and fuel needs to be carefully monitored as the pass-through of remaining revisions in mobile phone charges, the increase in prices of drugs and pharmaceuticals and the impact of new emission norms play out and feed into inflation formation.

Seventh Bi-monthly Monetary Policy Statement for Fiscal 2020 held on 25-27 March 2020

- Reduce the policy rate under the liquidity adjustment facility by 75 basis points to 4.40 percent from 5.15 percent with immediate effect.

- Accordingly, the MSF rate and the Bank Rate stand reduced to 4.65 percent from 5.40 percent.

- Further, consequent upon the widening of the LAF corridor, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0 percent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

- Inflation was projected at 6.5 percent for Q4:2019-20.

- The MPC noted that global economic activity has come to a near standstill as COVID-19 related lockdowns and social distancing are imposed across a widening swathe of affected countries. Expectations of a shallow recovery in 2020 from 2019's decade low in global growth have been dashed. The outlook is now heavily contingent upon the intensity, spread and duration of the pandemic. There is a rising probability that large parts of the global economy will slip into recession.

First Bi-monthly Monetary Policy Statement for Fiscal 2021 held on 20-22 May 2020

- The MPC also decided to reduce the policy repo rate under the LAF by 40 bps to 4.0 percent from 4.40 percent with immediate effect.

- Accordingly, the MSF rate and the Bank Rate stand reduced to 4.25 percent from 4.65 percent.

- The reverse repo rate under the LAF stands reduced to 3.35 percent from 3.75 percent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

- The inflation outlook is highly uncertain. As supply lines get restored in the coming months with gradual relaxations in the lockdown, the unusual spike in food inflation in April is expected to moderate. The forecast of a normal monsoon also portends well for food inflation.

Second Bi-monthly Monetary Policy Statement for Fiscal 2021 held on 6 August 2020

- Keep the policy repo rate under the LAF unchanged at 4.0 percent.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 percent and the MSF rate and the Bank Rate at 4.25 percent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

- Headline CPI inflation, which was at 5.8 percent in March 2020, was placed at 6.1 percent in the provisional estimates for June 2020.

Third Bi-monthly Monetary Policy Statement for Fiscal 2021 held on 9 October 2020

- Keep the policy repo rate under the LAF unchanged at 4.0 percent.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 percent and the MSF rate and the Bank Rate at 4.25 percent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. Headline CPI inflation increased to 6.7 percent during July-August 2020 as pressures accentuated across food, fuel on account of supply disruptions, higher margins and taxes.

Fourth Bi-monthly Monetary Policy Statement for Fiscal 2021 held on December 2-4, 2020

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.0%.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35% and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

- The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

- CPI inflation rose sharply to 7.3% in September and further to 7.6% in October 2020, with some evidence that price pressures are spreading. Food inflation surged to double digits in October across protein-rich items including pulses, edible oils, vegetables and spices on multiple supply shocks. Core inflation, i.e., CPI excluding food and fuel, also picked up from 5.4% in September to 5.8% in October. Both three months and one year ahead inflation expectations of households have eased modestly in anticipation of the seasonal moderation of food prices in the winter and easing of supply chain disruptions.

Fifth Bi-monthly Monetary Policy Statement for Fiscal 2021 held on February 3-5, 2021

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.0%.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35% and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

- The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

- After breaching the upper tolerance threshold of 6% for six consecutive months (June-November 2020), CPI inflation fell to 4.6% in December on the back of easing food prices and favourable base effects. Food inflation collapsed to 3.9% in December after averaging 9.6% during the previous three months (September-November) due to a sharp correction in vegetable prices and softening of cereal prices with kharif harvest arrivals, alongside supply side interventions. On the other hand, core inflation, i.e. CPI inflation excluding food and fuel remained elevated at 5.5% in December with marginal moderation from a month ago. In the January 2021 round of the Reserve Bank's survey, inflation expectations of households softened further over a three month ahead horizon in tandem with the moderation in food inflation; one year ahead inflation expectations, however, remained unchanged.

First Bi-monthly Monetary Policy Statement for Fiscal 2022 held on April 5-7, 2021

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.0%.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35% and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

- The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

- Headline inflation increased to 5.0% in February after having eased to 4.1% in January 2021. Within an overall food inflation print of 4.3% in February, five out of twelve food sub-groups recorded double digit inflation. While fuel inflation pressures eased somewhat in February, core inflation registered a generalised hardening and increased by 50 basis points to touch 6%.

Second Bi-monthly Monetary Policy Statement for Fiscal 2022 held on June 2-4, 2021

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.0%.

- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 percent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

- Headline inflation registered a moderation to 4.3 per cent in April from 5.5 per cent in March, largely on favourable base effects. Food inflation fell to 2.7 per cent in April from 5.2 per cent in March, with prices of cereals, vegetables and sugar continuing to decline on a y-o-y basis. While fuel inflation surged, core (CPI excluding food and fuel) inflation moderated in April across most sub-groups barring housing and health, mainly due to base effects. Inflation in transport and communication remained in double digits.

Reforms of the Non-Banking Financial Companies

Standards relating to income recognition, provisioning and capital adequacy were prescribed for NBFCs in June 1994. Registered NBFCs were required to achieve a minimum capital adequacy of 6.0 percent by the end of fiscal 1995 and 8.0 percent by the end of fiscal year 1996 and to obtain a minimum credit rating. To encourage companies to comply with the regulatory framework, the RBI announced in July 1996 certain liberalisation measures under which the NBFCs registered with it and complying with the prudential norms and credit rating requirements were granted freedom from the ceiling on interest rates on deposits and amount of deposits. Other measures introduced include requiring NBFCs to maintain a certain percentage of liquid assets and to create a reserve fund. The percentage of liquid assets to be maintained by NBFCs has been revised uniformly upwards to 15.0 percent of public deposits since April 1999. From 1 January 2000, the requirement should not be less than 10.0 percent in approved securities and the remaining in unencumbered term deposits in any scheduled commercial bank, the aggregate of which shall not be less than 15.0 percent of the “public deposit” outstanding at the close of business on the last working day of the second preceding quarter. The maximum rate of interest that NBFCs could pay on their public deposits was reduced to 11.0 percent per annum effective 4 March 2003. Effective 24 April 2007, the maximum rate of interest on public deposits accepted by NBFCs was increased to 12.5 percent per annum.

Efforts have also been made to integrate NBFCs into the mainstream financial sector. The first phase of this integration covered measures relating to registrations and standards. The focus of supervision has now shifted to NBFCs accepting public deposits. This is because companies accepting public deposits are required to comply with all the directions relating to public deposits, prudential norms and liquid assets. A task force on NBFCs set up by the Government submitted its report in October 1998, and recommended several steps to rationalise the regulation of NBFCs. Accepting these recommendations, the RBI issued new guidelines for NBFCs in December 1998, which were as follows:

- a minimum net owned fund of Rs. 2.5 million is mandatory before existing NBFCs may accept public deposits;

- a minimum investment grade rating is compulsory for loan and investment companies accepting public deposits, even if they have the minimum net owned funds;

- permission to accept public deposits was also linked to the level of capital to risk assets ratio. Different capital to risk assets ratio levels for NBFCs with different ratings were specified; and

- NBFCs were advised to restrict their investments in real estate to 10.0 percent of their net owned funds.

In the monetary and credit policy for fiscal 2000, the RBI stipulated a minimum capital base of Rs. 20 million for all new NBFCs. This measure was implemented by a notification dated 21 April 1999. In this regard, draft guidelines were introduced on 21 May 2007 whereby the requirement of a minimum net owned fund of Rs. 20 million was proposed to be extended to all NBFCs. Subsequent to the Government’s budget for fiscal 2002, the procedures for foreign direct investment in NBFCs were substantially liberalised.

During fiscal 2003, the RBI introduced a number of measures to enhance the regulatory and supervisory standards of NBFCs, especially in order to bring them in line with commercial banks, in select operations, over a period of time. Other regulatory measures adopted and subsequently revised in November 2004 included aligning interest rates in this sector with the rates prevalent in the rest of the economy, tightening prudential norms and harmonising supervisory directions with the requirements of the Companies Act, 1956, procedural changes in nomination facilities, issuance of a Know Your Customer policy and allowing NBFCs to enter the insurance agency business.

In 2005, the RBI introduced stricter regulatory measures for NBFCs, including stringent reporting requirements and revised Know Your Customer guidelines.

On 11 May 2010, the RBI decided to modify the extant ECB policy in respect of IFCs. As per the extant norms, IFCs have been permitted to avail of ECBs for on-lending to the infrastructure sector, as defined in the extant ECB policy, under the approval route. As a measure of liberalisation of the existing procedures, it was decided to permit the IFCs to avail of ECBs, including the outstanding ECBs, up to 50.0 percent of their owned funds under the automatic route, subject to their compliance with the prudential guidelines already in place. ECBs incurred by IFCs in excess of 50.0 percent of their owned funds would require the approval of the RBI and would, therefore, be considered under the approval route. All the other aspects of ECB policy remained unchanged.

In February 2011, the RBI decided to align the minimum capital ratio of all deposit-taking as well as systemically important non-deposit-taking NBFCs to 15 percent Accordingly, all deposit-taking NBFCs were required to maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 15 percent of its aggregate risk-weighted assets on balance sheet and risk adjusted value of off-balance sheet items with effect from 31 March 2012.

In March 2011, the RBI decided to prohibit NBFCs from contributing capital to any partnership firm or to be partners in partnership firms in view of the risks involved in NBFCs associating themselves with partnership firms. In the case of existing partnerships, NBFCs may seek early retirement from the partnership firms.

In November 2014, the RBI introduced a revised regulatory framework for NBFCs in view of the increasing complexities of services offered by NBFCs making it mandatory for all NBFCs to attain a minimum net-owned fund ("**NOF**") of Rs. 20 million by the end of March 2017 in a phased manner, with a minimum NOF of Rs. 10 million by March 2016 and Rs. 20 million by March 2017. The RBI amended disclosure requirements in the financial statements applicable to all NBFCs and all non-deposit-taking NBFCs. In addition, the RBI made changes to the prudential norms, board committees of the NBFCs, criteria for the appointment of directors, offsite reporting and exemptions.

In April 2015, the RBI allowed NBFCs to distribute mutual fund products.

In November 2015, RBI allowed NBFC micro finance lenders to give loans up to Rs. 30,000 for tenure not less than 24 months, as against the previous limit of Rs. 15,000.

In April 2016, allowed NBFC micro finance lenders to act as channelising agents for distribution of concessional loans under special schemes of government agencies.

In March 2017, the RBI issued a guideline for NBFCs that loans amounting to Rs. 20,000 and above can be disbursed only by the cheque as against the earlier threshold of Rs. 100,000 and above.

In November 2017, the RBI brought about directions on managing risks and code of conduct for outsourcing of financial services by NBFCs. The directions mandated that core management functions, strategic, compliance functions and decision making functions cannot be outsourced. The notification also stated that NBFCs need to ensure that service providers do not impede or interfere with the ability of NBFCs to effectively oversee and manage their activities or impede the RBI in carrying out supervisory functions and objectives.

From 1 April 2018, Banks and NBFCs started the implementation of Ind-AS. The biggest impact of Ind-AS comes from Ind-AS 109, 'Financial instruments' (equivalent of IFRS 9), which could increase loan loss provisioning and thereby impact capital if the new impairment rules are adopted in their entirety.

In 2018, the Ombudsman Scheme for Non-banking Finance Companies was introduced under which complaints against NBFCs for failure or refusal to provide adequate notice on proposed changes being made in sanctioned terms and conditions can be made by the borrower.

In fiscal 2019, challenges emerged for NBFCs and housing finance companies following a default by a large non-banking financial company involved primarily in the infrastructure sector. This resulted in tightening liquidity conditions and increase in yields on the debt of NBFCs and housing finance companies, leading to funding and growth challenges. As access to bond markets for these companies was constrained, bank lending to these companies increased, reflecting in the growth in bank credit to the sector. In response, the RBI announced several measures with a view to facilitate the flow of credit and banking system support to the NBFCs. The Government, in its budget for fiscal 2019, announced a partial credit guarantee for a limited period for purchases of loan portfolios by public sector banks from NBFCs.

Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards

To address the deficiencies witnessed in liquidity risk management in the recent crisis and to strengthen liquidity risk management in banks, the BCBS published "Principles for Sound Liquidity Risk Management and Supervision" in September 2008. This was followed by the publication of "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring" in December 2010, i.e. the Basel III rules text on liquidity prescribing two minimum global regulatory standards, namely the LCR and the NSFR for liquidity risk and a set of five monitoring tools.

In accordance with this, the RBI, being a member of the BCBS, released draft guidelines "Liquidity Risk Management and Basel III Framework on Liquidity Standards" in February 2012. The final guidelines on Basel III capital regulations were issued on 2 May 2012. These guidelines were scheduled to be implemented on 1 January 2013 in a phased manner and were scheduled to be fully implemented on 31 March 2018. Subsequently, the implementation date for Basel III capital regulations was changed to 1 April 2013 from 1 January 2013 to align the implementation date with the Indian financial year.

In order to boost credit to the needy segment of borrowers, the RBI, on August 13, 2019, decided that bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under respective categories (Agriculture, Micro & Small enterprises, and Housing) up to March 31, 2020, subject to certain conditions. This was extended to September 30 2021 on April 7 2021.

In the Union Budget 2019-20, the Government of India rolled out the scheme to provide a one-time partial credit guarantee for the first loss up to 10% to public sector banks (PSBs) for purchase of high-rated pooled assets amounting to Rs.1 lakh crore from financially sound NBFCs/HFCs. This scheme was further extended in the Union Budget 2020-21. In the Union Budget 2020-21, the limit for NBFCs to be eligible for debt recovery under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002, was reduced from Rs.500 crore to asset size of Rs. 100 crore or loan size from existing Rs. 1 crore to Rs. 50 lakh.

Compliance with Basel II and Basel III Requirements

In April 2011, the RBI issued guidelines to banks in relation to moving towards the "Advanced Measurement Approach" ("**AMA**") for computing capital for operational risk. According to the AMA guidelines, banks are required to submit their letter of intent to migrate to the AMA followed by a detailed application to the RBI for migrating to the advanced measurement approach. The Bank had submitted its letter of intent for migration to the AMA in September 2012. On the basis of the RBI's permission, the Bank had made its final application for moving to the AMA in September 2014. The RBI had undertaken an offsite and onsite assessment of the Bank's preparedness and had granted approval to the Bank to migrate to the AMA on a parallel run basis in June 2015.

In April 2010 and March 2012, the RBI issued guidelines relating to switching over to (i) the "Internal Model Approach" for computing capital for market risk and (ii) the "Internal Ratings-Based Approach" ("**IRB**") for computing capital for credit risk, respectively.

The Bank has constituted a Basel Credit Risk Committee which comprises the chief risk officer and the group head of finance and audit functions, which meets on a quarterly basis to oversee the progress of the preparation for the IRB. The committee is also responsible for approving various IRB related policies which are presented to it from time to time. Further, the committee also reviews the capital impact as per the IRB approach and provides guidance on reviews of the methodology used from time to time.

The Bank had completed a self-assessment of its preparation to migrate to the IRB approach and, with the approval of the Risk Policy and Monitoring Committee of the Board, submitted a letter of intent to RBI for migrating to the IRB approach. Following the submission of additional information and further interaction with RBI officials, the Bank has been allowed by RBI to participate in the parallel run process for the Foundation IRB approach for regulatory capital calculation for credit risk, subject to certain conditions. During the parallel run period, the Bank is required to provide data and/or information as per prescribed returns to RBI on a quarterly basis. Quantitative disclosures in line with pillar 3 disclosures under the Basel III guidelines as mandated by the RBI for commercial banks are disclosed in the Regulatory Disclosure Section of the Bank's website on a quarterly basis.

With regards to market risk capital charge, the Bank currently follows the standardised approach (being the standardised measurement methodology ("**SMM**")) prescribed by the regulator and has further put in place a risk analytics system towards developing capability for adopting an internal model approach. The Basel III guidelines have been introduced with a view to improve the banking sector's ability to absorb shocks arising from any financial and economic stress from whatever source and with the aim of supplementing the risk-based capital requirement with a leverage ratio that requires capital for all "on and off balance sheet" items, thus shifting the focus towards common equity capital.

During fiscal 2014, the Bank made concurrent qualified institutional placements and a public offering of American depository shares each representing three equity shares. The aggregate funds received from these issuances was Rs. 97,661 million. Furthermore, the Bank continuously takes measures to be in compliance with the phasing in of capital and leverage ratio requirements under the Basel III guidelines as per the schedule prescribed by the RBI.

Small Finance Banks and Payment Banks

RBI on 17 July 2014 issued draft guidelines for the licensing of payment banks and on 27 November 2014 issued guidelines for small finance banks in the private sector. The primary objective of setting up the payment banks and small finance banks was to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to a migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high-volume low-value transactions in deposits and payments/remittance services in a secured technology driven environment. The RBI received 72 applications for small finance banks and 41 applications for payment banks. In August 2015, 11 entities were granted "in-principle" approval from the RBI for the setting up of payment banks while 10 entities were provided "in-principle" approval for the setting up of small finance banks. However, as of 31 July 2020, there were six operating payment banks and 10 functioning small finance banks.

Key features of the Small Finance Bank guidelines are as follows:

Eligible promoters

Resident individuals/professionals with 10 years of experience in banking and finance and companies and societies owned and controlled by residents will be eligible to set up small finance banks. Existing NBFCs, micro finance institutions, and local area banks that are owned and controlled by residents can also opt for conversion into small finance banks. Promoter/promoter groups should be "fit and proper", with a sound track record of professional experience or of running their businesses for a period of at least five years in order to be eligible to promote small finance banks.

Scope of activities

- The small finance banks shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

- There will not be any restriction in the area of operations of small finance banks.

Capital requirement

The minimum paid-up equity capital for small finance banks shall be Rs. 100 million.

Promoter's contribution

The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall be at least 40 percent and shall gradually be brought down to 26 percent within 12 years from the date of commencement of business of the bank.

Foreign shareholding

The foreign shareholding in small finance banks would be as per the Foreign Direct Investment ("**FDI**") policy for private sector banks as amended from time to time.

Prudential norms

- The small finance banks will be subject to all prudential norms and regulations of the RBI as applicable to existing commercial banks, including the requirement of maintenance of CRR and SLR. No forbearance would be provided for complying with the statutory provisions.

- The small finance banks will be required to extend 75 percent of their ANBC to the sectors eligible for classification as PSL by the RBI.

- At least 50 percent of their loan portfolio should constitute loans and advances of up to Rs. 2.5 million.

Transition path

If a small finance bank aspires to transit into a universal bank, such transition will not be automatic, but would be subject to fulfilling the minimum paid-up capital net worth requirement as applicable to universal banks, its satisfactory track record of performance as a small finance bank and the outcome of the RBI's due diligence exercise.

Key features of the payments banks guidelines are as follows:

Eligible promoters

- Existing non-bank pre-paid payment instrument issuers and other entities such as individuals/professionals, NBFCs, corporate Business Correspondents ("**BC**"), mobile telephone companies, supermarket chains, companies, real sector cooperatives that are "owned and controlled by residents", and public sector entities may apply to set up payments banks.

- A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, a scheduled commercial bank can take an equity stake in a payments bank to the extent permitted under Section 19(2) of the BR Act.

- Promoter/promoter groups should be "fit and proper", with a sound track record of professional experience or of running their businesses for a period of at least five years in order to be eligible to promote payments banks.

Scope of activities

- Acceptance of demand deposits. Payments banks will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.

- Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.

- Payments and remittance services through various channels.

- BC of another bank, subject to the RBI guidelines on BCs.

- Distribution of non-risk sharing simple financial products such as mutual fund units and insurance products, etc.

Deployment of funds

- The payments banks cannot undertake lending activities.

- Apart from amounts maintained as CRR with the RBI on its outside demand and time liabilities, payments banks will be required to invest a minimum of 75 percent of their "demand deposit balances" in SLR eligible Government securities/treasury bills with a maturity up to one year and to hold a maximum 25 percent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

Capital requirement

- The minimum paid-up equity capital for payments banks shall be Rs. 100 million.

- The payments banks should have a leverage ratio of not less than 3 percent, i.e., their outside liabilities should not exceed 33.33 times their net worth (paid-up capital and reserves).

Promoter's contribution

The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall be at least 40 percent for the first five years from the commencement of its business.

Foreign shareholding

The foreign shareholding in the payments banks would be as per the FDI policy for private sector banks as amended from time to time.

Other conditions

- The operations of the banks should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.

- The banks should have a high-powered customer grievances cell to handle customer complaints.

Developments in the Banking Sector

Implementation of the Basel III capital regulations

In December 2010, the BCBS issued a comprehensive reform package of capital regulations, known as Basel III. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill over from the financial sector to the real economy. The RBI issued the RBI Basel III Capital Regulations and the guidelines became operational from 1 April 2013. However, the reform package and guidelines will be implemented in a phased manner. On 31 December 2013, the RBI further extended the implementation of credit valuation adjustment risk to 1 April 2014, and, on 27 March 2014, extended the deadline for full implementation of Basel III requirements to 31 March 2019. (*Source: RBI Circular DBOD.No.BP.BC.81/21.06.201/2013-14 dated 31 December 2013 and RBI Circular DBOD.No.BP.BC. 102/21.06.201/2013-14 dated 27 March 2013*)

Under Basel III, the total capital of a bank in India must be at least 9.00 percent of RWAs (8.00 percent as specified by the BCBS), Tier I capital must be at least 7.00 percent of RWAs (6.00 percent as specified by the BCBS) and Common Equity Tier I capital must be at least 5.50 percent of RWAs (4.50 percent as specified by the BCBS). Due to the transitional arrangements, the capital requirements of banks may be lower during the initial periods and higher during later years. Therefore, banks have been advised to do their capital planning accordingly. In addition to the minimum requirements as indicated above, banks are required to maintain a CCB in the form of common equity of 2.50 percent of RWAs. Under the RBI Basel III Guidelines, total capital with CCB has been fixed at 11.5 percent of RWAs applicable as of 31 March 2019. In July 2014, the RBI released the "Final Report of the Internal Working Group on Implementation of Counter-cyclical Capital Buffer", which requires banks to maintain a buffer of up to 2.5 percent of RWAs in period of high credit growth as a precaution for downturn.

Furthermore, under Basel III, a simple, transparent, non-risk based leverage ratio has been introduced. The BCBS will test a minimum Tier I leverage ratio of 3.00 percent during a parallel run period from 1 January 2013 to 1 January 2017. The RBI has prescribed that during this parallel run period, banks should strive to maintain their existing leverage ratios, but in no case should a bank's leverage ratio fall below 4.50 percent Banks whose leverage is below 4.50 percent have been advised to achieve this target as early as possible. This leverage ratio requirement is yet to be finalised and will be finalised taking into account the final proposals of the BCBS. (*Source: RBI Annual Report 2011-2012*) Additionally, in June 2014, the RBI released guidelines for LCRs as part of the Basel III framework on liquidity standards, which will require minimum LCRs starting at 60 percent as at 1 January 2015, increasing in equal annual steps to 100 percent by 1 January 2019.

Furthermore, Additional Tier I non-equity capital instruments under Basel III are expected to provide additional features such as full coupon discretion, and principal loss absorption when the common equity ratio of a bank falls below 6.125 percent of its risk-weighted assets. In the case of Tier II non-equity capital instruments, the distinction between Upper Tier II and Lower Tier II instruments under Basel II is removed and a single class of Tier II instrument eligibility criteria has been prescribed. Additionally, under Basel III loss absorption features have been included in the event of the occurrence of the "Point of Non-Viability" trigger. The RBI has also fixed the base at the nominal amount of capital instruments outstanding on 1 January 2013, and their recognition will be capped at 90.00 percent from 1 April 2013, with the cap reducing by 10.00 percent points in each subsequent year.

On 31 August 2015, the Reserve Bank of India designated the State Bank of India and ICICI Bank Ltd. as domestic systematically important banks ("**D-SIB**"). Based on the methodology provided in the D-SIB framework and data collected from banks as on 31 March 2015, the State Bank of India and ICICI Bank Ltd. will have to provide Additional Common Equity Tier 1 ("**CET1**") requirements as a percentage of risk-weighted assets of 0.6 percent and 0.2 percent respectively. The CET1 requirements applicable to D-SIBs will be applicable from 1 April 2016 in a phased manner and would become fully effective from 1 April 2019. The additional CET1 requirements will be in addition to the capital conservation buffer.

At present, the assets allowed as Level 1 HQLAs, inter alia, includes among others within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) MSF and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio 15 percent of the bank's Net Demand and Time Liabilities ("**NDTL**") with effect from 1 April 2020. Given that SLR has now been reduced to 18 percent of NDTL from 11 April 2020, and with increase in MSF from 2 percent to 3 percent of the banks' NDTL (with effect from 27 March 2020 and applicable up to 30 September 2020), entire SLR-eligible assets held by banks are now permitted to be reckoned as HQLAs for meeting LCR.

Further, banks are required to maintain LCR of 100 percent with effect from 1 January 2019. In order to accommodate the burden on banks' cash flows on account of the COVID-19 pandemic, banks are permitted to maintain LCR as under:

Time Period	**LCR (percent)**
From 17 April 2020 to 30 September 2020	80
1 October 2020 to 31 March 2021	90
1 April 2021 onwards	100

As per RBI's latest annual report, The Basel committee's oversight body – the Group of Central Bank Governors and Heads of Supervision (GHOS) – has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 pandemic on the global banking system. One of the measures already endorsed by the GHOS on March 27, 2020 was to defer the timeline for implementation of Basel III standards from January 1, 2022 to January 1, 2023. (*RBI Annual Report 2021*)

Dynamic provisioning guidelines

At present, banks generally make two types of provisions; general provisions on standard assets and specific provisions on NPAs. Since the level of NPAs varies through the economic cycle, the resultant level of specific provisions also behaves cyclically. Consequently, lower provisions during upturns and higher provisions during downturns have a pro-cyclical effect on the real economy.

To address the pro-cyclicality of capital and provisioning, efforts at an international level are being made to introduce countercyclical capital and provisioning buffers. The RBI has prepared a discussion paper on a countercyclical (dynamic) provisioning ("**DP**") framework.

The DP framework is based on the concept of expected loss ("**EL**"), which is the average level of losses a bank can reasonably expect to experience, and is considered the cost of doing business. It is generally covered by provisioning and pricing. The objective of DP is to soften the impact of incurred losses on the results of operations through the economic cycle, and not to provide a general provisioning cushion for EL. More specifically, the DP created during a year will be the difference between the long run average EL of the portfolio for one year and the incremental specific provisions made during the year. The parameters of the model suggested in the discussion paper are calibrated based on the data of Indian banks. Banks that have the capability to calibrate their own parameters may, with the prior approval of the RBI, introduce a DP framework using the theoretical model indicated by the RBI. Other banks will have to use the standardised calibration provided by the RBI. (*Source: RBI Annual Report 2011-2012 and Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India dated 30 March 2012*)

The RBI, in its circular dated 30 March 2015, has decided that, as a countercyclical measure, a bank may utilise up to 50 percent of the countercyclical provisioning buffer/floating provisions held by it as at 31 December 2014 for making specific provisions for non-performing assets, as per the policy approved by the bank's Board of Directors. The RBI further clarified that the use of the countercyclical provisioning buffer/floating provisions under this measure may be over and above the use of the countercyclical provisioning buffer/floating provisions as proposed in the RBI's circular of 26 February 2014 on "Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures". The February 2014 circular also emphasises that all banks should develop the necessary capabilities to have a dynamic loan loss provisioning framework in place which would enable them to build up a "DP account" during good times and utilise the same during a downturn.

The Master Direction issued by the RBI on 12 May 2016 titled "Master Direction – Ownership in Private Sector Banks, Directions, 2016" provides the applicable shareholding ceilings in private sector banks to various categories of shareholders. It states that the ownership limits for all shareholders in the long run shall be based on categorisation of the shareholders under two broad categories, namely (i) natural persons (individuals) and (ii) legal persons (entities or institutions). Further, non-financial and financial institutions and, among financial institutions, diversified and non-diversified financial institutions shall have separate limits for shareholding as below:

- in the case of individuals and non-financial entities (other than promoters or promoter groups), the limit shall be 10 percent of the paid up capital. However, in the case of promoters being individuals and non-financial entities in existing banks, the permitted promoter or promoter group shareholding shall be in line with the permitted level in the 22 February 2013 guidelines on the licensing of universal banks at 15 percent;

- in the case of entities from the financial sector, other than regulated or diversified or listed, the limit shall be 15 percent of the paid-up capital;

- in the case of "regulated, well diversified, listed entities from the financial sector" and shareholding by supranational institutions or public sector undertakings or Government, a uniform limit of up to 40 percent of the paid-up capital is permitted for promoters, promoter groups and non-promoters; and

- higher stake or strategic investment by promoters, non-promoters through capital infusion by domestic or foreign entities or institutions shall be permitted on a case-by-case basis under circumstances, amongst others, such as relinquishment by existing promoters, rehabilitation, restructuring of problems, weak banks, entrenchment of existing promoters or if it is in the interests of the bank or in the interests of consolidation in the banking sector.

According to the RBI circular dated 27 March 2020, there would be a standstill on asset classification for standard bank accounts as on 29 February 2020, even if the account is overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. On 17 April 2020, the RBI notified that lending institutions will make general provisions, spread over two quarters, March 2020 and June 2020, of not less than 10 percent of the total outstanding of such accounts.

Future Outlook and Key Trends

Going forward, banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business increase. They will need to refine their risk management skills for enterprise-wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services, since capital comes at a cost. This involves costing, a quantitative assessment of revenue streams from each product and service and an efficient transfer-pricing mechanism that would determine capital allocation.

During the fiscal years 2015, 2016, 2017, NPAs rose and remained flat during FY2018. The slippage ratio of the banking system, which showed a declining trend during the fiscal years 2005 to 2008, further increased during the fiscal years 2009 to 2018. Banks need to not only utilise effectively the various measures put in place by the RBI and the Government for the resolution and recovery of bad loans, but also strengthen their due diligence, credit appraisal and post-sanction loan monitoring systems to minimise and mitigate the problem of increasing NPAs in FY2020 and beyond. Further, the Government had cleared an ordinance to amend the BR Act to empower the RBI to push banks to drive insolvency against defaulters and to set up oversight committees to approve various loan resolution packages. This was an important first step in the resolution of stressed loans by leveraging the RBI's position and offering bankers immunity against investigations.

The RBI's Financial Stability Report (FSR) of January 2021 suggest that the extent of gross NPA in banking may rise from 7.5% of advances in September 2020 to 13.5% of advances by September 2021 as a base case. Hence, banks need to not only utilize effectively the various measures put in place by the RBI and the Government for the resolution and recovery of bad loans, but also strengthen their due diligence, credit appraisal and post-sanction loan monitoring systems to minimize and mitigate the problem of increasing NPAs. Further, the Government had cleared an ordinance to amend the BR Act to empower the RBI to push banks to drive insolvency against defaulters and to set up oversight committees to approve various loan resolution packages. This was an important first step in the resolution of stressed loans by leveraging the RBI's position and offering bankers immunity against investigations.

The amendments to the BR Act 1949, introduced through the Ordinance, and the notification issued thereafter by the Central Government empower RBI to issue directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default, under the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC). It also enables the Reserve Bank to issue directions with respect to stressed assets and specify one or more authorities or committees with such members as the Bank may appoint or approve for appointment to advise banking companies on resolution of stressed assets.

As per the new guidelines of June 7, 2019, RBI circular on prudential framework for resolution of stressed assets, in the event of a borrower defaulting to any lender, all lenders to the borrower would put in place a resolution plan (RP) within 30 days of such default. However, the IBC was suspended through the Covid-19 pandemic until March 2021.

While the IBC infrastructure, with the ongoing legislative tweaks, should be well capable of handling steady-state incremental stresses, the existing stock of GNPAs require a one-time exceptional resolution infrastructure. Trying to tackle GNPAs through just the IBC might take too much time and effort, with far-reaching consequences for the weak economy.

Accordingly, a key announcement in the FY 2021-22 Union Budget is the formation of a 'bad bank', to better manage the problem of non-performing assets in the financial services ecosystem. An Asset Reconstruction Company (ARC) Limited and Asset Management Company (AMC) would be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realization. Banks might have to put an initial capital to start the bad bank, which will be a "cash neutral" company.

Regulatory measures on account of COVID-19

In response to the demand and supply side risks of the COVID-19 pandemic, the RBI has issued circulars, the Statement of Developmental and Regulatory Policies dated 6 August 2020 and 22 May 2020 and Monetary Policy Statement, 2020-2021: Resolution of Monetary Policy Committee dated 22 May 2020 announcing certain regulatory measures set out below, with an aim to revive growth and mitigate the impact of the COVID-19 pandemic on business and financial institutions in India.

Measures to address liquidity concerns

The RBI will conduct auctions of targeted long-term repos of up to three years tenor of appropriate sizes for a total amount of up to Rs. 1 trillion at a floating rate linked to the policy repo rate. Liquidity availed under the scheme by banks is to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on 25 March 2020. Investments made by banks under this facility will be classified as held to maturity ("**HTM**") even in excess of 25 percent of total investments permitted to be included in the HTM portfolio. Exposures under this facility will also not be considered under the large exposure framework. CRR was reduced by 100 bps from 4.0 percent of NDTL, to 3.0 percent, increasing liquidity in the system by Rs. 1.37 trillion.

- Minimum daily CRR balance maintenance requirement was reduced from 90 percent to 80 percent until 26 June 2020.

- Accommodation under the MSF increased from 2.0 percent of the SLR to 3.0 percent until 30 June 2020, allowing the banking system to avail an additional Rs. 1.37 trillion of liquidity at the reduced MSF rate of 4.65 percent from 5.40 percent This enhanced limit has been further extended until 30 September 2020.

- Policy repo rate reduced by 75 basis points to 4.40 percent from 5.15 percent on 27 March 2020. Simultaneously, the reverse repo rate was reduced by 90 basis points to 4.0 percent The purpose of this measure is to discourage banks from passively depositing funds with the RBI and instead, use these funds for on-lending to productive sectors of the economy. The RBI, by way of its notification dated 22 May 2020 further reduced the policy repo rate under the LAF by 40 bps from 4.40 percent to 4.00 percent and the reverse repo rate to 3.35 percent

- Widening the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the LAF would be 40 bps lower than the policy repo rate. The MSF rate would continue to be 25 bps above the policy repo rate.

Additional measures announced on 17 April 2020

On 17 April 2020, the RBI cut the reverse repo rate to 3.75 percent, thereby further widening the policy rate corridor to 90 bps and LCR was reduced from 100 percent to 80 percent The RBI, by its circular dated 17 April 2020, on the 'Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR)', has stated that while banks are required to maintain LCR of 100 percent with effect from 1 January 2019, in order to accommodate the burden on the banks' cash flows on account of the COVID-19 pandemic, banks are permitted to maintain LCR as follows: (i) 80 percent from 17 April 2020 to 30 September 2020, (ii) 90 percent from 1 October 2020 to 31 March 2021 and (iii) 100 percent with effect from 1 April 2021.

The RBI also announced additional set of targeted longer-term refinancing operations measures ('TLTRO 2.0') of Rs. 500 billion, with focus, among others, on NBFCs by reserving 50 percent of the amount for NBFCs with asset sizes between Rs. 5 billion and Rs. 50 billion, NBFCs with asset sizes less than Rs. 5 billion and Micro Finance Institutions ("**MFIs**").

COVID-19 Regulatory Package

Pursuant to the RBI Regulatory Package in its circular dated 27 March 2020, lending institutions were permitted to grant a moratorium of three months on payment of all instalments of term loans falling due between 1 March 2020 and 31 May 2020. Subsequently, lending institutions have been permitted to extend the moratorium period by another three months, from 1 June 2020 to 31 August 2020. The repayment schedule for such loans, including the residual tenor, will also be extended by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period. In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("**CC/OD**") lending institutions were permitted to defer the recovery of interest applied in respect of all such facilities during the period from 1 March 2020 up to 31 May 2020. Subsequently, lending institutions have been permitted to extend this by another three months, from 1 June 2020 to 31 August 2020 (deferment period). Further, lending institutions are permitted to convert the accumulated interest on working capital facilities up to the deferment period (up to 31 August 2020) into a funded interest term loan which shall be repayable not later than the end of the current financial year (being, 31 March 2021).

In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the COVID-19 pandemic, lending institutions are permitted to recalculate the 'drawing power' by reducing the margins until the extended period, i.e., 31 August 2020 and reassess the working capital cycle of a borrowing entity up to an extended period until 31 March 2021. Since the moratorium/deferment/recalculation of the 'drawing power' is being provided specifically to enable the borrowers to withstand the economic impact of the COVID-19 pandemic, the moratorium/deferment/recalculation will not be treated as concession. The asset classification of term loans which are granted relief pursuant to the Regulatory Package shall be determined on the basis of revised due dates and the revised repayment schedule. The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies by the lending institutions. If the exposure of a lending institution to a borrower is Rs. 50 million or above as on 1 March 2020, the bank is required to develop an MIS on the reliefs provided to its borrowers and include the borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets

As per the new guidelines of 7 June 2019, RBI circular on prudential framework for resolution of stressed assets, in the event of a borrower defaulting to any lender, all lenders to the borrower would put in place a resolution plan ("**RP**") within 30 days of such default. During this 30-day review period, lenders would decide on a resolution strategy (sale of loan, legal action for debt recovery, immediate referral to NCLT etc.) that could also include restructuring and change in ownership as well. In case a RP is implemented, the lenders would enter into an inter creditor agreement (ICA) during the review period. The ICA shall provide that any decision agreed by lenders representing 75 percent by value of total outstanding credit facilities (fund based as well non-fund-based) and 60 percent of lenders by number shall be binding upon all the lenders. Additionally, the ICA would provide for rights and duties of majority lenders, duties and protection of rights of dissenting lenders, treatment of lenders with priority in cash flows/differential security interest, etc. In particular, the RPs shall provide for payment not less than the liquidation value due to the dissenting lenders. In respect of accounts with aggregate exposure above a threshold with the lenders (large borrowers), on or after the 'reference date', RP shall be implemented within 180 days from the end of review period. (*Source: RBI*) As part of the COVID-19 Regulatory package, RBI announced on 17 April 2020, that it has been decided that the period for resolution plan under RBI's prudential framework of resolution of stressed assets shall be extended by 90 days. Given the continued challenges to resolution of stressed assets, on 22 May 2020, RBI extended it to an additional 90 days. In respect of accounts which were within the Review Period as on 1 March 2020, the period from 1 March 2020 to 31 August 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period resumed from 1 September 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

AtmaNirbhar Bharat' Reforms (May, 2020)

During the period from 12 May 2020 to 17 May 2020, the Union Government, announced several measures across sectors as a part of an economic package to mitigate the impact of the COVID-19 pandemic. The relevant measures with respect to banking and credit are set out below.

Collateral free loans for MSMEs

- Small and medium enterprises will be offered collateral-free automatic loans of up to Rs. 3 trillion up to 20 percent of the entire outstanding credit.

- MSME borrowers with Rs. 0.25 billion outstanding loans and a turnover of Rs. 1 billion will be eligible.

- Loans will have a 4-year tenor and a principal moratorium will be given for 12 months. Interest will be capped.

- 100 percent credit guarantee will be given to banks and NBFCs by the Government on the principal and interest amount of the loans.

- The scheme can be availed until 31 October 2020.

Subordinate debt for stressed MSMEs

Liquidity support of up to Rs. 200 billion, in the form of subordinate debt is provided for stressed MSMEs. All functioning MSMEs, which are NPA or stressed, will be eligible for such support. Further, support of Rs. 40 billion is available to the Credit Guarantee Fund Trust for Micro and Small Enterprises which will then provide partial credit guarantee to banks. The promoters will be given debt by banks, which will then be infused by promoters as equity.

Liquidity facility for NBFC/housing finance companies/micro finance institutions

Special liquidity scheme of up to Rs. 300 billion for NBFCs/housing finance companies/micro finance institutions has been announced. Under the scheme, investment will be made in both primary and secondary market transactions in investment-grade debt of NBFCs/housing finance companies/micro finance institutions. The securities will be fully guaranteed by the Government.

Expansion of partial credit guarantee scheme for NBFCs

The scope of the partial credit guarantee scheme for NBFCs has been widened. First 20 percent of the loss will be guaranteed by the Government. Instruments with ratings AA and below including unrated instruments are eligible for investment. This scheme is intended to result in liquidity infusion of Rs. 450 billion.

Extension of credit linked subsidy scheme for Housing

Credit linked subsidy scheme for those earning between Rs. 0.6 million to Rs. 1.8 million per annum has been extended until March 2021. The scheme provides a subsidy to middle-income earners on affordable home loan interest rates. Approximately 0.33 million families have benefitted from this scheme and the extension will benefit another 0.25 million middle-income families. This is expected to lead to an investment of over Rs. 700 billion in the housing sector.

Announcement of Rs. 500 billion Special Liquidity Facility for Mutual Funds (April, 2020)

On 27 April 2020, with a view to easing liquidity pressures on mutual funds, the RBI opened a special liquidity facility for mutual funds. Under such facility, the RBI would conduct repo operations of 90 days' tenor at the fixed repo rate in an on-tap and open-ended manner, starting 27 April 2020 up to 11 May 2020 or up to utilisation of the allocated amount, whichever was earlier. Funds availed under this facility are to be used by banks exclusively for meeting the liquidity requirements of mutual funds by extending loans and outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers, debentures and certificates of Deposit CDs held by mutual funds. Liquidity support availed under this facility will be classified as HTM even in excess of 25.0 percent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will also not be considered under the large exposure framework or for computation of adjusted non-food bank credit for determining priority sector targets/sub-targets and will be exempt from banks' capital market exposure limits. (*Source: RBI, Press Release, 27 April 2020*)

SUPERVISION AND REGULATION

The main legislation governing commercial banks in India is the BR Act. The provisions of the BR Act are in addition to and not, save as expressly provided in the BR Act, in derogation of the Companies Act, 2013 and any other law currently in force. Other important laws include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the "**SARFAESI Act**") and the Bankers' Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines to be followed by banks. Compliance with all regulatory requirements is evaluated with respect to our financial statements under Indian GAAP.

RBI Regulations

Commercial banks in India are required under the BR Act to obtain a license from the RBI to carry on banking business in India. Before granting the license, the RBI must be satisfied that certain conditions are complied with, including (i) that the Bank is or will be in a position to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the Bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the general character of the proposed management of the Bank will not be prejudicial to the public interest or the interest of its depositors; (iv) that the Bank has adequate capital and earnings prospects; (v) that public interest will be served if a license is granted to the Bank; (vi) that having regard to the banking facilities available in the proposed principal area of operations of the Bank, the potential scope for expansion of banks already in existence in the area and other relevant factors, the grant of the license would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth; and (vii) any other condition, the fulfillment of which would, in the opinion of the RBI, be necessary to ensure that the carrying on of banking business in India by the Bank will not be prejudicial to the public interest or the interests of the depositors. The RBI can cancel the license if the Bank fails to meet the above conditions or if the Bank ceases to carry on banking operations in India.

Being licensed by the RBI, we are regulated and supervised by the RBI. It requires us to furnish statements, information and certain details relating to our business. The RBI has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing and restructured assets among others. The RBI has set up a Board for Financial Supervision, under the chairmanship of its Governor, with the primary objective of undertaking consolidated supervision of the financial sector comprised of commercial banks, financial institutions and non-banking finance companies ("NBFCs"). This Board oversees the functioning of the Department of Banking Supervision, Department of Non-Banking Supervision and Financial Institutions Division of the RBI and gives directions relating to regulatory and supervisory issues.

Entry of New Banks in the Private Sector

In February 2013, the RBI released guidelines for licensing of new banks in the private sector. The key items covered under these guidelines are as follows: (i) promoters eligible to apply for banking licenses; (ii) corporate structure; (iii) minimum voting equity capital requirements for new banks; (iv) regulatory framework; (v) foreign shareholding cap; (vi) corporate governance; (vii) prudential norms; (viii) exposure norms; and (ix) business plan. The RBI has permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned non-operative financial holding company ("NOFHC"), subject to compliance with certain specified criteria. Such a NOFHC is permitted to be the holding company of the bank as well as any other financial services entity, with the objective that the holding company ring-fences the regulated financial services entities in the group, including the bank, from other activities of the group. Pursuant to these guidelines, two banks, namely IDFC First Bank and Bandhan Bank, commenced banking operations in fiscal 2016.

In November 2014, RBI released guidelines on licensing of payments banks ("Payments Banks Guidelines") and small finance banks ("Small Finance Banks Guidelines") in the private sector. The objective of setting up of payments banks is to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labor workforce, low income households, small businesses, other unorganized sector entities and other users. Previously payments banks were allowed to accept deposits of up to Rs. 100,000; recently, the RBI enhanced the end-of-day maximum balance limit to Rs. 200,000 per individual customer of the respective payments bank. Payments banks are not allowed to undertake lending activities or issue credit cards. In August 2015, the RBI gave in-principle approvals to 11 applicants to set up payments banks. The objective of setting up small finance banks is to further financial inclusion by (i) providing savings vehicles, and (ii) supplying credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high-tech and low-cost operations. Small finance banks primarily undertake basic banking activities, such as the acceptance of deposits and lending to unserved and underserved sections of society, including small business units, small and marginal farmers, micro and small industries and unorganized sector entities, with no restriction in their area of operations. The minimum paid-up equity capital requirement for such banks is Rs. 1,000.0 million. The foreign shareholding in payments banks would be as per the FDI policy for private sector banks, as amended from time to time. In September 2015, the RBI granted "in-principle" approval to ten applicants to set up small finance banks. All 10 applicants received their final license.

The guidelines issued in 2014 stated that after gaining experience in dealing with small finance banks, the RBI would consider "on tap" licensing of these banks. Accordingly, in December 2019, the RBI released guidelines for "on-tap" licensing of small finance banks (the "December 2019 Guidelines"). Further, the RBI, in its circular dated March 28, 2020, issued certain modifications to the Payments Bank Guidelines and the Small Finance Banks Guidelines to harmonize them with the December 2019 Guidelines. The December 2019 Guidelines stated that a Standing External Advisory Committee ("SEAC") comprising eminent persons with experience in banking, financial sector and other relevant areas, will evaluate the applications and that the constituent members of the SEAC will be announced by the RBI. In March 2021, the RBI announced the constituent members of the SEAC, who will have a tenure of three years.

In August 2016, the RBI released the guidelines for "on-tap" licensing of universal banks in the private sector. The guidelines aim at moving from the current "stop and go" licensing approach (wherein the RBI notifies the licensing window during which a private entity may apply for a banking license) to a continuous or "on-tap" licensing regime. Among other things, the new guidelines specify conditions for the eligibility of promoters, corporate structure and foreign shareholdings. One of the key features of the new guidelines is that, unlike the February 2013 guidelines (mentioned above), the new guidelines make the NOFHC structure non-mandatory in the case of promoters being individuals or standalone promoting/converting entities which do not have other group entities. As of April 15, 2021, four entities had applied for licenses to set up universal banks, pursuant to these guidelines.

In May 2016, the RBI also issued the Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016. These guidelines prescribe requirements regarding shareholding and voting rights in relation to all private sector banks licensed by the RBI to operate in India. The guidelines specify the following ownership limits for shareholders based on their categorization:

(i) In the case of individuals and non-financial entities (other than promoters/promoter group), 10.0 percent of the paid up capital. However, in the case of promoters being individuals and non-financial entities in existing banks, the permitted promoter/promoter group shareholding shall be as prescribed under the February 2013 guidelines, *i.e.,*15.0 percent.

(ii) In the case of entities from the financial sector, other than regulated or diversified or listed, 15.0 percent of the paid-up capital.

(iii) In the case of "regulated, well diversified, listed entities from the financial sector" shareholding by supranational institutions, public sector undertaking or government, up to 40.0 percent of the paid-up capital is permitted for both promoters/promoter group and non-promoters.

In June 2020, the RBI set up an internal working group to examine and review the extant licensing and regulatory guidelines relating to ownership and control, corporate structure of private sector banks and other related issues. The group submitted its report in October 2020, and some of the key recommendations are as follows: (i) the cap on promoters' stakes over the course of 15 years may be raised from the current level of 15.0 percent to 26.0 percent of the paid-up voting equity share capital of the bank; (ii) the RBI may introduce regulations in relation to the issuance of ADRs and GDRs by banks, which ensure that such issuances are not used by dominant shareholders to indirectly enhance their voting power, including mandating prior approval by the RBI before entering into agreements with depositories, requiring a provision in the depository agreement assigning no voting rights to depositories; and a mechanism for disclosure of the details of the ultimate depository receipt holders so that indirect holdings can be disclosed along with direct holdings; (iii) large corporate/industrial houses may be allowed as promoters of banks only after necessary amendments to the Banking Regulations Act, 1949; (iv) NOFHCs should continue to be the preferred structure for all new licenses to be issued for Universal Banks. However, NOFHC structures should be mandatory only in cases where the individual promoters, promoting entities and converting entities have other group entities; and (v) listing requirements for small finance banks, payments banks and universal banks.

Financial Holding Company Structure in India

The RBI constituted a Working Group in June 2010 to examine the feasibility of introducing a Financial Holding Company ("FHC") Structure in India under the chairpersonship of the Deputy Governor. In May 2011, the Working Group submitted its report to recommend a roadmap for the introduction of a holding company structure in the Indian financial sector together with the required regulatory, supervisory and legislative framework. The report served as a guiding document for the introduction of an alternate organizational structure for banks and financial conglomerates in India. Key recommendations of the Working Group were as follows: (i) FHC structure; (ii) regulatory framework; (iii) statutory and taxation related changes; (iv) caps on expansion in non-banking business; (v) capital raising; and (vi) transitioning to the FHC structure.

In August 2013, the RBI issued a discussion paper titled "Banking Structure in India – The Way Forward". The key recommendations in the paper relate to: (i) adoption of the FHC structure; (ii) differential licensing (allowing banks to be licensed to provide only specified services); (iii) consolidation of large-sized Indian banks; (iv) requiring large foreign banks to operate through subsidiaries in India and the reduction of the Government's ownership of state-owned banks to ease the burden on the state where these banks will have to be capitalized to comply with Basel III requirements.

On April 7, 2014, the RBI introduced a new category of NBFCs called NOFHCs and, accordingly, amended the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The RBI directions define a NOFHC as a non-deposit taking NBFC which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by RBI or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

Under the guidelines for "on-tap" licensing of universal banks in the private sector, the RBI has made the NOFHC structure non-mandatory in the case of promoters being individuals or standalone promoting/converting entities which do not have other group entities. Under the December 2019 Guidelines, if there is an intermediate company between the promoting entity and the small finance bank, such an intermediate company should be a NOFHC. However, if the small finance bank is set up under a holding company structure without a NOFHC, such holding company is required to be registered as a NBFC-CIC with the RBI.

In a report submitted by the internal working group of the RBI in October 2020, certain recommendations were made relating to NOFHCs, including: (i) NOFHCs should continue to be the preferred structure for all new licenses to be issued for universal banks. However, NOFHC are mandatory only in cases where the individual promoters, promoting entities and converting entities have other group entities; (ii) while banks licensed before 2013 may move to an NOFHC structure at their discretion, once the NOFHC structure attains a tax-neutral status, all banks licensed before 2013 must move to the NOFHC structure within 5 years from announcement of tax-neutrality; (iii) until the NOFHC structure is made feasible and operational, the concerns with regard to banks undertaking different activities through subsidiaries, joint ventures or associates should be addressed through suitable regulations; and (iv) banks currently under the NOFHC structure may be allowed to exit from such a structure if they do not have other group entities in their corporate structure.

Regulations Relating to the Opening of Banking Outlets

Section 23 of the BR Act provides that banks must obtain the prior permission of the RBI to open new banking outlets. The RBI may cancel a license for violations of the conditions under which it was granted.

The RBI issues instructions and guidelines to banks on branch authorization from time to time. Centers are categorized as Tier 1 to Tier 6 based on population (as per the 2011 census) and classified in the following manner:

- Tier 1 – 100,000 and above;
- Tier 2 – 50,000 to 99,999;
- Tier 3 – 20,000 to 49,999;
- Tier 4 – 10,000 to 19,999;
- Tier 5 – 5,000 to 9,999; and
- Tier 6 – Less than 5,000.

The RBI, with effect from September 19, 2013, granted general permission to domestic scheduled commercial banks like us to open banking outlets in Tier 1 to Tier 6 centers, subject to reporting to the RBI and prescribed conditions such as (i) at least 25 percent of the total number of banking outlets opened during the fiscal year must be opened in unbanked rural (Tier 5 and Tier 6) centers, which are defined as centers that do not have a brick and mortar structure of any scheduled commercial bank for customer-based banking transactions; and (ii) the total number of banking outlets opened in Tier 1 centers during a fiscal year cannot exceed the total number of banking outlets opened in Tier 2 to Tier 6 centers and all centers in the north eastern states of India and the state of Sikkim. The RBI also permitted banks to open banking outlets in Tier 1 centers over and above the number permitted in accordance with the paragraph above, as an incentive for opening more banking outlets in underbanked districts of underbanked States, subject to specified conditions.

The RBI also permitted scheduled commercial banks to install off-site/mobile ATMs at centers/places identified by them, without the need to get permission from the RBI in each case. This, however, is subject to certain conditions, including for closure/shifting of any such off-site/mobile ATMs, wherever the RBI considers it necessary. Banks need to report full details of the off-site ATMs installed by them in terms of the above general permission as a part of the periodic reports submitted to the RBI.

In May 2017, the RBI has further liberalized the branch authorization policy. Some of the key changes made pursuant to the revised guidelines are as follows:

- A concept of "banking outlets" has been introduced. A banking outlet for a domestic scheduled commercial bank has been defined as a fixed point service delivery unit, manned by either bank's staff or its business correspondent where services of acceptance of deposits, encashment of checks/cash withdrawal or lending of money are provided for a minimum of four hours per day for at least five days a week.

- At least 25.0 percent of the total number of "banking outlets" opened during a financial year must be opened in unbanked rural centers (Tier 5 and Tier 6). The definition of unbanked rural centers has been modified to mean a rural (Tier 5 and Tier 6) center that does not have a CBS enabled banking outlet of a scheduled commercial bank.

- The restriction on the number of banking outlets that may be opened in Tier 1 centers has been removed.

Appointment of auditors

The appointment of the auditors of banks is subject to the approval of the RBI. The RBI can direct a special audit in the interest of the depositors or in the public interest. In April 2021, the RBI issued guidelines for the appointment of statutory central auditors ("SCAs") and statutory auditors ("SAs") of commercial banks (excluding regional rural banks ("RRBs") pursuant to which the commercial banks are required to receive prior approval from the RBI for the appointment of SCAs and SAs. The guidelines provide eligibility criteria for SCAs and SAs, and also provide the number of joint auditors a bank is required to appoint based on its assets size.

Capital Adequacy Requirements

The RBI issued guidelines for the implementation of the New Capital Adequacy Framework ("Basel II"). In order to maintain consistency and harmony with international standards, foreign banks in India and Indian banks having operational presence outside India were advised to adopt the Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk with effect from March 31, 2008, while other commercial banks were advised to adopt these approaches with effect from March 31, 2009.

Under these guidelines, we were required to maintain a minimum ratio of capital to risk-adjusted assets and off-balance sheet items of 9.0 percent, at least 6.0 percent of which must be Tier I capital. Until March 31, 2013, we were also required to ensure that our Basel II minimum capital requirement continued to be higher than the prudential floor of 80.0 percent of the minimum capital requirement computed as per the Basel I framework for credit and market risks. In May 2013, the RBI withdrew the requirement of parallel run and prudential floor for implementation of Basel II vis-à-vis Basel I.

In May 2012, the RBI released guidelines on implementation of Basel III capital regulations in India with effect from April 1, 2013. The RBI has also issued a master circular on "Basel III Capital Regulations" consolidating all relevant guidelines on Basel III. The key items covered under these guidelines include: (i) improving the quality, consistency and transparency of the capital base; (ii) enhancing risk coverage; (iii) graded enhancement of the total capital requirement; (iv) introduction of capital conservation buffer and countercyclical buffer; and (v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier I capital will predominantly consist of common equity of the banks which includes common shares, reserves and stock surplus. Innovative instruments and perpetual non-cumulative preference share will not be considered a part of CET-I capital. Basel III also defines criteria for instruments to be included in Tier II capital to improve their loss absorbency. The guidelines also set out criteria for loss absorption through conversion/write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-CET-I and Tier II instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity. Under the Basel III capital regulations, the capital funds of a bank are classified into CET-I, Additional Tier I ("AT-I") and Tier II capital. Tier I capital, comprised of, among others, CET-I and AT-I, provides the most permanent and readily available support against unexpected losses. CET-I capital is comprised of paid-up equity capital and reserves consisting of any statutory reserves, free reserves and capital reserves. By its circular dated March 2016, the RBI has allowed banks, at their discretion, to include foreign currency translation reserves arising due to the translation of financial statements of their foreign operations in terms of Accounting Standard ("AS") 11 as CET-I capital at a discount of 25.0 percent, subject to certain conditions. Further, the RBI has permitted deferred tax assets which relate to timing differences (other than those related to accumulated losses) to be recognized in the CET-I capital up to 10.0 percent of a bank's CET-I capital, at the discretion of banks (instead of full deduction from CET-I capital), subject to certain terms and conditions.

AT-I capital is comprised of, among others, perpetual non-cumulative preference shares and debt capital instruments eligible for inclusion as AT-I capital. Regulatory adjustments/deductions such as equity investments in financial subsidiaries (in accordance with the directions of the RBI), intangible assets, deferred tax assets (in the manner and to the extent, specified by the RBI), gaps in provisioning and losses in the current period and those brought forward from the previous period are required to be deducted from CET-I capital in a phased manner and fully deducted therefrom by March 31, 2017.

Tier II capital consists of revaluation reserves at a discount of 55.0 percent, general provisions and loss reserves (allowed up to a maximum of 1.25 percent of the total credit risk weighted assets), hybrid debt capital instruments (which combine features of both equity and debt securities) such as perpetual cumulative preference shares, redeemable non-cumulative preference shares/redeemable cumulative preference shares and debt capital instruments (which should be fully paid up, with a fixed maturity of minimum five years and should not contain clauses that permit step-ups or other incentives to redeem). In its circular dated March 1, 2016, the RBI has stated that revaluation reserves arising out of a change in the carrying amount of a bank's property consequent to its revaluation may, at the discretion of the bank, be considered as CET-I capital. As of January 1, 2013, capital instruments which are not Basel III compliant (such as capital debt instruments with step-ups) are being phased-out in a gradual manner (at a rate of 10.0 percent per year). In April 2018, the RBI advised all banks to create an Investment Fluctuation Reserve (the "IFR") with effect from the financial year 2018-19, with a view to building up adequate reserves to protect against an increase in yields in the future. The IFR is eligible for inclusion in Tier II capital, and recently the RBI has clarified that there is no ceiling on the percentage of IFR which may be included as a part of the Tier II capital.

The Basel III capital regulations require a bank to maintain a minimum CET-I capital ratio of 5.5 percent, a minimum Tier I capital ratio of 7.0 percent and a capital conservation buffer of 2.5 percent of its risk weighted assets with the minimum overall capital adequacy ratio of 9.0 percent of its risk weighted assets. The transitional arrangements for the implementation of Basel III capital regulations in India began from April 1, 2013, and the guidelines were to be fully phased-in and implemented as of March 31, 2019. In January 2019, the RBI has decided to defer the implementation of the last tranche of the capital conservation buffer from March 31, 2019 to March 31, 2020. In response to the COVID-19 pandemic, the RBI has further deferred the implementation of the last tranche of the capital conservation buffer to October 1, 2021. See also "The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation".

Risk adjusted assets considered for determining the capital adequacy ratios are the aggregation of risk weighted assets of credit risk, market risk and operational risk.

In respect of credit risk, the risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of certain funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and conversion factors to off-balance sheet items. The value of each item is multiplied by the relevant weight and/or conversion factor to arrive at risk-adjusted values of assets and off-balance sheet items. Standby letters of credit and general guarantees are treated similarly to funded exposures and are subject to a 100.0 percent credit conversion factor. The credit conversion factor for certain off-balance sheet items such as performance bonds, bid bonds and standby letters of credit related to particular transactions is 50.0 percent while that for short-term self-liquidating trade-related contingencies such as documentary credits collateralized by the underlying shipments is 20.0 percent. The credit conversion factor for other commitments like formal standby facilities and credit lines is either 20.0 percent or 50.0 percent, based on the original maturity of the facility. Differential risk weights for credit exposures linked to their external credit rating or asset class have been prescribed.

The RBI has prescribed a matrix of risk weights varying from 35.0 percent to 75.0 percent (since revised to a maximum of 50.0 percent for loans sanctioned on or after June 7, 2017) for individual housing loans based on the size of the loan and the loan-to-value ratios. In October 2020, as a countercyclical measure, the RBI decided to rationalize the risk weights, irrespective of the amount. The risk weights for all new housing loans to be sanctioned on or after October 16, 2020 and up to March 31, 2022 would be required to be 35.0 percent for the loan to value ratio of less than and equal to 80.0 percent and 50.0 percent for loan to value ratio of greater that 80.0 percent and less than and equal to 90.0 percent. In relation to the retail portfolio, retail claims were required to be assigned a risk-weight of 75.0 percent, except as provided otherwise by the RBI for non-performing assets. "Low value of individual exposures" was one of the four qualifying criteria which prescribed that the maximum aggregated retail exposure to one counterparty shall not exceed the absolute threshold limit of Rs. 50.0 million. In order to reduce the cost of credit for this segment, which consists of individuals and small businesses (i.e. with turnover of up to Rs. 500.0 million), and also to harmonize the maximum exposure limit with the existing RBI regulations on the Basel III framework, the RBI increased threshold limit for aggregated retail exposure to a counterparty to Rs.75.0 million from October 12, 2020. The risk weight of 75.0 percent would apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs. 75.0 million. Consumer credit, including personal loans, but excluding credit card receivables carry a risk weight of 100.0 percent or higher corresponding to the rating of the exposure, or lack of such rating. The risk weight for capital markets exposure and credit card receivables is 125.0 percent, or higher corresponding to the rating of the exposure, or lack of such rating. Exposure to venture capital funds are risk weighted at 150.0 percent. Other loans/credit exposures are risk-weighted based on their ratings or turnover. The RBI has also prescribed detailed guidelines for the capital treatment of securitization exposures. The RBI requires banks in India to compute the capital requirements for operational risk under the "Basic Indicator Approach". Under this approach, banks must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. The BCBS has set this percentage at 15.0 percent, which has been followed by the RBI.

Banks are required to maintain a capital charge for market risks on their trading books in respect of securities included under the held-for-trading and available-for-sale categories, open gold position, open foreign exchange position limits, trading positions in derivatives and derivatives entered into for hedging trading book exposures. With effect from fiscal 2015, banks are also required to quantify incurred credit valuation adjustment losses and standard credit valuation adjustment capital charge on their derivatives portfolio.

A lower pre-specified trigger at CET-I of 5.5 percent of risk weighted assets will apply and remain effective before October 1, 2021; from this date the trigger will be raised to CET-I of 6.125 percent of risk weighted assets for all such instruments. Additional Tier I instruments issued on, or after, October 1, 2021 will have only one pre-specified trigger of CET-I of 6.125 percent of risk weighted assets. The capital requirement, including the capital conservation buffer and the additional requirement for D-SIBs, will be 11.7 percent once these guidelines are fully phased in. In September 2014, the RBI reviewed its guidelines on Basel III capital regulations with a view to facilitate issuance of non-equity regulatory capital instruments by banks under Basel III framework. Accordingly, certain specific eligibility criteria of such instruments were amended. These amendments were also intended to incentivize investors and to increase the investor base.

Issuance of Perpetual Debt Instruments – Requirements under RBI Basel III Guidelines

The following are key provisions pertinent to the proposed issue of the Additional Tier 1 Notes as set out under the RBI Basel III Regulations.

As per the Master Circular on Basel III Capital Regulations (RBI/2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated 1 July 2015), as amended from time to time, issued by the RBI, the disclosure – related provisions stipulated in the aforesaid Master Circular are as follows:

Annexure 4 of the RBI Basel III Guidelines

Terms of Issuer of Instruments Denominated in Indian Rupees

Paid-in Status: The instruments should be issued by the bank (i.e. not by any 'SPV' etc. set up by the bank for this purpose) and fully paid-in.

Amount: The amount of PDI to be raised may be decided by the Board of Directors of banks.

Limits: While complying with minimum Tier 1 of 7% of risk weighted assets, a bank cannot admit, Perpetual Debt Instruments (PDI) together with Perpetual Non-Cumulative Preference Shares (PNCPS) in Additional Tier 1 Capital, more than 1.5% of risk weighted assets. However, once this minimum total Tier 1 capital has been complied with, any additional PNCPS and PDI issued by the bank can be included in Total Tier 1 capital reported. Excess PNCPS and PDI can be reckoned to comply with Tier 2 capital if the latter is less than 2% of RWAs i.e. while complying with minimum Total Capital of 9% of risk weighted assets.

Maturity Period: The PDIs shall be perpetual i.e. there is no maturity date and there are no step-ups or other incentives to redeem.

Rate of Interest: The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

Optionality: PDIs shall not have any 'put option'. However, banks may issue the instruments with a call option at a particular date subject to following conditions:

a. The call option on the instrument is permissible after the instrument has run for at least five years;

b. To exercise a call option a bank must receive prior approval of RBI (Department of Banking Regulation);

c. A bank must not do anything which creates an expectation that the call will be exercised. For example, to preclude such expectation of the instrument being called, the dividend/coupon reset date need not be co-terminus with the call date. Banks may, at their discretion, consider having an appropriate gap between dividend/coupon reset date and call date; and

d. Banks must not exercise a call unless:

(i) They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

(ii) The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

The use of tax event and regulatory event calls may be permitted. However, exercise of the calls on account of these events is subject to the requirements set out aforesaid in points (b) to (d). RBI will permit the bank to exercise the call only if the RBI is convinced that the bank was not in a position to anticipate these events at the time of issuance of PDIs.

To illustrate, if there is a change in tax treatment which makes the capital instrument with tax deductible coupons into an instrument with non-tax deductible coupons, then the bank would have the option (not obligation) to repurchase the instrument. In such a situation, a bank may be allowed to replace the capital instrument with another capital instrument that perhaps does have tax deductible coupons.

Similarly, if there is a downgrade of the instrument in regulatory classification (e.g. if it is decided by the RBI to exclude an instrument from regulatory capital) the bank has the option to call the instrument and replace it with an instrument with a better regulatory classification, or a lower coupon with the same regulatory classification with prior approval of RBI. However, banks may not create an expectation/signal an early redemption/maturity of the regulatory capital instrument.

Repurchase/Buy-back/Redemption

(a) Principal of the instruments may be repaid (e.g. through repurchase or redemption) only with prior approval of RBI and banks should not assume or create market expectations that supervisory approval will be given (this repurchase/buy-back/redemption of the principal is in a situation other than in the event of exercise of call option by the bank.

(b) One of the major differences is that in the case of the former, the option to offer the instrument for repayment on announcement of the decision to repurchase/buy-back/redeem the instrument, would lie with the investors whereas, in case of the latter, it lies with the bank).

Banks may repurchase/buy-back/redeem only if:

(i) They replace such instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

(ii) The bank demonstrates that its capital position is well above the minimum capital requirements after the repurchase/buy-back/redemption.

Coupon Discretion

(a) The bank must have full discretion at all times to cancel distributions/payments.

(b) Cancellation of discretionary payments must not be an event of default.

(c) Banks must have full access to cancelled payments to meet obligations as they fall due.

(d) Cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stakeholders.

(e) Coupons must be paid out of distributable items. In this context, coupon may be paid out of current year profits. However, if current year profits are not sufficient i.e. payment of coupon is likely to result in losses during the current year, the balance amount of coupon may be paid out of revenue reserves (i.e. revenue reserves which are not created for specific purposes by a bank) and/or credit balance in profit and loss account, if any.

However, payment of coupons on PDIs from the revenue reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios at all times and subject to the requirements of capital buffer frameworks (i.e. capital conservation buffer, countercyclical capital buffer and Domestic Systemically Important Banks). Banks must ensure and indicate in the offer document that they have full discretion at all times to cancel distributions/payments in order to meet the eligibility criteria for perpetual debt instruments.

(f) the interest shall not be cumulative.

(g) The instrument cannot have a credit sensitive coupon feature, i.e. a dividend that is reset periodically based in whole or in part on the banks' credit standing. For this purpose, any reference rate including a broad index which is sensitive to changes to the bank's own creditworthiness and/or to changes in the credit worthiness of the wider banking sector will be treated as a credit sensitive reference rate. Banks desirous of offering floating reference rate may take prior approval of the RBI (DBR) as regard permissibility of such reference rates.

(h) In general, it may be in order for banks to have dividend stopper arrangement that stop dividend payments on common shares in the event the holders of AT1 instruments are not paid dividend/coupon. However, dividend stoppers must not impede the full discretion that bank must have at all times to cancel distributions/payments on the Additional Tier 1 instrument, nor must they act in a way that could hinder the re-capitalisation of the bank. For example, it would not be permitted for a stopper on an Additional Tier 1 instrument to:

- attempt to stop payment on another instrument where the payments on this other instrument were not also fully discretionary;

- prevent distributions to shareholders for a period that extends beyond the point in time that dividends/coupons on the Additional Tier 1 instrument are resumed;

- impede the normal operation of the bank or any restructuring activity (including acquisitions/disposals).

A stopper may act to prohibit actions that are equivalent to the payment of a dividend, such as the bank undertaking discretionary share buybacks, if otherwise permitted.

Treatment in Insolvency

The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of a requirement to prove insolvency under any law or otherwise.

Loss Absorption Features

PDIs may be classified as liabilities for accounting purposes (not for the purpose of insolvency as indicated above). In such cases, these instruments must have principal loss absorption through either (i) conversion to common shares at an objective pre-specified trigger point or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:

(a) Reduce the claim of the instrument in liquidation;

(b) Reduce the amount re-paid when a call is exercised; and

(c) Partially or fully reduce coupon payments on the instrument.

Various criteria for loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and at the point of non-viability are set out in the RBI Basel III Guidelines.

Prohibition on Purchase/Funding of Instruments

Neither the bank nor a related party over which the bank exercises control or significant influence (as defined under relevant Accounting Standards) should purchase the instrument, nor can the bank directly or indirectly fund the purchase of e instrument. Banks should also not grant advances against the security of the debt instruments issued by them.

Re-capitalisation

The instrument cannot have any features that hinder re-capitalisation, such as provisions which require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

Reporting of Non-payment of Coupons

All instances of non-payment of coupon should be notified by the issuing banks to the Chief General Managers-in-Charge of Department of Banking Regulation and Department of Banking Supervision of the RBI, Mumbai.

Seniority of Claim

The claims of the investors in instruments shall be

(i) superior to the claims of investors in equity shares and perpetual non-cumulative preference shares;

(ii) subordinated to the claims of depositors, general creditors and subordinated debt of the bank;

(iii) is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

Treatment of the Additional Tier 1 Instruments in the event of Winding-Up, Amalgamation, Acquisition, Re-Constitution etc. of the Bank

If a bank goes into liquidation before the instruments have been written-down, these instruments will absorb losses in accordance with the order of seniority indicated in the offer document. If a bank goes into liquidation after the instruments have been written down, the holders will have no claim on the proceeds of liquidation.

Further provisions are furnished in Annex 16 of the RBI Basel III Capital Regulations.

Terms of Issue of Instruments Denominated in Foreign Currency

Banks may augment their capital funds through the issue of PDIs in foreign currency without seeking the prior approval of the RBI, subject to compliance with the requirements set out below:

(i) Instruments issued in foreign currency should comply with all terms and conditions as applicable to the instruments issued in Indian Rupees.

(ii) Not more than 49% of the eligible amount can be issued in foreign currency.

(iii) Instruments issued in foreign currency shall be outside the existing limit for foreign currency borrowings by Authorised Dealers, stipulated in terms of Master Circular No. RBI/2006-07/24 dated July 1, 2006 on Risk Management and Inter-Bank Dealings as updated from time to time.

Compliance with Reserve Requirements

The total amount raised by a bank through debt instruments shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR/SLR requirements.

Reporting of Issuances

Banks issuing PDIs shall submit a report to the Chief General Manager-in-charge, Department of Banking Regulation, the RBI, Mumbai giving details of the debt raised, including the terms of issue specified under RBI Basel III Capital Regulations, together with a copy of the offer document soon after the issue is completed.

Classification in the Balance Sheet

The amount raised by way of issue of debt capital instrument may be classified under 'Schedule 4 – Borrowings' in the Balance Sheet.

Annexure 16 of the RBI Basel III Guidelines

Minimum Requirements to Ensure Loss Absorbency of Additional Tier 1 Instruments at Pre-specified Trigger and of All Non-equity Regulatory Capital Instruments at the Point of Non-viability

Loss Absorption Features

One of the criteria for AT1 capital instruments requires that these instruments should have principal loss absorption at an objective pre-specified trigger point through either:

(a) conversion to common shares, or

(b) a write-down mechanism which allocates losses to the instrument.

The write-down will have the following effects:

(i) reduce the claim of the instrument in liquidation;

(ii) reduce the amount re-paid when a call is exercised; and

(iii) partially or fully reduce coupon/dividend payments on the instrument.

Accordingly, banks may issue AT1 instruments with write-down (temporary or permanent) mechanism.

The salient provisions of Annexure 16 include: (i) Level of Pre-specified Trigger and Amount of Equity to be Created by Write-down; (ii) Treatment of AT1 Instruments in the event of Winding-Up, Amalgamation, Acquisition, Re-Constitution etc. of the Bank; (iii) Fixation of Conversion Price, Capping of Number of Shares/Voting Rights; (iv) Mode of Loss Absorption and Trigger Event; (v) A Non-viable Bank; (vi) Restoring Viability; (vii) Other Requirements to be met by the Non-common Equity Capital Instruments so as to Absorb Losses at the PONV; and (viii) Criteria to Determine the PONV.

Key provisions

It is pertinent to note the following provisions as part of the RBI Basel III Guidelines and particularly pertaining to the issuance of the Additional Tier 1 Notes:

(a) When a paid-up instrument is fully and permanently written-down, it ceases to exist resulting in extinguishment of a liability of a bank (a non-common equity instrument) and creates CET1. A temporary write-down is different from a permanent write-down i.e. the original instrument may not be fully extinguished. Generally, the par value of the instrument is written-down (decrease) on the occurrence of the trigger event and which may be written-up (increase) back to its original value in future depending upon the conditions prescribed in the terms and conditions of the instrument. The amount shown on the balance sheet subsequent to temporary write-down may depend on the precise features of the instrument and the prevailing accounting standards.

(b) In accordance with the RBI Circular No. RBI/2020-21/93 DOR.CAP.BC.No.34/21.06.201/2020-21 '*Basel III Capital Regulations – Review of transitional arrangements*' dated February 5, 2021, all AT1 instruments issued before October 1, 2021, that is before the full implementation of Basel III will have two pre-specified triggers. A lower pre-specified trigger at CET1 of 5.5% of RWAs will apply and remain effective before October 1, 2021; from this date the trigger will be raised at CET1 of 6.125% of RWAs for all such instruments. AT1 instruments issued on or after October 1, 2021 will have pre-specified trigger at CET1 of 6.125% of RWAs only.

Domestic Systemically Important Banks

In July 2014, the RBI released a framework for dealing with domestic systemically important banks ("D-SIBs"). The D-SIB framework requires that the RBI disclose the names of banks designated as D-SIBs. Banks identified as systemically important based on their size, interconnectedness in the financial system, complexity and lack of readily available substitutes or financial infrastructure would be required to maintain additional CET-I capital ranging from 0.2 percent to 1.0 percent of risk-weighted assets ("RWAs"). D-SIBs may implement the increased capital requirement in a phased manner from April 2016 to April 2019. Our Bank has been classified as a domestic systemically important bank by the RBI during fiscal 2018. The higher capital requirements under the bucketing structure, as provided in the D-SIB Framework, in the form of additional CET-I, were phased-in beginning on April 1, 2018, and became fully effective from April 1, 2019. The RBI, in its circular dated June 28, 2019, reduced the minimum leverage ratio from 4.5 percent to 4.0 percent for D-SIBs and 3.5 percent for other banks, with effect from October 1, 2019. In its press release dated January 2021, the RBI has confirmed that the Bank continues to be a D-SIB with an additional CET-I requirement of 0.2 percent (making the Bank's aggregate capital requirement 11.7 percent).

Countercyclical Capital Buffer

In February 2015, the RBI released guidelines for implementation of Countercyclical Capital Buffer ("CCCB"). The CCCB regime requires banks to build up a buffer of capital in good times which may be used to maintain flow of credit to the real sector in difficult times. It also achieves the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk. While the framework for CCCB has taken effect, the activation of CCCB will take place when notified by the RBI. Some of the key points mentioned in the guidelines are as follows: (i) CCCB may be maintained in the form of CET I capital or other fully loss absorbing capital only, and the amount of the CCCB may vary from 0.0 percent to 2.5 percent of total risk weighted assets of the banks; (ii) the CCCB decision would normally be pre-announced with a lead time of four quarters; however, depending on the CCCB indicators, the banks may be advised to build up the requisite buffer in a shorter time period; and (iii) banks will be subject to restrictions on discretionary distributions (including dividend payments, share buybacks and staff bonus payments) if they do not meet the requirement on CCCB. The RBI has not activated the CCCB as yet and in its notification dated April 19, 2021, has stated that it is not necessary to activate CCCB at this point in time.

Loan Loss Provisions and Non-Performing Assets

The RBI has issued guidelines on income recognition, asset classification, provisioning standards and the valuation of investments applicable to banks, which are revised from time to time. These guidelines are applied for the calculation of impaired assets under Indian GAAP. Whereas our consolidated financial statements are prepared in accordance with U.S. GAAP, loan loss provision is made in accordance with ASC 326 and ASC 450 and as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and under Note 2(i) "*Summary of Significant Accounting Policies – Allowance for credit losses*", to our consolidated financial statements. The principal features of the RBI guidelines are set forth below. It should be noted that in light of the impact of the COVID-19 pandemic, the RBI relaxed certain requirements including in relation to asset classification, provisioning and restructuring of loans. See also "*– COVID-19 Regulatory Package*" below.

Non-Performing Assets

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

The RBI guidelines stipulate the criteria for determining and classifying a non-performing asset ("NPA"). An NPA is a loan or an advance where:

- interest and/or an installment of principal remain overdue (as defined below) for a period of more than 90 days in respect of a term loan;
- the account remains "out-of-order" (as defined below) in respect of an overdraft or cash credit for more than 90 days;
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops;
- the amount of a liquidity facility remains outstanding for more than 90 days, in respect of securitization transactions undertaken in accordance with the RBI guidelines on securitization dated February 1, 2006; or
- in respect of derivative transactions, the overdue receivables representing the positive mark-to-market value of a derivative contract, remain unpaid for a period of 90 days from the specified due date for payment.

Banks should classify an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter.

"Overdue"

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

"Out-of-Order" Status

An account should be treated as "out-of-order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but (i) there are no credits continuously for a period of 90 days as of the date of the balance sheet of the Bank; or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as "out-of-order".

Asset Classification

Banks are required to classify NPAs into the following three categories based on the period for which the asset has remained non-performing and the realizability of the dues:

Sub-standard Assets: Assets that are non-performing for a period less than or equal to 12 months. Such an asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and is characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

Doubtful Assets: An asset will be classified as doubtful if it remains in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets: Assets on which losses have been identified by the Bank or internal or external auditors or on inspection by the RBI, but the amount has not been written off fully. Such an asset is considered uncollectable and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

There are separate asset classification guidelines that will apply to projects under implementation before the commencement of their commercial operation.

In April 2021, the RBI clarified that in respect of borrower accounts which were not granted any moratorium under the RBI's COVID-19 Regulatory Package, as explained in "– COVID-19 Regulatory Package" below, asset classification remains as per the regulations summarized above. In respect of borrower accounts which were granted a moratorium under the RBI's COVID-19 Regulatory Package, the asset classification for the period from March 1, 2020 to August 31, 2020 would be governed in terms of RBI circulars summarized in "– COVID-19 Regulatory Package" below.

In September 2020, the RBI directed Indian banks to put in place or upgrade their systems by June 30, 2021, in order to ensure the completeness and integrity of the automated asset classification (classification of advances and investments as NPA/NPI), provisioning calculation and income recognition processes.

Restructured Assets

The RBI has issued prudential guidelines on the restructuring of advances by banks. The guidelines essentially deal with the norms/conditions, the fulfillment of which is required to maintain the category of the restructured account as a "standard asset". A standard asset can be restructured by rescheduling principal repayments and/or the interest element, subject to compliance with certain conditions, but must be separately disclosed as a restructured asset.

The following categories of advances are not eligible for being classified as a standard asset upon restructuring: (a) consumer and personal advances; (b) advances classified as capital market exposures; and (c) advances classified as commercial real estate exposures.

The criteria to be fulfilled for the restructured advance to be treated as a "standard asset" includes the viability of the business, infusion of promoters' contribution, full security coverage and cap on maximum tenor of repayment. The economic loss, if any, arising as a result of a restructuring needs to be provided for in the books of the Bank. The provision is computed as the difference between the fair value of the account before and after restructuring.

Similar guidelines apply to sub-standard assets. Sub-standard accounts which have been subjected to restructuring, whether in respect of a principal installment or interest amount, are eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when the first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

In May 2013, the RBI issued additional guidelines in relation to restructured assets wherein such regulatory forbearance regarding asset classification on restructured accounts will be withdrawn for all restructurings with effect from April 1, 2015, with the exception of provisions related to changes in "Date of Commencement of Commercial Operations" ("**DCCO**") in respect of infrastructure as well as non-infrastructure project loans. This implies that a standard account would immediately be classified as a sub-standard account upon restructuring. These guidelines are also applicable to non-performing assets, which, upon restructuring, would continue to have the same asset classification as prior to the restructuring and may be classified into lower categories in accordance with applicable asset classification norms based on the pre-restructuring repayment schedule. However, the standard asset classification may be retained, subject to specified conditions, in respect of certain loans granted for infrastructure projects given the importance of the infrastructure sector in national growth and development and the uncertainty involved in obtaining approvals from various authorities. The RBI has, in its circular dated February 7, 2020, issued guidelines regarding the deferment of the DCCO for projects in non-infrastructure and commercial real estate ("CRE") sectors, and clarified that deferment in certain instances will not be treated as restructuring.

Resolution of Stressed Assets

In June 2019, the RBI issued the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019. These directions replace the erstwhile framework for the resolution of stressed assets (including the framework for revitalizing distressed assets, the joint lenders forum mechanism, strategic debt restructuring, and the scheme of sustainable structuring of stressed assets).

As set out in the circular, lenders must recognize developing stress in loan accounts, immediately on default. Lenders must put in place policies approved by their board of directors for the resolution of stressed assets, including the timelines for such resolution, and they are expected to implement the resolution plan before default occurs. If a default occurs, lenders have a review period of 30 days within which their resolution strategy must be decided. The RBI directions provide the timelines within which the banks are required to implement the resolution plan, depending on the aggregate exposure of the borrower to the lender. For large accounts with the aggregate exposure of the lenders being Rs. 20 billion or more, the RBI has specified that the resolution plan must be implemented within 180 days from the end of the review period. If implementation of the resolution plan is delayed, lenders are required to make an additional provision of 20.0 percent of the total outstanding in addition to any provisions already made and those provisions required to be made as per the asset classification status of the borrower, subject to a total provision of 100.0 percent of the total amount outstanding. Lenders are required to make appropriate disclosures of implemented resolution plans in their financial statements under "Notes on Accounts".

As a result of the impact of the COVID-19 pandemic, the RBI through its circulars from August 2020 and September 2020 issued certain guidelines in relation to the resolution of distressed assets, with the intent to facilitate the revival of real sector activities and mitigate the impact on the ultimate borrowers. The RBI provided a window under the prudential framework described above to enable lenders to implement a resolution plan in respect of (i) eligible corporate exposures without a change in ownership and (ii) personal loans, while classifying such exposures as "Standard", subject to specified conditions. The lending institutions are permitted to provide resolution under such a facility only to borrowers who are experiencing financial distress as a result of COVID-19. The RBI also provided specific thresholds (ceilings or floors, as the case may be) for certain key ratios that should be considered by the lending institutions in the resolution assumptions with respect to an eligible borrower. In May 2021, on account of the resurgence of the COVID-19 pandemic in India, the RBI issued an additional set of measures broadly in line with the circulars referred to above. The RBI permitted lending institutions to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as 'Standard' upon implementation of the resolution plan, subject to certain specified conditions. In respect of individuals which have availed themselves of business loans and small businesses where resolution plans had been implemented under the guidelines set out in the circular from August 2020 described above, lending institutions are permitted until September 30, 2021, as a one-time measure, to review the working capital sanctioned limits and/or drawing power based on a number of factors, including a reassessment of the borrower's working capital cycle, a reduction in the borrower's margins, without such review being treated as restructuring. By March 31, 2022, the margins and working capital limits will be restored to the levels set by the resolution plan implemented under the circular from August 2020. The circular also lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented. In August 2020 and May 2021, the RBI also issued guidelines for the restructuring of existing loans to micro, small and medium enterprises classified as "Standard", without a downgrade in the asset classification, subject to certain conditions.

Act Relating to Recovery of NPAs

As a part of the financial sector reforms, the Government introduced the SARFAESI Act. The SARFAESI Act provides banks and other lenders increased powers in the recovery of the collateral underlying NPAs.

Provisioning and Write-Offs

Provisions are based on guidelines specific to the classification of assets. The following guidelines apply to various asset classifications:

Standard Assets

Banks are required to make general provisions for standard assets for the funded outstanding on a global loan portfolio basis. The provisioning requirement for housing loans at teaser rates is 2.0 percent and will reduce to 0.40 percent after one year from the date on which the teaser rates are reset at higher rates if the accounts remain standard. In November 2012, the RBI increased the provisioning requirement for restructured standard assets from 2.0 percent to 2.75 percent. In May 2013, the RBI increased the provisioning requirement for all types of accounts restructured to 5.0 percent with effect from June 1, 2013. For the stock of restructured standard accounts as of May 31, 2013, this increase was required to be implemented in a phased manner by March 31, 2016. The provisioning requirements for other loans range from 0.25 percent to 1.0 percent on the outstanding loans based on the type of exposure. Derivative exposures, such as credit exposures computed as per the current marked to market value of the contract arising on account of the interest rate and foreign exchange derivative transactions and gold are subject to the same provisioning requirement applicable to the loan assets in the standard category of the concerned counterparties. All conditions applicable for the treatment of the provisions for standard assets would also apply to the aforesaid provisions for derivatives and gold exposures.

In February 2014, the RBI directed banks to form a JLF if the aggregate exposure of both fund-based and non-fund based facilities taken together of lenders in an account is Rs. 1,000.0 million and above and the account is reported by any of the lenders to CRILC as special mention account-2 ("SMA-2"). If the lenders fail to convene the JLF or fail to agree upon a common CAP within the stipulated time frame, the account will be subjected to accelerated provisioning of 5.0 percent if the account is classified as a standard asset in the accounts of the lenders. In October 2014, the RBI decided that accelerated provisioning will be applicable only to the lead Bank having responsibility to convene the JLF and not to all the lenders in the consortium or multiple banking arrangements. In case the lead Bank fails to convene the JLF, the Bank with the second-largest aggregate exposure shall convene the JLF.

The RBI has also introduced incremental provisioning requirements with effect from April 1, 2014, for banks' exposures to entities with unhedged foreign currency exposure. Banks are required to collect specific information from its customers and assess the extent to which a customer is exposed to unhedged foreign currency on account of volatility in the exchange rate of the rupee vis-à-vis foreign currencies and calculate the incremental provisions based on the methodology prescribed by the RBI.

By its circular dated April 18, 2017, the RBI has advised banks to make provisions at higher rates in respect of standard advances to stressed sectors of the economy, and requires Bank to (i) put in place a Board-approved policy for making provisions for standard assets at rates higher than the regulatory minimum based on evaluation of risk and stress in various sectors; (ii) review the policy on a quarterly basis; and (iii) review the telecom sector by June 30, 2017, and consider making provisions for standard assets in this sector at higher rates.

Sub-Standard Assets

A general provision of 15.0 percent on total outstanding loans is required without making any allowance for the Export Credit Guarantee Corporation of India guarantee cover and securities available. The unsecured exposures which are identified as sub-standard are subject to an additional provision of 10.0 percent, i.e., a total of 25.0 percent on the outstanding balance. However, unsecured loans classified as sub-standard in relation to infrastructure lending, where certain safeguards such as escrow accounts are available, are subject to an additional provision of only 5.0 percent (i.e., a total of 20.0 percent on the outstanding balance).

Unsecured exposure is defined as an exposure where the realizable value of security, as assessed by the Bank, approved valuers or the RBI's inspecting officers, is not more than 10 percent, ab initio, of the outstanding exposure. Exposure includes all funded and non-funded exposures (including underwriting and similar commitments). Security means tangible security properly discharged to the Bank and will not include intangible securities such as guarantees and comfort letters.

Doubtful Assets

A 100.0 percent provision is made against the unsecured portion of the doubtful asset. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 25.0 percent to 100.0 percent provision is required to be made against the secured asset as follows:

- Up to one year: 25.0 percent provision.
- One to three years: 40.0 percent provision.
- More than three years: 100.0 percent provision.

Loss Assets

The entire asset is required to be written off or 100.0 percent of the outstanding amount is required to be provided for.

Floating Provisions

In June 2006, the RBI issued prudential standards on the creation and utilization of floating provisions (provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirements for provisions for standard assets). Floating provisions must be held separately and cannot be reversed by credit to the profit and loss account. The RBI has permitted banks to utilize a prescribed percentage of the floating provisions held by them for making specific loan loss allowances for impaired accounts under extraordinary circumstances. Until the utilization of such provisions, they can be netted off from gross non-performing assets to arrive at disclosure of net non-performing assets, or alternatively, can be treated as part of Tier II capital within the overall ceiling of 1.25 percent of credit RWAs.

In May 2021, in order to mitigate the adverse impact of the COVID-19 pandemic on banks and as a measure to enable capital conservation, the RBI permitted banks to utilize 100.0 percent of their floating provisions and countercyclical provisioning buffer held by them as on December 31, 2020 for making specific provisions for non-performing assets with prior approval of their board of directors. The RBI clarified that such utilization was permitted to commence with immediate effect and to extend until March 31, 2022.

Provisioning Coverage Ratio

With a view to ensuring counter-cyclical provisioning in the banking system, the RBI mandated that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions (to the extent not used at Tier II capital), and ensure that their total Provisioning Coverage Ratio ("PCR"), including the above floating provisions, is not less than 70.0 percent as of September 30, 2010. Under the current regime (i) the PCR of 70.0 percent may be computed with reference to the gross NPA position in the relevant banks as of September 30, 2010; (ii) the surplus of the provision under PCR over the amount required by the guidelines, would be treated as "countercyclical provisioning buffer"; and (iii) banks may utilize up to a prescribed percentage of the countercyclical provisioning buffer/floating provisions held by them for making specific provisions for NPAs during periods of system wide downturn, as per the policy approved by the bank's board of directors. The RBI released a discussion paper on dynamic loan loss provisioning framework in March 30, 2012. The framework proposes to replace the existing standards of general provisioning and recommends that banks make provisions on their loan book based on historical loss experience for different asset classes. Banks can draw down from dynamic provisions during periods of downturn. The RBI has advised that the dynamic provision framework is expected to be in place with improvement in the system.

COVID-19 Regulatory Package

In view of the impact of the COVID-19 pandemic, the RBI has relaxed certain requirements, including in relation to asset classification, provisioning and the restructuring of loans. The below is a summary of the material regulations included in the COVID-19 regulatory package:

(i) Rescheduling of payments:

- In respect of all term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India financial institutions, and NBFCs (including housing finance companies) were permitted to grant a moratorium on the payment of all installments falling due between March 1, 2020 and August 31, 2020.

- In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions were permitted to defer the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 up to August 31, 2020. Lending institutions were permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan ("FITL"), such being required to be repayable not later than March 31, 2021.

- In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing financial difficulties as a result of the economic fallout of the pandemic, lending institutions were permitted to, as a one-time measure:

  (a) recalculate the "drawing power" by reducing the margins until August 31, 2020. However, in all cases where such a temporary improvement in drawing power was considered, the margins were required to be restored to the original levels by March 31, 2021; or

  (b) review the working capital sanctioned limits by March 31, 2021, based on a reassessment of the working capital cycle.

  Based on an announcement by the Government, the RBI in October 2020 directed Indian banks and certain other lending institutions to implement an *ex-gratia* interest payment scheme, under which certain loans, including home, auto, education, consumer durable, personal and Ministry of Micro, Small & Medium Enterprise loans, in an amount up to Rs. 20 million incurred before February 29, 2020 were not to be charged compound interest for the moratorium period between March 1, 2020 and August 31, 2020 and instead would only be charged simple interest. Lending institutions, including the Bank, were required to credit back to the borrower the difference between the simple interest and compound interest during the moratorium period on or before November 11, 2020. Subsequently, the lending institutions could claim reimbursement from the Government.

In addition to the *ex-gratia* interest payment scheme described above, in its circular from April 2021, the RBI directed all the relevant lending institutions to immediately put in place a board-approved policy to refund/adjust the "interest on interest" charged to the borrowers during the moratorium period (i.e., March 1, 2020 to August 31, 2020) in conformity with a judgment of the Indian Supreme Court. This relief would be available to all borrowers, including those who had availed themselves of working capital facilities during the moratorium period between March 1, 2020 and August 31, 2020, irrespective of whether such borrowers had fully, partially or not at all availed themselves of the moratorium.

(ii) Asset classification and provisioning:

- For the purpose of asset classification, all accounts classified as "Standard" as on February 29, even if overdue, the moratorium period, wherever granted, was to be excluded by the lending institutions from the number of days past-due.

- In respect of working capital facilities sanctioned in the form of CC/OD, the deferment period, wherever granted in respect of all facilities classified as Standard, including special mention accounts ("SMAs"), which are accounts that have the potential to become NPAs or stressed assets, as on February 29, 2020, were to be excluded for the determination of the out-of-order status.

- The conversion of accumulated interest into a FITL and the changes in the credit terms permitted to borrowers outlined under "– *Rescheduling of payments*" above, would not be treated as concessions granted due to financial difficulty of the borrower for the purposes of the prudential norms. Consequently, such a measure, by itself, would not result in an asset classification downgrade.

- The rescheduling of payments, including interest, would not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies ("CICs") by the lending institutions. CICs must ensure that permitted actions taken by lending institutions as a consequence of the COVID-19 pandemic would not adversely impact the credit history of the borrowers.

- In accordance with the provisions described above, with respect to accounts classified as Standard, but which have become overdue, and where the asset classification benefit has been extended, lending institutions were required to make general provisions equaling not less than 10 percent of the total outstanding value of such accounts. Such provisions were to be phased in over the course of two financial quarters as described below:

  (a) Financial quarter ended March 31, 2020 – not less than 5.0 percent; and

  (b) Financial quarter ending June 30, 2020 – not less than 5.0 percent.

- These provisioning requirements were not to be used to arrive at net NPAs until they are adjusted against the actual provisioning requirements.

(iii) Resolution of stressed assets:

- In respect of accounts which were within the review period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 would be excluded from the calculation of the 30-day timeline for the review period under the RBI's guidelines. In respect of all such accounts, the residual review period would resume from September 1, 2020, upon expiry of which the lenders would have the usual 180 days for resolution.

- In respect of accounts where the review period had been completed, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution was extended by 180 days from the date on which the 180-day period was originally set to expire.

Regulations Relating to Sale of Assets to Asset Reconstruction Companies ("ARCs")

The SARFAESI Act provides for the sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has also issued guidelines to banks on the process to be followed for the sale of financial assets to asset reconstruction companies. These guidelines provide that a Bank may sell financial assets to an asset reconstruction company provided the asset is an NPA. A Bank could also sell a standard asset only if (i) the asset is under consortium or multiple banking arrangement; (ii) at least 75.0 percent by value of the of the asset is classified as non-performing in the books of other banks and financial institutions; and (iii) at least 75.0 percent by value of the banks and financial institutions in the consortium or multiple banking arrangements agree to the sale of the asset to a securitization company or a reconstruction company. The banks selling financial assets must ensure that there is no known liability being transferred to them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks cannot sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realization. However, banks may sell specific financial assets with an agreement to share any surplus realized by the asset reconstruction company in the future. While each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.0 percent, by value of the banks or financial institutions, accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash or bonds/debentures issued by the asset reconstruction company or trusts set up by it to acquire financial assets. Banks can also invest in security receipts or pass-through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets.

In June 2019, the RBI permitted asset reconstruction companies to acquire assets from other asset reconstruction companies subject to stipulated conditions. In December 2019, the RBI restricted asset reconstruction companies from buying financial assets from a bank or financial institution which is a sponsor of the asset reconstruction company, lender to the asset reconstruction company or a subscriber to the asset reconstruction fund, or an entity in the group to which the asset reconstruction companies belong.

In July 2020, the RBI published a fair practices code for asset reconstruction companies to ensure transparency and fairness in their operation. The asset reconstruction companies registered with the RBI are advised to put in place a fair practices code duly approved by their board and publish the code in the public domain for the information of all stakeholders.

In April 2021, the RBI set up a committee to undertake a comprehensive review of the existing legal and regulatory framework applicable to ARCs and recommend measures to improve the effectiveness of ARCs, in particular the role of ARCs in the resolution of distressed assets, including under the Insolvency and Bankruptcy Code 2016.

Guidelines on Sale and Purchase of Non-Performing Assets ("NPAs") among Banks, Financial Institutions and Non-banking Financial Institutions

In order to increase the options available to banks for resolving their NPAs and to develop a healthy secondary market for NPAs, in July 2005, the RBI issued guidelines for the purchase and sale of NPAs among banks, financial institutions and NBFCs. In terms of these guidelines, banks' boards are required to establish policies covering, among others, a valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayment and recovery prospects. Purchases and sales of NPAs must be without recourse to the seller, on a cash basis, with the entire consideration being paid up-front, and after the sale there should not be any known liability devolving on the seller. Previously, an asset needed to be classified by the seller as non-performing for at least two years to be eligible for sale and the purchasing bank needed to have held the NPA in its books for at least 15 months before it could sell the asset to another bank.

In February 2014, the RBI issued guidelines wherein the requirement of a minimum holding period of two years by the seller in relation to sale transactions with other banks, financial institutions and NBFCs, was removed. These guidelines reduce the purchasing bank's holding period requirement to 12 months before it can sell the asset to another bank, financial institution or NBFC. In accordance with these RBI guidelines, the asset cannot be sold back to the original seller.

Further, to incentivize the early sale of NPAs to securitization companies and/or reconstruction companies, banks are allowed to spread over any shortfall, if the sale value is lower than the net book value, over a period of two years for NPAs sold up to March 31, 2016. In its circular of June 2016, the RBI has further extended the dispensation of amortizing the shortfall on the sale of NPAs to securitization companies and reconstruction companies to March 31, 2017. However, in respect of NPAs sold during the period from April 1, 2016 to March 31, 2017, banks may amortize the shortfall over a period of only four quarters from the quarter in which the sale took place.

Guidelines on Sale of Standard Assets

The RBI first issued guidelines for the securitization of standard assets in February 2006. The guidelines provide that for a transaction to be treated as a securitization, a two-stage process must be followed. In the first stage there must be a sale of a single asset or pooling and transferring of assets to a bankruptcy remote special purpose vehicle ("SPV") in return for immediate cash payment and in the second stage repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third-party investors should be effected. Further, for enabling the transferred assets to be removed from the balance sheet of the seller in a securitization structure, the isolation of assets or "true sale" from the seller or originator to the SPV is an essential prerequisite. Also, an arm's-length relationship must be maintained between the originator, the seller and the SPV.

Certain regulatory standards for capital adequacy, valuation, profit and loss on sale of assets, income recognition and provisioning, accounting treatment for securitization transactions and disclosure standards have been prescribed. The guidelines are applicable for originators and have prescribed provisions for service providers like: credit enhancers, liquidity support providers and underwriters and investors. Quarterly reporting to the audit sub-committee of the board of directors by originating banks of the securitization transactions has also been prescribed. Apart from banks, these guidelines are also applicable to financial institutions and NBFCs.

In May 2012, the RBI revised the guidelines on transfer of assets through securitization and direct assignment of cash flows. These guidelines govern the securitization of debt obligations of a homogenous pool of obligors as well as the direct sale or transfer of a single standard asset. The roles of both the selling and purchasing banks have been defined more clearly. All on-balance sheet standard assets except those expressly disallowed in the guidelines are eligible for securitization subject to being held by the originating bank for a minimum holding period. The guidelines also prescribe a minimum retention requirement, i.e., the minimum part of the securitized debts that the originator is required to retain during the term of securitization. Overseas banking outlets of Indian banks cannot undertake securitization in other jurisdictions unless there is a minimum retention requirement in that jurisdiction. These requirements have been established to ensure that the originator exercises due diligence with regard to the securitized assets. The guidelines also establish the upper limit on the total retained exposure of the originator, the disclosures to be made by the originators, applicability of capital adequacy and asset classification and provisioning norms to these transactions. The norms also stipulate stress testing and extensive monitoring requirements on the purchased portfolios. Transactions which do not meet the requirements established by the guidelines will be assigned very high-risk weights under capital adequacy norms. The guidelines on transfer of assets through securitization and direct assignment of cash flows do not apply to:

- transfer of loan accounts of borrowers by a bank to other banks, financial institutions, NBFCs, at the request of borrower;
- inter-bank participations;
- trading in bonds;
- sale of entire portfolio of assets consequent upon a decision to exit the line of business completely (which should have the approval of the board of directors of the bank);
- consortium and syndication arrangements and arrangement under a corporate debt restructuring mechanism; and
- any other arrangements/transactions specifically exempted by the RBI.

In June 2020, the RBI released the drafts of a framework for the securitization of standard assets and for the sale of loan exposures. The framework proposes to revisit the guidelines for the sale of both standard and distressed loan exposures, and will apply to all scheduled commercial banks and NBFCs (including housing finance companies).

Regulations Relating to Making Loans

The provisions of the BR Act govern loans made by banks in India. The RBI issues directions covering the loan activities of banks. Major guidelines include norms for bank lending to priority sectors, non-bank financial companies, guidelines on banks' benchmark lending rates, base rates and norms for loans against shares.

In terms of Section 20(1) of the BR Act, a bank cannot grant any loans and advances against the security of its own shares. A banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors has an interest as a partner, manager, employee or guarantor or any other company (not being a subsidiary of the banking company or a company registered under section 8 of the Companies Act or a Government company), or the subsidiary or the holding company of such a company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exceptions in this regard which exclude any transaction which the RBI may specify by general or special order as not being a loan or advance for the purpose of such section. The Government may, on the recommendation of the RBI and subject to conditions as it may deem fit to impose, exempt any banking company from the restriction on lending to the subsidiary, holding company or any other company in which any of the directors of the banking company is a director, managing agent, manager, employee, guarantor or in which such person holds substantial interest.

In the context of granting greater functional autonomy to banks, effective October 18, 1994, the RBI decided to remove restrictions on the lending rates of scheduled commercial banks for credit limits of over Rs. 0.2 million. Banks were given the freedom to fix the lending rates for such credit limits subject to the Benchmark Prime Lending Rate ("BPLR") and spread guidelines. The BPLR system, however, fell short of its original objective of bringing transparency to lending rates. This was mainly because under the BPLR system, banks could lend below BPLR. Banks consequently were advised by the RBI to switch over to the system of Base Rate with effect from July 1, 2010. The base rate system was aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of the monetary policy. The Base Rate included all elements of the lending rates that were common across all categories of borrowers. Banks were allowed to choose any benchmark to arrive at their Base Rate for a specific tenor that could be disclosed. For loans sanctioned up to June 30, 2010, the BPLR was applicable. However, for loans sanctioned up to June 30, 2010, but renewed from July 1, 2010, the Base Rate was applicable.

In December 2015, the RBI issued revised guidelines on computing interest rates on advances based on the marginal cost of funds. The revised guidelines were issued with a view to improving the transmission of policy rates into bank lending rates, improving transparency in the methodology followed by banks for determining interest rates on advances, and ensuring the availability of bank credit at interest rates which are fair to the borrowers as well as the banks. The guidelines came into effect from April 1, 2016. Pursuant to the revised guidelines, all rupee loans sanctioned and credit limits renewed with effect from April 1, 2016, will be priced with reference to the marginal cost of funds based lending rate system (MCLR). Actual lending rates will be determined by adding the components of spread to the MCLR. Banks will review and publish their MCLR of different maturities every month on a pre-announced date. The guidelines provide that existing loans and credit limits linked to the Base Rate may continue until repayment or renewal. Certain types of loans, including fixed rate loans with tenor over three years and loans linked to a market determined external benchmark, are exempt from provisions of MCLR. The existing borrowers will have the option to move to MCLR-linked loan at mutually acceptable terms.

With effect from October 1, 2019 all new floating rate personal or retail loans and floating rate loans to micro and small enterprises are required to be linked to an external benchmark. Banks can adopt any of the following benchmarks: (i) RBI policy repo rate, (ii) Government of India 3-Months Treasury Bill yield published by Financial Benchmarks India Private Ltd ("FBIL"), (iii) Government of India 6-Months Treasury Bill yield published by FBIL, and (iv) any other benchmark market interest rate published by FBIL. However, adoption of multiple benchmarks by the same bank is not permitted within a loan category. The RBI in its circular dated February 26, 2020 extended the requirement to link external benchmarks to new floating rate loans granted to medium enterprises, from April 1, 2020.

Directed Lending

Priority Sector Lending

The guidelines on lending to the priority sector are set forth in the RBI Master Directions on Priority Sector Lending – Targets and Classification as updated from time to time. The priority sector is broadly comprised of agriculture, micro, small and medium enterprises ("MSMEs"), education, housing, social infrastructure, renewable energy, and others subject to certain limits.

The priority sector lending targets are linked to the adjusted net bank credit ("ANBC") or the credit equivalent amount of off-balance sheet exposures ("CEOBE"), whichever is higher, as on the corresponding date of the previous year. Domestic banks and foreign banks having 20 or more branches in India, are required to achieve total priority sector lending equivalent to 40.0 percent of their ANBC or CEOBE. Of the total priority sector advances, agricultural advances are required to be 18.0 percent of ANBC or CEOBE, whichever is higher. Advances to weaker sections are required to be 10.0 percent of ANBC or CEOBE, whichever is higher. Within the 18.0 percent target for agriculture, a target of 10.0 percent of ANBC or CEOBE, whichever is higher, is prescribed for small and marginal farmers. The targets for small and marginal farmers, and weaker sectors will be implemented in a phased manner through fiscal 2024. Banks have also been directed to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the achievements over the last three years (which will be notified by the RBI at the beginning of each year; the percentage applicable to fiscal 2021 was 12.14 percent). The banks should continue to undertake all efforts to reach the level of 13.5 percent of ANBC (which was the erstwhile target for direct lending to agriculture sector). The target for micro enterprises is set at 7.5 percent.

Loans to individuals up to Rs. 3.5 million in metropolitan centers (with populations of 1.0 million or more) and loans up to Rs. 2.5 million in other centers for the purchase or construction of a dwelling unit per family (provided the overall cost of the dwelling unit in the metropolitan center and at other centers does not exceed Rs. 4.5 million and Rs. 3.0 million, respectively), excluding loans granted by banks to their own employees, are to be treated as part of priority sector lending. Loans to individual borrowers for educational purposes, including vocational courses up to Rs. 2.0 million, are also to be treated as part of priority sector lending. Investments by banks in securitized assets and outright purchases of loans representing loans to various categories of priority sector (except 'others') are eligible for classification under the priority sector only if certain criteria are fulfilled.

Bank loans up to a limit of Rs. 50.0 million per borrower for building social infrastructure for activities, namely schools, health care facilities, drinking water facilities and sanitation facilities and loans up to a limit of Rs. 100.0 million per borrower for building health care facilities including under 'Ayushman Bharat' in certain eligible centers as prescribed by the RBI are treated as priority sector lending. Further, Bank loans up to a limit of Rs. 300.0 million to borrowers for purposes like solar-based power generators, biomass-based power generators, windmills, micro-hydel plants and for non-conventional energy-based public utilities like street lighting systems, and remote village electrification are also treated as priority sector lending.

Scheduled commercial banks (excluding SFBs, RRBs, UCBs and LABs) are permitted to co-lend with all registered Non-Banking Financial Companies (including Housing Finance Companies) for lending to the priority sector.

Banks are required to ensure compliance with priority sector lending targets on a quarterly basis. Domestic scheduled commercial banks having a shortfall in lending to priority sector targets are allocated amounts for contribution to the Rural Infrastructure Development Fund established with the National Bank for Agriculture and Rural Development or funds with other financial institutions, as may be decided by the RBI, as and when funds are required by them. The interest rates on banks' contributions to these schemes and periods of deposits, among other things, are fixed by the RBI from time to time. Additionally, as per RBI guidelines, non-achievement of priority sector targets and sub-targets is taken into account by the RBI when granting regulatory clearances and approvals for various purposes. While computing priority sector achievement, a simple average of all quarters will be arrived at and considered for computation of overall shortfall/excess at the end of the year.

The reported position factors the Government of India's decision of July 2021 and the clarifications received by the Bank in this regard to reinstate retail and wholesale trade as MSME for priority sector lending.

Further, foreign banks with less than 20 branches are directed to achieve a total priority sector lending target of 40.0 percent of ANBC or CEOBE, whichever is higher, out of which up to 32.0 percent can be in the form of lending for exports and not less than 8.0 percent can be to any other priority sector.

In order to enable banks to achieve the priority sector lending target and sub-targets, the RBI, in its circular dated April 7, 2016, has introduced the Priority Sector Lending Certificates ("PSLC") Scheme. The scheme permits banks to purchase PSLCs in the event of a shortfall from those banks that have achieved a surplus in their priority sector lending targets. There are four kinds of PSLCs:

(i) PSLC Agriculture: counting for achievement towards the total agriculture lending target;

(ii) PSLC SF/MF: counting for achievement towards the sub-target for lending to small and marginal farmers;

(iii) PSLC Micro Enterprises: counting for achievement towards the sub-target for lending to micro enterprises; and

(iv) PSLC General: counting for achievement towards the overall priority sector target.

Initially until March 31, 2020, the RBI, in its circular dated August 13, 2019, permitted bank loans to registered NBFCs (other than MFIs) for on-lending purposes to be classified as priority sector loans, within the relevant categories as outlined above. However, in its circular dated March 23, 2020, the RBI extended this classification to fiscal 2021, subject to the condition that a bank's loans to registered NBFCs (other than MFIs) and HFCs for on-lending purposes will only be permitted up to an overall limit of 5.0 percent of an individual bank's total priority sector lending. In April 2021, the RBI extended this dispensation in relation to the loans provided to NBFCs (other than MFIs) until September 30, 2021. The RBI clarified that a bank's loan for on-lending will continue to be classified under the priority sector until the date of their repayment or maturity. The RBI also clarified that bank loans made to HFCs for on-lending for the purpose of housing will continue on an on-going basis. Furthermore, existing loans disbursed under the on-lending model will continue to be classified under the applicable priority sector until the date of repayment/maturity.

In line with the existing RBI guidelines, lending by small Finance Banks ("SFBs") to Micro-Finance Institutions ("MFIs") for on-lending does not fall under the priority sector lending classification. Due to the COVID-19 pandemic and to address the liquidity position of smaller MFIs, the RBI decided to permit new credit extended by SFBs to registered NBFC-MFIs and other MFIs (including, among others, societies and trusts), which are members of RBI recognized "Self-Regulatory Organizations" of the sector and which have a 'gross loan portfolio' of up to Rs. 5,000.0 million as on March 31, 2021, for the purpose of on-lending to individuals, to be classified as priority sector lending. Such credit will be permitted to be classified as up to 10.0 percent of a bank's total priority sector portfolio as on March 31, 2021. This dispensation is valid until March 31, 2022. Such loans disbursed will continue to be classified as priority sector lending until the earlier of the repayment or maturity date.

Export Credit

The RBI also requires banks to make loans to exporters. We provide export credit for pre-shipment and post-shipment requirements of exporters in rupees as well as foreign currencies. Export credit in the agriculture and MSME sectors is permitted to be classified as priority sector lending in the corresponding agriculture and MSME categories. Export credit (other than in the agriculture and MSME categories) is permitted to be classified as priority sector lending in the following manner: (i) the incremental export credit extended by domestic banks over the corresponding date of the preceding year, up to 2.0 percent of ANBC or CEOBE, whichever is higher, subject to a limit of Rs. 400.0 million per borrower will be classified as priority sector lending; (ii) the incremental export credit extended by foreign banks with 20 or more branches over the corresponding date of the preceding year, up to 2.0 percent of ANBC or CEOBE, whichever is higher; and (iii) export credit extended by foreign banks with less than 20 branches up to 32.0 percent of ANBC or CEOBE, whichever is higher.

Lending to Infrastructure Sector and Affordable Housing Sector

In order to allow banks to provide long-term funds for project loans to the infrastructure sector and the affordable housing sector, the RBI, in July 2014, issued guidelines for the issuance of long-term bonds by banks for financing infrastructure sector loans and lending to the affordable housing sector. Under these guidelines, banks are permitted to issue long-term fully paid, redeemable and unsecured bonds with a minimum maturity of seven years to enable lending to long-term projects in certain specified infrastructure sub-sectors and the affordable housing sector as prescribed in the guidelines. To encourage lending to these sectors, these long-term bonds are not subject to cash reserve ratio ("CRR") or statutory liquidity ratio ("SLR") requirements. These bonds are also not included in the computation of ANBC for the purposes of priority sector lending targets subject to the guidelines. However, any infrastructure or affordable housing loans acquired from other banks and financial institutions (such as those that could be involved in a business combination with the Bank) will require the prior approval of the RBI to avail these regulatory incentives.

Credit Exposure Limits

As a prudential measure aimed at better risk management and avoiding the concentration of credit risks, the RBI has advised banks to fix limits on their exposure to specific industries and sectors and has prescribed regulatory limits on banks' exposures to individual borrowers and borrower groups. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against or investments in shares, convertible debentures or bonds, units of equity-oriented mutual funds and all exposures to venture capital funds (VCFs).

The RBI limits exposure to individual borrowers to not more than 15.0 percent of the capital funds of a Bank and limits exposure to a borrower group to not more than 40.0 percent of the capital funds of a bank. See also "– Large Exposure Framework" discussed below. The capital funds for this purpose are comprised of Tier I and Tier II capital, as defined under the capital adequacy standards and as per the published accounts as of March 31 of the previous year. The infusion of Tier I or Tier II capital, either through domestic or overseas issuances, after the published balance sheet date is also eligible for inclusion in the capital funds for determining the exposure ceiling. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5.0 percent of capital funds is allowed in respect of individual borrowers and up to 10.0 percent in respect of group borrowers. Banks may, in exceptional circumstances and with the approval of their boards, consider increasing their exposure to an individual borrower or a borrower group by a further 5.0 percent of capital funds. With effect from May 2008, the RBI revised the prudential limit to 25.0 percent of capital funds in respect of a bank's exposure to oil companies to which specified oil bonds have been issued by the Government of India. Banks need to make appropriate disclosures in their annual financial statements in respect of exposures where they have exceeded the prudential exposure limits during the year.

Exposures (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC, NBFC-Asset Financing Company (AFC), or NBFC-Infrastructure Finance Company (IFC) should not exceed 10.0 percent, 15.0 percent and 15.0 percent, respectively, of a bank's capital funds. A Bank may, however, assume exposures on a single NBFC, NBFC-AFC, or NBFC-IFC up to 15.0 percent, 20.0 percent and 20.0 percent, respectively, of its capital funds, provided the exposure in excess of 10.0 percent, 15.0 percent and 15.0 percent (referred to above) is on account of funds that the NBFC, NBFC-AFC, or NBFC-IFC has lent out to the infrastructure sector. Further, all banks may consider fixing internal limits for their aggregate exposure to all NBFCs combined.

Exposure includes credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstanding amount, whichever is higher, would be included when arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawing of any portion of the sanctioned limit, banks may consider the outstanding as the exposure. For the purpose of exposure norms, banks shall compute their credit exposures, arising on account of the interest rate and foreign exchange derivative transactions and gold, using the Current Exposure Method. While computing credit exposures, banks may exclude "sold options", provided that the entire premium or fee or any other form of income is received or realized.

Credit exposure comprises the following elements:

- all types of funded and non-funded credit limits; and
- facilities extended by way of equipment leasing, hire purchase finance and factoring services.

Apart from limiting exposures to an individual or a group of borrowers, as indicated above, the RBI guidelines also require banks to consider fixing internal limits for aggregate commitments to specific sectors, so that their exposures are evenly spread across various sectors. These limits are subject to a periodic review by banks.

In August 2016, the RBI has issued a circular imposing certain restrictions on lending by banks to large borrowers. The circular aims to mitigate the risk posed to the banking system by large loans to single corporate borrowers, and also encourage large corporates with borrowings from the banking system above a cut-off level to tap the market for their working capital and term loan needs. As per the circular, which is effective April 1, 2017, banks are required to keep exposures to specified borrowers within a normally permitted lending limit ("NPLL") specified in the circular from the fiscal year succeeding that in which the borrower is identified as a specified borrower. For incremental exposures in excess of the NPLL, banks are required to maintain an additional provision of 3.0 percent on such excess. Additional risk weight of 75.0 percent over and above the applicable risk weight for the exposure to the specified borrower is also required to be maintained by the Bank in case of any incremental exposure. The guidelines define "specified borrowers" as having an aggregate fund based credit limit (as described in the circular) of over Rs. 250.0 billion at any time during fiscal 2018; Rs. 150 billion at any time during fiscal 2019; and Rs. 100.0 billion at any time from April 1, 2019, onwards.

In December 2018, the RBI issued guidelines in relation to bank credit to large borrowers. The guidelines state that borrowers having a fund-based working capital limit of Rs. 1,500.0 million and above from the banking system, will need to have a loan component of at least 40.0 percent. Accordingly, for such borrowers drawings up to 40.0 percent of the total fund-based working capital limits shall only be allowed from the loan component, and drawings in excess of this may be allowed as cash credit facility. These guidelines became effective on April 1, 2019, and with effect from July 1, 2019, the mandatory loan component was revised to 60.0 percent. The RBI also specified that with effect from April 1, 2019, the undrawn portion of cash credit/overdraft limits sanctioned to large borrowers, irrespective of whether unconditionally cancellable or not, will be subject to a credit conversion factor of 20.0 percent.

Large Exposures Framework

In June 2019, the RBI issued the revised Large Exposures Framework, which aims to align the exposure norms for Indian Banks with BCBS standards. The guidelines came into effect from April 1, 2019, except for certain provisions which came into effect from April 1, 2020. The framework defines "large exposures" and governs banks' exposures to counterparties. The framework prescribes that the sum of all exposure values of a bank to a single counterparty must not be higher than 20.0 percent of the bank's available eligible capital base at all times, and that to a group of connected counterparties must not be higher than 25.0 percent of the bank's available eligible capital base. Tier I capital fulfilling the criteria mentioned in the Basel III guidelines issued by RBI is required to be considered as eligible capital base for this purpose.

In terms of the Large Exposure Framework, banks' exposures to a single NBFC is restricted to 15.0 percent of their available eligible capital base, while the general single counterparty exposure limit is 20.0 percent, which can be extended to 25.0 percent by banks' boards under exceptional circumstances. However, the RBI in its circular dated September 12, 2019, stated that a bank's exposure to a single NBFC (excluding gold loan companies) will be restricted to 20.0 percent of such bank's eligible capital base. Bank finance to NBFCs predominantly engaged in lending against gold will continue to be governed by limits prescribed in the RBI circular dated May 18, 2012. As a result of the COVID-19 pandemic, the RBI, in its circular dated May 23, 2020, decided, as a one-time measure, to increase a bank's permitted exposure to a group of connected counterparties from 25.0 percent to 30.0 percent of the eligible capital base of such bank. The increased limit will be applicable until to June 30, 2021. The RBI in its circular from February 2021 exempted from the framework lending by foreign sovereigns or their central banks that are (i) subject to a 0.0 percent risk weight under the Basel III guidelines; and (ii) where such lending is denominated in the domestic currency of that sovereign and met out of resources of the same currency. Further, through its circular issued in March 2021, the RBI determined that non-centrally cleared derivatives exposures will continue to be outside the purview of exposure limits until September 30, 2021.

Regulations Relating to Capital Market Exposure Limits

The RBI has issued guidelines on financing to participants in the capital markets. These guidelines place a ceiling on the overall exposure of a bank to the capital markets.

The aggregate exposure that a bank has to the capital markets in all forms (both fund and non-fund based) must not exceed 40.0 percent of its net worth (both for the stand-alone and the consolidated bank) as of March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposure to VCFs must not exceed 20.0 percent of its net worth (both for the stand-alone and the consolidated Bank). Net worth is comprised of the aggregate of paid-up capital, free reserves (including share premium but excluding revaluation reserves), investment fluctuation reserve and credit balance in the profit and loss account, less the debit balance in the profit and loss account, accumulated losses and intangible assets. There are guidelines on loans against equity shares in respect of amount, margin requirement and purpose.

The following exposures are subject to the ceiling:

- direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds, the fund assets of which are not exclusively invested in corporate debt;

- advances against shares, bonds, debentures or other securities or advances without security to individuals for investment in shares (including in primary offerings and employee stock option plans), convertible bonds, convertible debentures and units of equity-oriented mutual funds;

- advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;

- advances for any other purposes to the extent secured by collateral of shares, convertible bonds, convertible debentures or units of equity oriented mutual funds (i.e., where the primary security other than shares or convertible bonds or convertible debentures or units of equity oriented mutual funds does not fully secure the advances);

- secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;

- loans sanctioned to companies against the security of shares/bonds/debentures or other securities or on a clean basis for meeting a promoter's contribution to the equity of new companies;

- bridge loans to companies against expected equity flows/issues;

- underwriting commitments taken up by banks in respect of primary issues of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds;

- financing to stockbrokers for margin trading;

- all exposure to venture capital funds (both registered and unregistered); and

- irrevocable payment commitments issued by custodian banks in favor of stock exchanges.

Regulations Relating to Other Loan Exposures

The RBI requires banks to have put in place a policy for exposure to real estate with the approval of their boards. The policy is required to include exposure limits, collateral to be considered, collateral cover and margins and credit authorization. The RBI has also permitted banks to extend financial assistance to Indian companies for the acquisition of equity in overseas joint ventures or wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investments. Banks are not, however, permitted to provide companies "acquisition finance" to acquire companies in India.

Limits on Intra-group Transactions and Exposures

In February 2014, the RBI issued guidelines on the management of intra-group transactions and exposures which have been in effect since October 1, 2014. These guidelines contain both quantitative limits for the financial intra-group transactions and exposures ("ITEs") and prudential measures for the non-financial ITEs to ensure that the banks engage in ITEs in a prudent manner in order to contain the concentration and contagion risk arising out of ITEs. These measures are aimed at ensuring an arm's-length relationship in dealings with group entities and prescribe minimum requirements with respect to group risk management and group-wide oversight and prudential limits on intra-group exposures. Effective October 2014, a bank's exposure to a non-financial or unregulated financial services entity in its group will be capped at 5.0 percent of its paid-in capital and reserves and its exposure to a regulated financial services company in its group will be capped at 10.0 percent of its paid-in capital and reserves. In the event a bank's current intra-group exposure is more than the limits stipulated in the guidelines, that bank was required to bring the exposure within the limits by no later than March 31, 2016. Any exposure beyond the permissible limits subsequent to March 31, 2016, is deducted from CET-I capital of the bank.

Regulation Relating to Country Risk Management

The RBI has issued detailed guidelines on country risk management that cover banks' exposure to those countries to which they have a net funded exposure of 1.0 percent or more of their total assets, which became effective in fiscal 2005. The countries are categorized into seven risk categories, namely: insignificant, low, moderate, high, very high, restricted and off-credit. Required provisioning is based on exposures exceeding 180 days on a graded scale ranging from 0.25 percent to 100.0 percent. Banks may maintain a lower level of provisioning of 25.0 percent of the requirement in respect of exposures with a contractual maturity of less than 180 days.

Regulations Relating to Investments

Exposure Limits

Credit exposure limits specified by the RBI in respect of a bank's lending to individual borrowers and borrower groups apply in respect of non-convertible debt instruments. Within the overall capital market exposure ceiling, a bank's direct investments in equity securities, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 20.0 percent of its net worth as of March 31 of the previous year. A bank's aggregate investment in subordinated bonds eligible for Tier II capital status issued by other banks or financial institutions is restricted to up to 10.0 percent of the investing bank's capital funds (Tier I plus Tier II capital). Investments in the instruments issued by banks or financial institutions that are eligible for capital status are either risk weighted or deducted from the investee bank's capital, for capital adequacy purposes, depending upon the extent of investment as prescribed by the RBI under the Basel III capital regulations.

In order to contain the risks arising out of investment by banks in non-statutory liquidity ratio ("non-SLR") securities, and, in particular, the risks arising out of investment in bonds through private placement, the RBI has issued detailed guidelines on investment by banks in non-SLR securities. Banks have been advised to restrict their new investments in unlisted securities to 10.0 percent of their total non-SLR investments as of March 31 of the previous year. Banks are permitted to invest in unlisted non-SLR securities within this limit, provided that such securities comply with disclosure requirements for listed companies as prescribed by the SEBI. Banks' investments in unlisted non-SLR securities may exceed the limit of 10.0 percent by an additional 10.0 percent, provided further that the investment is on account of investments in securitization papers issued for infrastructure projects and bonds/debentures issued by securitization companies or reconstruction companies set up under the SARFAESI Act and registered with the RBI. Investments in security receipts issued by securitization companies or reconstruction companies registered with the RBI, investments in asset-backed securities and mortgage-backed securities, that are rated at or above the minimum investment grade and investments in unlisted convertible debentures will not be treated as unlisted non-SLR securities for computing compliance with the prudential limits. The guidelines relating to listing and rating requirements of non-SLR securities do not apply to investments in VCFs, commercial paper, certificates of deposit and mutual fund schemes where any part of the corpus can be invested in equity. Banks are not permitted to invest in unrated non-SLR securities, except in the case of unrated bonds of companies engaged in infrastructure activities, within the overall ceiling of 10.0 percent for unlisted non-SLR securities.

The total investment by banks in liquid/short-term debt schemes (by whatever name called) of mutual funds with a weighted average maturity of the portfolio of not more than one year, will be subject to a prudential cap of 10.0 percent of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

Non-Performing Investments

The RBI has defined non-performing investments as those where principal or interest is unpaid for more than 90 days including preference shares where a fixed dividend is not paid or declared. The non-availability of the latest balance sheet of a company in whose equity securities a bank has invested will also render those equity shares non-performing investments. If any credit facility availed of by the issuer is an NPA in the books of the Bank, investment in any of the securities issued by the same issuer would also be treated as a Non-Performing Investment ("**NPI**") and vice versa. However, if only preference shares have been classified as an NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as an NPI and any performing credit given to that borrower need not be treated as an NPA.

Restrictions on Investments in a Single Company

In terms of Section 19(2) of the BR Act, no banking company may hold shares in any company except as provided in sub-section (1) of that Act, whether as pledgee, mortgagee or absolute owner of an amount exceeding 30.0 percent of the paid-up share capital of that company or 30.0 percent of its own paid-up share capital and reserves, whichever is lower. Further, in terms of Section 19(3) of the BR Act, banks must not hold shares, whether as pledgee, mortgagee or absolute owner, in any company in the management of which the managing director, any other director or manager of the Bank is in any manner concerned or interested.

Limit on Transactions through Individual Brokers

Guidelines issued by the RBI require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank's business should not be transacted only through one broker or a few brokers. The RBI specifies that not more than 5.0 percent of the total transactions through empaneled brokers can be transacted through one broker during a year. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed on a half-yearly basis of such occurrences. These guidelines are not applicable to banks' dealings through Primary Dealers.

Repo Directions

In July 2018, the RBI has issued the Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018. These directions are applicable to repurchase transactions (Repo), excluding repo/reverse repo transactions under Liquidity Adjustment Facility and Marginal Standing Facility. The directions also cover repo contracts where a third entity (known as Tri-Party Agent) acts as an intermediary between two parties to the repo to facilitate services like collateral selection and payment and settlement.

Valuation of Investments

The RBI has issued guidelines for the categorization and valuation of banks' investments. The salient features of the guidelines are given below.

- Banks are required to classify their entire portfolio of approved securities under three categories: "held for trading", "available for sale" and "held to maturity" banks must decide the category of investment at the time of acquisition.

- Held to maturity ("**HTM**") investments compulsorily include: (i) recapitalization bonds received from the Government; (ii) investments in subsidiaries and joint ventures; and (iii) investment in the long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities. The minimum residual maturity of these bonds must be of seven years at the time of investment in these bonds. Once invested, banks may continue to classify these investments under the HTM category even if the residual maturity falls below seven years subsequently. Held to maturity investments also include any other investments identified for inclusion in this category subject to the condition that such investments cannot exceed 25 percent of total investments. Banks are permitted to exceed the limit of 25 percent of investments for the held to maturity category provided the excess is comprised only of investments eligible for statutory liquidity ratio and the aggregate of such investments in the held to maturity category does not exceed a specified percentage of the prescribed demand and time liabilities.

- Profit on the sale of investments in the HTM category is appropriated to the capital reserve account after being recognized in the profit and loss account. Loss on any sale is recognized in the profit and loss account.

- Investments under the held for trading category must be sold within 90 days.

- Available for sale and held for trading securities are required to be valued at market or fair value at prescribed intervals. The market price of the security available from the stock exchange, the price of securities in subsidiary general ledger transactions, the RBI price list or prices declared by the Primary Dealers Association of India jointly with the Fixed Income Money Market and Derivatives Association of India serves as the "market value" for investments in available for sale and held for trading securities.

- Profit or loss on the sale of investments in both the held for trading and available for sale categories is recorded in the income statement.

- Shifting of investments from or to HTM is generally not allowed. However, it is permitted only under exceptional circumstances with the approval of the board of directors once a year, normally at the beginning of the accounting year; shifting of investments from available for sale to held for trading may be done, subject to depreciation, if any, applicable on the date of transfer, with the approval of the board of directors, the asset liability management committee or the investment committee; shifting from held for trading to available for sale is generally not permitted, save for under exceptional circumstances where banks are not able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or the market becoming unidirectional, in which case transfer is permitted only with the approval of the board of directors, the asset liability management committee or the investment committee.

The one-time transfer of securities to/from HTM category with the approval of the board of directors is permitted to be undertaken by banks at the beginning of the accounting year. Additionally, in order to enable banks to shift their excess SLR securities and direct sale from the HTM category to AFS/HFT for the purposes of complying with the existing SLR requirements, the RBI by way of a circular dated October 4, 2017, permitted such shifting as per specified timelines in addition to the shifting permitted at the beginning of the accounting year. Furthermore, such additional shifting of securities explicitly permitted by the RBI from time to time, direct sales from HTM for bringing down SLR holdings in HTM category, sales to the RBI under pre-announced OMO auctions and repurchase of Government securities by the Government of India from banks will be excluded from the 5.0 percent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3(ii) of the master circular on “Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks”.

HTM securities are not marked to market and are carried at acquisition cost. Any premium on acquisition of held to maturity securities is amortized.

Depreciation or appreciation for each basket within the available for sale categories is aggregated. While net depreciation is provided for, net appreciation in each basket, if any, is not recognized except to the extent of depreciation already provided.

Investments in security receipts or pass through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies are valued at the lower of redemption value of the security receipts or the net book value of the underlying financial asset.

In October 2020, banks were permitted to exceed the limit of 25.0 percent of the total investments under the HTM category provided that the excess comprised only of SLR securities; and the total SLR securities held under the HTM category was not more than 19.5 percent of Net Demand and Time Liabilities (“NDTL”) as on the last Friday of the second preceding fortnight. Banks were granted a special dispensation until March 31, 2022 enhancing their HTM limit to 22.0 percent of NDTL, for SLR securities acquired between September 1, 2020 and March 31, 2021. The enhanced limit will be restored in a phased manner over three quarters beginning with the quarter ending June 30, 2022. In February 2021 the RBI extended enhanced HTM dispensation to March 31, 2023 to include SLR securities acquired between April 1, 2021 and March 31, 2022. The enhanced HTM limit will be restored to 19.5 percent in a phased manner, as per the above prescribed schedule beginning from the quarter ending June 30, 2023.

Prohibition on Short Selling

The RBI does not permit short selling of securities by banks, except short selling of central government securities subject to stipulated conditions. The RBI has permitted scheduled commercial banks to undertake short sales of central government securities, subject to the short position being covered within a maximum period of three months, including the day of trade. The short positions must be covered only by an outright purchase of an equivalent amount of the same security or through a long position in the when issued market or allotment in primary auction.

In February 2015, the RBI permitted re-repo of government securities, including state development loans and treasury bills, acquired under reverse repo subject to conditions prescribed by the RBI.

In September 2014, scheduled commercial banks and primary dealers or bond houses were permitted to execute the sale leg of short sale transactions in relation to government securities in the over the counter market. In its circular dated October 29, 2015, the RBI has allowed custodians and banks to short-sell in the government bond market with primary members or individual bank customers, who invest through lenders.

The Short Sale (Reserve Bank) Directions, 2018 came into force with effect from July 26, 2018 allowing certain regulated entities which have the approval of the regulators concerned, to undertake short sales. Under the directions, the maximum amount of a security (face value) that can be short sold are either liquid securities up to 2.0 percent of the total outstanding stock of each security, or Rs. 5,000.0 million, whichever is higher, and other securities up to 1.0 percent of the total outstanding stock of each security, or Rs. 2500.0 million, whichever is higher. Liquid securities are securities identified and published by the Fixed Income Money Market and Derivatives Association of India ("FIMMDA")/Financial Benchmarks India Limited ("FBIL") as a 'liquid security' for the purpose of short sale transactions.

Regulations Relating to Deposits

The RBI has permitted banks to independently determine rates of interest offered on fixed deposits. However, banks are not permitted to pay interest on current account deposits. From April 1, 2010, payment of interest on a savings account deposit is calculated on a daily product basis against the previous practice of interest being payable on the minimum balance held in the account during the period from the tenth day to the last calendar day of the month. With effect from October 25, 2011, the RBI permitted banks to offer varying rates of interest on savings deposits of resident Indians subject to the following conditions:

- each bank will have to offer a uniform interest rate on savings bank deposits up to Rs. 0.1 million, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to Rs. 0.1 million; and

- for any end-of-day savings bank deposits over Rs. 0.1 million a bank may provide differential rates of interest, if it so chooses, by ensuring that it does not discriminate in interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

With effect from December 16, 2011, the RBI also permitted banks the flexibility to offer varying rates of interest on Non-Resident (External) ("**NRE**") and Non-Resident (Ordinary) ("**NRO**") deposit accounts. However, banks are not permitted to offer rates of interest on NRE or NRO deposit accounts that are higher than those offered on domestic rupee deposit accounts of the same tenor and maturity.

Previously, banks were required to pay interest of 4.0 percent per annum on domestic savings deposits, rupee-denominated NRE Accounts Scheme and NRO Scheme savings deposits. In respect of savings and time deposits accepted from employees, banks are permitted to pay an additional interest of 1.0 percent over the interest payable on deposits from the public.

The RBI has prescribed minimum and maximum maturity thresholds for certain types of deposits.

The RBI has permitted banks the flexibility to offer varying rates of interest on domestic term deposits of the same maturity based on the size of these deposits, subject to the following conditions:

- a single term deposit is of Rs. 10.0 million (increased from Rs. 1.5 million with effect from April 1, 2013) and above; and

- interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

In April 2015, the RBI has permitted banks to offer differential interest rates based on whether the term deposits are with or without premature withdrawal facility, subject to the following guidelines:

- All term deposits of individuals (held singly or jointly) of Rs. 1.5 million and below should, necessarily, have a premature withdrawal facility;

- For all term deposits other than those mentioned above, banks can offer deposits without the option of premature withdrawal. However, banks that offer such term deposits should ensure that the customers are given the option to choose between term deposits either with or without a premature withdrawal facility.

- Banks should disclose in advance the schedule of interest rates payable on deposits (i.e., all deposits mobilized by banks should be strictly in conformity with the published schedule).

- The banks should have a board approved policy with regard to interest rates on deposits including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

To achieve greater financial inclusion, banks have been advised by the RBI to offer a basic savings bank deposit ("**BSBD**") account without any requirement of minimum balance and without carrying a charge for the stipulated basic minimum services that would make such accounts available as a normal banking service to all. The RBI, in its circular dated June 10, 2019, advised banks to offer the following minimum facilities: (i) deposit of cash at banking outlets as well as ATMs and CDMs, (ii) receipt or payment of monies through any electronic channel or by means of deposit or collection of cheques drawn by the central or state government agencies and departments, (iii) no limit on the number and value of deposits that can be made in a month, (iv) a minimum of four withdrawals in a month, including ATM withdrawal, (v) the provision of ATM cards or ATM-cum-debit cards, and (vi) value-added services in addition to such minimum facilities as described here, including the issuance of cheque books. The holders of BSBD accounts will not be eligible to open any other savings bank deposit account in the bank in which such holder maintains a BSBD account. In addition, BSBD accounts shall be subject to the RBI's KYC and anti-money laundering requirements for opening bank accounts.

On March 3, 2016, the RBI issued the Master Direction on Interest Rates on Deposits. The master direction is applicable to all Scheduled Commercial Banks accepting deposits in rupee and foreign currency. This master direction consolidates instructions on rules and regulations framed by the RBI under various acts including banking issues and foreign exchange transactions.

On July 6, 2017, the RBI released guidelines titled "Customer Protection – Limiting Liability of Customers in Unauthorised Electronic Banking Transactions", for customer protection by limiting the liability of customers in unauthorized electronic banking transactions. Under these guidelines, banks have been directed to (i) put in place appropriate internal control systems and procedures to ensure safety and security of electronic banking transactions carried out by customers; and (ii) facilitate ease of reporting and monitoring of unauthorized transactions by customers to banks. Further, indicators have been identified by the RBI to banks on situations where liability may or may not be accorded to the customers in case of unauthorized transactions, and the limits on and timelines for such liability of customers for third-party breaches. On January 4, 2019, these guidelines have been extended to apply to non-bank prepaid payment instruments issuers.

In February 2021, the RBI issued the Master Direction on Digital Security Controls with the aim of providing necessary guidelines for regulated entities (including scheduled commercial banks) to set up robust governance structures and implement common universal standards of security controls for digital payment products and services like internet banking, mobile payments, and card payments. Regulated entities were required to prepare a policy for digital payment products and services, and to conduct risk assessments with regard to the safety and security of digital payments products and associated processes and services, including providing for online dispute resolution mechanisms to resolve disputes and grievances of customers relating to digital payments. The guidelines will come into effect six months from the date of publication.

FCNR (B) Deposits

The RBI has granted general permission to non-resident Indians and Persons of Indian Origin ("PIOs") to open Foreign Currency Non-resident (Bank) ("FCNR(B)") accounts with authorized Indian banks. These FCNR(B) accounts can be funded by: (i) interest accruing on the account; (ii) interest on investment; (iii) maturity proceeds if such investments were made from the relevant FCNR(B) account; (iv) transferring funds from other NRE/FCNR(B) accounts; or (v) any other funds which are repatriable under the prevailing RBI regulations. The RBI permits FCNR(B) deposit holders to avail credit facilities (both offshore and onshore) and offer their FCNR(B) deposits as collateral for such facilities, subject to certain terms and conditions.

As an accelerated measure to increase foreign currency flows into the country, the RBI had, in September 2013, introduced a United States dollar-rupee swap window for fresh FCNR(B) dollar funds, mobilized for a minimum tenor of three years and more. Under the swap arrangement, a bank could sell United States dollars in multiples of U.S.$1 million to the RBI and simultaneously agree to buy the same amount of United States dollars at the end of the swap period. The swap was undertaken at a fixed rate of 3.5 percent per annum. The swap window was open till November 30, 2013.

In August 2013, the RBI exempted the FCNR(B)/NRE deposits raised by banks during a specified period having maturity of three years and above from maintenance of CRR and SLR. The RBI also permitted exclusion of loans made in India against these FCNR(B)/NRE deposits from the ANBC computation for priority sector lending targets. The exemption granted on incremental FCNR(B)/NRE deposits from maintenance of CRR/SLR was withdrawn with effect from the fortnight beginning March 8, 2014.

Deposit Insurance

Demand and time deposits of up to Rs. 0.1 million accepted by scheduled commercial banks in India have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation (the "DICGC"), a wholly owned subsidiary of the RBI. Banks are required to pay the insurance premium to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer. The RBI, in its press release dated February 4, 2020, raised the limit of insurance cover for depositors in insured banks from the present level of Rs. 0.1 million to

Rs. 0.5 million per depositor, effective February 4, 2020. The DICGC, in its circular dated February 5, 2020, increased the limit of deposit insurance cover and rate of premium payable to insured banks from Rs. 10 paise per Rs. 100 of assessable deposits to Rs. 12 paise per Rs. 100 of assessable deposits per annum, effective from April 1, 2020.

Demonetization Measures

On November 8, 2016, the Government of India announced its decision for existing bank notes of Rs. 500 and Rs. 1000 denominations of the then existing series issued by the RBI to no longer be valid. Citizens were to return all such bank notes to banks as they could no longer be used for transactions or exchange purposes with effect from November 9, 2016. New bank notes of denominations of Rs. 500 and Rs. 2000 were introduced to replace the old notes. Limits for the exchange of demonetized notes and withdrawal of new notes were specified which were subsequently lifted.

Regulations Relating to Knowing the Customer and Anti-Money Laundering

The RBI has issued several guidelines on customer identification and monitoring of transactions. Banks have been advised to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

Banks have been advised to ensure that a proper policy framework on KYC and AML measures duly approved by the board of directors or regulated entities (as specified in the guidelines) or any committee of the board of directors, is formulated and implemented. This framework is required to, inter alia, include procedures/process in relation to (a) customer acceptance policy; (b) customer identification procedures; (c) monitoring of transactions; and (d) risk management.

RBI guidelines require that a profile of the customers should be prepared based on risk categorization. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the Bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data. Banks must obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity. Prevention of Money Laundering Rules, 2005 require every banking company, and financial institution, as the case may be, to identify the beneficial owner and take all reasonable steps to verify his identity. The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted, including a person who exercises ultimate effective control over a judicial person. The procedure for identification of the beneficial owner has been specified by the Government of India in the Prevention of Money Laundering Rules, 2005 and the regulations prescribed by the RBI from time to time.

The KYC procedures for opening accounts have been simplified for "small accounts" in order to ensure that the implementation of the KYC guidelines do not result in the denial of the banking services to those who are financially or socially disadvantaged. A "small account" is defined as a savings account in a banking company where (i) the aggregate of all credits in a financial year does not exceed Rs. 0.1 million; (ii) the aggregate of all withdrawals and transfers in a month does not exceed Rs. 0.01 million; and (iii) the balance at any point of time does not exceed Rs. 0.05 million. Small accounts are permitted to remain operational initially for a period of 12 months, and thereafter for a further period of 12 months, subject to the account holder applying, and providing evidence of having applied for, any of the officially valid documents during the first twelve months of the opening of such account. In April 2020, the RBI directed that small accounts shall remain operational between April 1, 2020 and June 30, 2020 and such other periods as may be notified by the Government.

In January 2020, the RBI also allowed the use of video-based customer identification processes for the establishment of an account relationship with individual customers, subject to certain conditions, including obtaining such customers' informed consent.

In addition to keeping customer information confidential, banks must ensure that only information relevant to the perceived risk is collected and that the same is not intrusive in nature. Apart from addressing this concern the guidelines set out in detail the framework to be adopted by banks as regards their customer dealings and are directed towards prevention of financial frauds and money laundering transactions.

In December 2020, the RBI made it mandatory for regulated entities to upload KYC records pertaining to accounts of legal entities opened on or after April 1, 2021, with the Central KYC Registry in India. Furthermore, regulated entities are also required to upload or update the KYC data pertaining to accounts of individual customers opened prior to January 1, 2017 and account of legal entities opened prior to April 1, 2021, when such KYC data is updated.

In April 2021, the RBI published a notice stating that customer due diligence for members of a "self-help group" (i.e., a group of micro entrepreneurs who have agreed to contribute their savings to a common fund owned by the group, which can disburse small loans to the members of the group and may apply for loans from a bank) may be undertaken at the time the self-help group applies for a loan or other financial product from a bank.

In May 2021, the RBI advised regulated entities that in respect of the customer accounts where KYC (as required to be completed under RBI guidelines) is periodically required to be updated and such update was due and pending as on the date of the circular, no restrictions on operations of such account should be imposed until December 31, 2021 only on account of this reason. The relaxation of this rule was made in light of the COVID-19 related restrictions in various parts of the country.

In a bid to prevent money laundering activities, the Government enacted the Prevention of Money Laundering Act, 2002 (the "PML Act") which came into effect from July 1, 2005. The PML Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental matters or matters connected therewith.

All the instructions/guidelines issued to banks on KYC norms, AML standards and obligations of the banks under the PML Act have been consolidated in the Know Your Customer Directions, 2016, issued by the RBI, as updated from time to time. In April 2021, the RBI also issued a master circular on detection and impounding of counterfeit notes by banks in India.

The PML Act and the rules relating thereto require that banking companies, financial institutions and intermediaries (together, Institutions) to maintain a comprehensive record of all their transactions, including the nature and value of each transaction. Further, it mandates verification of the identity of all their clients and also requires the Institutions to maintain records of their respective clients. These details are to be provided to the authority established by the PML Act, who is empowered to order confiscation of property where the authority is of the opinion that a crime as recognized under the PML Act has been committed. In addition, the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorized dealers to report identified suspicious transactions to the RBI.

Banks are advised to develop suitable mechanisms through an appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links, identification of the transactions carried out in these accounts and suitable reporting to the Director, Financial Intelligence Unit (India) (the "FIU"). Banks are required to report to the FIU:

(a) all cash transactions with a value of more than Rs. 1.0 million or an equivalent in foreign currency;

(b) all series of cash transactions integrally connected to each other which have been valued below Rs. 1.0 million or an equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rs. 1.0 million;

(c) all transactions involving receipts by non-profit organizations with a value of more than Rs. 1.0 million or an equivalent in foreign currency;

(d) all cash transactions in which forged or counterfeit currency notes or bank notes have been used and where any forgery of a valuable security or a document has taken place facilitating the transaction; and

(e) all other suspicious transactions whether or not made in cash and by such other ways as mentioned in the Rules.

Pursuant to recent amendments, banks have been directed to periodically carry out AML and terrorist financing ("TF") risk assessments to identify, assess and mitigate money laundering and terrorist financing risks related to clients, countries or geographic areas, as well as products, services, transactions or delivery channels. While assessing the AML and TF risk, banks are required to account for certain sector-specific vulnerabilities, which the relevant regulatory authority for each sector may share with them from time to time. Further, the internal risk assessment carried out by the banks should be commensurate to their size, geographical presence and complexity of their activities and structure. Banks are required to apply a risk-based approach for mitigation and management of the identified risk and should maintain board approved policies, controls and procedures for such purposes.

Legal Reserve Requirements

Cash Reserve Ratio

Each bank is required to maintain a specific percentage of its net demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system.

The amendments made to the Reserve Bank of India Act, 1934 and the BR Act during fiscal 2007 enhanced the operational flexibility in monetary management of the RBI. The RBI (Amendment) Act, 2006 came into force on April 1, 2007. Section 3 of this Act removed the floor and the ceiling rates on CRR and no interest was payable on the CRR balances of banks with effect from March 31, 2007. Scheduled commercial banks are exempted from maintaining CRR on the following liabilities:

(a) liabilities to the banking system in India as computed under clause (d) of the explanation to section 42(1) of the Reserve Bank of India Act, 1934;

(b) credit balances in Asian Clearing Union (U.S.$) Accounts; and

(c) demand and time liabilities in respect of the banks' Offshore Banking Units.

In its circulars from February 2021 and May 2021, the RBI allowed scheduled commercial banks to deduct the amount equivalent to credit disbursed to "New MSME Borrowers" from their net demand and time liabilities used in the calculation of CRR. For the purpose of this exemption, 'New MSME Borrowers' are those MSME borrowers who have not previously availed themselves of any credit facilities from the banking system as on January 1, 2021. This exemption is available only up to Rs. 2.5 million per borrower disbursed up to the fortnight ending December 31, 2021, for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier.

The CRR requirement as of March 31, 2019, was 4.0 percent of the prescribed net demand and time liabilities of the Bank. In order to address the volatility in rupee exchange rates in early 2013, the RBI in July 2013 increased the requirement of minimum daily CRR balance maintenance to 99.0 percent of the requirement with effect from the first day of the fortnight beginning July 27, 2013. In September 2013, the RBI reduced the minimum daily maintenance of the CRR from 99.0 percent of the requirement to 95.0 percent. In April 2016, the RBI further reduced this requirement to 90.0 percent, with effect from the fortnight beginning April 16, 2016. In response to the COVID-19 pandemic, the RBI, in its circular dated March 27, 2020, for a period of one year, decided to reduce the CRR of all banks by 100 basis points from 4.0 percent to 3.0 percent of their net demand and time liabilities, from the reporting period beginning on March 28, 2020 and ending on March 26, 2021. Furthermore, given strains on banks' reporting abilities as a result of social distancing measures for staff, the RBI reduced the minimum CRR balance maintenance requirement from 90 percent to 80 percent, effective from the first day of the reporting period beginning on March 28, 2020. This one-time dispensation was further extended by the RBI until September 25, 2020 through its circular dated June 26, 2020. In its circular dated February 5, 2021, RBI decided to gradually restore the CRR in two phases. Accordingly, banks were required to maintain the CRR at 3.5 percent of their net demand and time liabilities effective from the reporting fortnight beginning March 27, 2021 and 4.0 percent of their net demand and time liabilities effective from the fortnight beginning May 22, 2021. See also "*Risk Factors – The Covid-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

Statutory Liquidity Ratio

In order to maintain liquidity in the banking system, in addition to the CRR, each bank is required to maintain a specified percentage of its net demand and time liabilities by way of liquid assets such as cash, gold or approved securities, such as Government of India and State Government Securities. The percentage of this ratio is fixed by the RBI from time to time and is 18.0 percent from April 11, 2020. The RBI master circular on the Statutory Liquidity Ratio specifies certain liabilities which will not be included in the calculation of the Statutory Liquidity Ratio.

Revisions in Constitution of Bank Assets

The capital regulations with respect to Liquidity Standards under the Basel III framework (LCR, Liquidity Risk Monitoring Tools and LCR Disclosure Standards) were revised by the RBI by way of a circular dated August 2, 2017, to re-define the "Level 1" of bank assets as comprising of the following:

i. Cash including cash reserves in excess of required CRR.

ii. For banks incorporated in India,

  - Reserves held with foreign central banks in excess of the reserve requirement, where a foreign sovereign has been assigned a 0 percent risk weight as per the rating by an international rating agency.

  - Reserves held with foreign central banks in excess of the reserve requirement, to the extent these balances cover the Bank's stressed net cash outflows in that specific currency, in cases where a foreign sovereign has been assigned a non-0 percent risk weight as per the rating by an international rating agency, but a 0 percent risk weight has been assigned at national discretion under Basel II Framework.

iii. Government securities in excess of the minimum SLR requirement.

iv. Within the mandatory SLR requirement, Government securities to the extent allowed by the RBI, under Marginal Standing Facility (MSF).

v. Marketable securities issued or guaranteed by foreign sovereigns satisfying all the following conditions:

(a) assigned a 0 percent risk weight under the Basel II standardized approach for credit risk;

(b) traded in large, deep and active repo or cash markets characterized by a low level of concentration and proven record as a reliable source of liquidity in the markets (repo or sale), even during stressed market conditions; and

(c) not issued by a bank, financial institution, NBFC or any of its affiliated entities.

In June 2014, the RBI issued guidelines in relation to liquidity coverage ratio ("LCR"), liquidity risk monitoring tools and LCR disclosure standards pursuant to the publication of the "Basel III: The Liquidity Coverage Ratio" and liquidity risk monitoring tools in January 2013 and the Liquidity Coverage Ratio Disclosure Standards in January 2014 by the BCBS. The objective of the LCR standard is to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets which could be converted into cash to meet its liquidity needs for a 30-calendar day time horizon under a significantly severe liquidity stress scenario. The LCR requirement of 100.0 percent is being implemented in a phased manner over a period of four years, with a minimum requirement of 60.0 percent effective January 1, 2015. The prescribed LCR level as of January 1, 2018, was 90.0 percent and was required to be at the increased prescribed level of 100.0 percent on January 1, 2019. In April 2020, the RBI reduced the LCR requirement from 100 percent to 80 percent, effective between April 17, 2020 and September 30, 2020. The RBI proposed to increase the reduced LCR requirement in two phases: (i) from 80.0 percent to 90.0 percent between October 1, 2020 to March 31, 2021 and (ii) from 90.0 percent to 100.0 percent from April 1, 2021.

In 2020, banks were allowed to avail themselves of funds under the MSF by utilizing the SLR up to an additional 1.0 percent of their NDTL (i.e., cumulatively up to 3.0 percent of their NDTL). This facility, which was initially available until June 30, 2020 was later extended in phases until March 31, 2021, providing comfort to banks on their liquidity requirements and enabling them to meet their LCR requirements and then further extended until September 30, 2021.

See also "*Risk Factors – The Covid-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

Net Stable Funding Ratio

Net stable funding ratio ("NSFR") is a global regulatory standard under the Basel III framework. The draft guidelines on NSFR were issued by the RBI by its circular dated May 28, 2015. The RBI has published final guidelines on NSFR on May 17, 2018, and it was required to be implemented from April 1, 2020. The implementation of the NSFR guidelines has been deferred, and the guidelines are now due to come into effect from October 1, 2021.

Regulations on Asset Liability Management

Since 1999, the RBI has issued several guidelines relating to ALM in banks in India. The RBI guidelines cover, inter alia, the interest rate risk and liquidity risk measurement and reporting framework, including establishing prudential limits. The guidelines require that gap statements for liquidity and interest rate risk are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date or maturity date. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has advised banks to manage their asset-liability liquidity structure within negative gap limits for one day, 2-7 days, 8-14 days and 15-28 days set at 5.0 percent, 10.0 percent, 15.0 percent and 20.0 percent, respectively, of the cumulative cash outflows in the respective time buckets in order to recognize the cumulative impact on liquidity. In respect of other time periods, the RBI has directed banks to lay down internal standards in respect of liquidity gaps. In order to recognize the cumulative impact on liquidity, banks are also advised to prepare the statement of structural liquidity on a daily basis and also undertake dynamic liquidity management. Banks are required to submit the liquidity statements periodically to RBI, as specified in these guidelines.

The RBI's Guidelines on Banks' Asset Liability Management Framework – Interest Rate Risk issued in November 2010 mandate banks in India to evaluate interest rate risk using both methods, i.e., TGA and DGA. Banks are required to submit the TGA and DGA results from time to time to the RBI as mentioned in the guidelines.

Further, RBI guidelines on stress testing issued in 2007 have reinforced stress testing as an integral part of a bank's risk management process, the results of which are used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables that affect both interest rate risk and liquidity risk in the Bank. In December 2013, the RBI specified the minimum level of stress testing to be carried out by all banks.

In November 2012, the RBI issued enhanced guidelines on liquidity risk management by banks. These guidelines consolidate various instructions on liquidity risk management that the RBI had issued from time to time, and where appropriate, harmonize and enhance these instructions in line with the principles for sound liquidity risk management and supervision issued by the BCBS. The RBI's guidelines require banks to establish a sound process for identifying, measuring, monitoring and controlling liquidity risk, including a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate time horizon. The key items covered under these guidelines include: (i) governance of liquidity risk management including liquidity risk management policy, strategies and practices and liquidity risk tolerance; (ii) management of liquidity risk, including identification, measurement and monitoring of liquidity risk; (iii) collateral position management; (iv) intra-day liquidity position management; and (v) stress testing.

Foreign Currency Dealership

The RBI has granted us a full-fledged Authorized Dealers' License to deal in foreign exchange through our designated banking outlets. Under this license, we have been granted permission to: engage in foreign exchange transactions in all currencies; open and maintain foreign currency accounts abroad; raise foreign currency and rupee-denominated deposits from non-resident Indians; grant foreign currency loans to on-shore and off-shore corporations; open documentary credits; grant import and export loans; handle collection of bills and funds transfer services; issue foreign currency guarantees; and enter into derivative transactions and risk management activities that are incidental to our normal functions authorized under our organizational documents and as permitted under the provisions of the BR Act.

Our foreign exchange operations are subject to the guidelines contained in the Foreign Exchange Management Act, 1999 (Foreign Exchange Management Act). As an authorized dealer, we are, as required, enrolled as a member of the Foreign Exchange Dealers Association of India, which prescribes the rules relating to the foreign exchange business in India.

The RBI from time to time has issued directions regarding the reporting requirements for holdings of, and dealings in, all foreign currencies, as well as foreign exchange transactions by authorized dealers like the Bank.

Simplified hedging facility guidelines were issued by the RBI by way of a circular dated November 9, 2017, to simplify the process for hedging exchange rate risk by reducing documentation requirements, avoiding prescriptive stipulations regarding products, purpose and hedging flexibility, and to encourage a more dynamic and efficient hedging culture. These guidelines stipulate operational mechanism and guidelines for resident and non-resident entities, other than individuals, for hedging exchange rate risk on transactions, contracted or anticipated, with respect to any Over the Counter ("OTC") derivative or Exchange Traded Currency Derivative ("ETCD") permitted under the Foreign Exchange Management Act, 1999 ("FEMA"). Additionally, different facilities have been provided for hedging trade exposures (i.e., currency risks arising out of genuine trade transactions involving exports from and imports to India), invoiced in Indian Rupees in India, by way of the RBI Circular dated October 12, 2017.

In April 2020, the RBI issued revised directions on the hedging of foreign exchange risk, which aimed to ease access to the domestic foreign exchange derivative markets. The directions came into effect on September 1, 2020. The directions on the participation of "Banks in Offshore Non-deliverable Rupee Derivative Markets" issued in March 2020 came into effect on June 1, 2020.

We are required to determine our limits on net overnight open foreign exchange positions and our foreign exchange value at risk in accordance with RBI guidelines, as applicable, and within the open position threshold prescribed by the RBI. Furthermore, we are permitted to hedge foreign currency loan exposures of Indian corporations in the form of foreign exchange forward contracts, interest rate swaps, currency swaps, currency option contracts and forward rate agreements, subject to certain conditions.

Setting Up Wholly Owned Subsidiaries by Foreign Banks

In November 2013, the RBI released its framework for establishing wholly owned subsidiaries of foreign banks in India, which aims to tighten regulatory control and encourage foreign banks to convert their existing banking outlets into wholly owned subsidiaries.

Key features of the framework include:

- requiring certain foreign banks, including banks with complex structures and banks belonging to jurisdictions which: (i) do not have adequate disclosure requirements; or (ii) have legislation which give preferential treatment to deposits of the home country in a winding-up proceeding, to set up a wholly owned subsidiary in order to enter the Indian market;

- permitting foreign banks that do not fall under the above categories to either set up a branch office or a wholly owned subsidiary;

- offering near-national treatment to wholly owned subsidiaries of foreign banks, subject to certain conditions;

- requiring newly incorporated wholly owned subsidiaries to have an initial minimum paid-upvoting equity capital of 5 billion rupees. In the case of existing banking outlets of foreign banks that wish to convert into a wholly owned subsidiary, it must have a minimum net worth of 5 billion rupees;

- requiring at least 50.0 percent of the board of directors of wholly owned subsidiaries to be Indian nationals, non-resident Indians or persons of Indian origin; and

- mandating that wholly owned subsidiaries comply with the priority sector lending requirements applicable to domestic commercial banks.

Statutes Governing Foreign Exchange and Cross-Border Business Transactions

Foreign exchange and cross-border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act. All banks are required to monitor the transactions in all non-resident accounts to prevent money laundering. These transactions are governed by the provisions of the Foreign Exchange Management Act and the PML Act.

In terms of the guidelines prescribed by the RBI (last updated on September 1, 2020) (the "Inter-Bank Dealings Guidelines"), overseas foreign currency borrowings by a bank in India (including overdraft balances in nostro accounts not adjusted within five days) should not exceed 100.0 percent of its unimpaired Tier I capital or U.S.$10 million (or its equivalent), whichever is higher. The aforesaid limit applies to the aggregate amount availed of by all the offices and banking outlets in India from all their banking outlets and correspondents abroad and includes overseas borrowings in gold for funding domestic gold loans.

The following borrowings would continue to be outside the above limit:

1. overseas borrowing by banks for the purpose of financing export credit subject to certain conditions prescribed by the RBI;

2. capital funds raised or augmented by the issue of Innovative Perpetual Debt Instruments and Debt Capital Instruments in foreign currency;

3. subordinated debt placed by head offices of foreign banks with their banking outlets in India as Tier II capital; and

4. any other overseas borrowing with the specific approval of the RBI.

Under the Inter-Bank Dealings Guidelines, AD category – I banks are permitted to borrow from international/multilateral FIs without approaching the RBI on a case-by-case approval. Such FIs shall include: (i) international/multilateral FIs of which the Government is a shareholding member; (ii) FIs which have been established by more than one government; or (iii) FIs which have shareholding by more than one government and other international organizations. However, all such borrowings should be for the purpose of general banking business and not for capital augmentation.

Cyber Security Frameworks in Banks

In its circular dated June 2, 2016, the RBI directed banks to formulate a cyber security policy duly approved by their board of directors by September 30, 2016, to combat cyber threats. This policy is required to be distinct from banks' broader information technology/information security policy.

The Bank had developed a Cybersecurity Policy and Cybersecurity Framework which is to ensure appropriate cyber security practices are followed across the Bank's information systems. The Cybersecurity Policy is formally approved by the Bank's Board. See also "*Management's Discussion and Analysis Of Financial Conditions And Results of Operations – Cybersecurity*".

Special Provisions of the BR Act

Prohibited Business

Section 6 of the BR Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities.

Reserve Fund

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25.0 percent of the profits of each year before any dividend is declared. Banks are required to take prior approval from the RBI before appropriating any amount from the reserve fund or any other free reserves. The Government may, on the recommendation of the RBI, exempt a bank from requirements relating to its reserve fund.

Restrictions on Payment of Dividends

The BR Act requires that a bank pay dividends on its shares only after all of its capital expenses (including preliminary expenses, organization expenses, share selling commissions, brokerage on public offerings, amounts of losses and any other items of expenditure not represented by tangible assets) have been completely written off. The Government may exempt banks from this provision by issuing a notification on the recommendation of the RBI.

Banks that comply with the following prudential requirements are eligible to declare dividends:

- the capital adequacy ratio must be at least 9.0 percent for the preceding two completed years and the accounting year for which the Bank proposes to declare a dividend;

- Net non-performing assets must be less than 7.0 percent of advances. In the event a bank does not meet the above capital adequacy norm, but has capital adequacy of at least 9.0 percent for the fiscal year for which it proposes to declare a dividend it would be eligible to declare a dividend if its net non-performing asset ratio is less than 5.0 percent;

- the bank has complied with the provisions of Sections 15 and 17 of the BR Act;

- the bank has complied with the prevailing regulations/guidelines issued by the RBI, including creating adequate provisions for the impairment of assets and staff retirement benefits and the transfer of profits to statutory reserves;

- dividends should be payable out of the current year's profits; and

- the RBI has not placed any explicit restrictions on the Bank for declarations of dividends.

Banks that comply with the above prudential requirements can pay dividends subject to compliance with the following conditions:

- the dividend payout ratio (calculated as a percentage of "dividends payable in a year" (excluding dividend tax) to "net profit during the year") should not exceed 40.0 percent. The RBI has prescribed a matrix of criteria linked to the capital adequacy ratio and the net non-performing assets ratio in order to ascertain the maximum permissible range of the dividend payout ratio; and

- if the financial statements for which the dividend is declared have any audit qualifications which have an adverse bearing on the profits, the same should be adjusted while calculating the dividend payout ratio.

In case the profit for the relevant periods includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extraordinary items for compliance with the prudential payout ratio.

In addition to the above, the master circular on "Basel III Capital Regulations" as amended and updated from time to time, also regulates the distribution of dividends by banks. The circular provides that the dividend distribution can be made by a bank only through the current year's profit. It also requires the banks to maintain a capital conservation buffer outside the period of stress which can be drawn down if losses are incurred during a stressed period. One of the ways in which the banks can build the capital conservation buffer is by reducing the dividend payments. In case of shortfall in the prescribed capital conservation buffer, dividend payment restrictions would be imposed on the banks as per the conditions of the Basel III regulations. The circular further provides that perpetual non-cumulative preference shares and perpetual debt instruments issued by a bank for inclusion in the additional Tier I capital of the Bank, may have a dividend stopper arrangement to stop dividend payments on common shares in the event the holders of additional Tier I instruments are not paid dividend or coupon.

In its circulars dated April 17, 2020 and December 4, 2020, the RBI directed banks to not make any further dividend payouts from the profits pertaining to the financial year ended March 31, 2020. These circulars had been issued by the RBI in light of the heightened uncertainty caused by the COVID-19 pandemic, and expected to help the banks conserve capital to retain their capacity to support the economy and absorb losses. The RBI, in April, 2021, permitted commercial banks to pay dividends on equity shares pertaining to the profits for the financial year ended March 31, 2021, subject to the quantum of dividend being not more than 50.0 percent of the amount determined as per the dividend payout ratio prescribed in paragraph 4 of the RBI circular on "Declaration of Dividends by Banks" from May 2005. The RBI has also directed that all banks should continue to meet the applicable minimum regulatory capital requirements after making a dividend payment. Furthermore, while declaring the dividend, the board of directors of the bank will be responsible for considering the current and projected capital position of the bank vis-à-vis the applicable capital requirements and the adequacy of provisions, taking into account the economic environment and the outlook for profitability. See also "*Risk Factors – The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation*".

Restriction on Share Capital and Voting Rights

Banks were earlier permitted to issue only ordinary shares. In January 2013, the BR Act was amended to, inter alia, permit banks to also issue preference shares. However, guidelines governing the issuance of preference shares are yet to be issued. The amended BR Act also permits the RBI to increase the cap on the voting rights of a single shareholder of a private bank from the existing cap of 10.0 percent to 26.0 percent in a phased manner. The RBI has issued the Ownership in Private Sector Banks, Directions, 2016, which state that the voting rights in private sector banks shall be limited to the level notified by the RBI from time to time and that the current ceiling on voting rights is 15.0 percent. The RBI, in a notification dated July 21, 2016, which was notified in the Gazette of India on September 17, 2016, increased the ceiling on voting rights to 26.0 percent.

Restriction on Transfer of Shares

RBI approval is required before a bank can register the transfer of shares to an individual or group which acquires 5.0 percent or more of its total paid-up capital under the master directions on "Prior approval for acquisition of shares or voting rights in private sector banks" issued by the RBI in November 2015. Under the directions, every person who intends to make an acquisition, or to make an agreement for an acquisition, which will, or is likely to, take the aggregate holding of such person together with shares, voting rights, compulsorily convertible debentures, bonds held by him, his relatives, associate enterprises and persons acting in concert with him, to 5.0 percent or more of the paid-up share capital of the relevant bank, or entitles him to exercise 5.0 percent or more of the total voting rights of the relevant bank, shall seek prior approval of the RBI. Existing major shareholders who have already obtained prior approval of the RBI for being a major shareholding in a bank prior to making a new acquisition are exempt, subject to certain conditions.

Regulatory Reporting and Examination Procedures

The RBI is empowered under the BR Act to inspect the books of accounts and the other operations of a bank. The RBI monitors prudential parameters at regular intervals. The findings of these inspections are provided to banks, which are required to comply with the actions recommended in order to correct any discrepancies in their operations as contained in the inspection findings within a stipulated time frame. Further, banks are required to keep the inspection report confidential as per the instructions issued by the RBI. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on financial and operating measures such as:

- assets, liabilities and off-balance sheet exposures;
- the risk weighting of these exposures, the capital base and the capital adequacy ratio;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management; and
- other prudential parameters.

The RBI also conducts periodic on-site inspections of matters relating to the Bank's capital, asset quality, management, earnings, liquidity and systems and controls on an annual basis. We have been subjected to on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by us, has to be placed before our Board of Directors. On approval by our Board, we are required to submit the report on actions taken by us to the RBI. The RBI also discusses the findings of the inspection with our management team along with members of the Audit Committee of our Board.

The RBI also conducts on-site supervision of selected banking outlets of banks with respect to their general operations and foreign exchange related transactions.

The existing supervisory framework has been modified towards establishing a risk-based supervision framework which envisages continuous monitoring of banks through robust offsite reports to the RBI coupled with need-based on-site inspection. We have been subject to supervision under this framework with effect from fiscal 2014.

In September 2020, the RBI published the revised long form audit report requirements. The revised formats were required to be used for the period covering financial year 2020-21 and onwards.

Penalties

The RBI is empowered under the BR Act, to impose penalties on banks and their employees in case of infringement of any provision of the Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment.

The Financial Intelligence Unit (India) (the "FIU-IND"), in January 2015, levied a fine on us of Rs. 2.6 million relating to our failure to detect and report attempted suspicious transactions which appeared in the media during fiscal 2013. We filed an appeal against the order before the appellate tribunal stating that there were only enquiries made by the reporters of the media and there were no instances of any attempted suspicious transactions. In June 2017, the appellate tribunal dismissed the penalty levied by the FIU-IND and observed that the prescribed matter fell within the provisions of section 13(2)(a) of the Prevention of Money Laundering Act, 2002 ("**PMLA**") (pursuant to which a warning was required to be given to the Bank), and that the matter did not fall within section 13(2)(d) of the PMLA (pursuant to which monetary penalties can be imposed on failure to comply with certain obligations under the PMLA) as mentioned by the FIU-IND. However, the FIU-IND challenged the appellate tribunal's order in the Delhi High Court. Subsequently, through its order dated September 4, 2019, the Delhi High Court held that the violation of the reporting obligations on the part of the respondent banks warranted the issuance of a warning in writing under Section 13(2)(a) of the Act, instead of a monetary penalty as imposed under Section 13(2)(d) of the Act, and disposed of the case filed by the FIU-IND. In February 2020, the FIU-IND challenged the decision and filed a SLP against the bank in the Indian Supreme Court. On April 30, 2021 the Indian Supreme Court heard the request filed by the FIU-IND and affirmed the appellate tribunal's earlier ruling that the applicable provision was 13(2)(a) and not 13(2)(d) of the PMLA. Accordingly, the Indian Supreme Court dismissed the SLP.

By way of a circular dated October 12, 2017 the RBI specifically levied penal interest for delayed reporting/wrong reporting/non-reporting of currency chest transactions and inclusion of ineligible amounts in currency chest balances. Subsequently, the RBI issued a Master Direction circular dated July 1, 2019, and updated on October 3, 2019. The intention behind the levy of penal interest is to inculcate discipline among banks so as to ensure prompt/correct reporting. Requests by banks for waiver of penal interest on grounds that delayed/wrong/non-reporting does not result in utilization of RBI's funds or shortfall in the maintenance of CRR or SLR or that they were the result of clerical mistakes, unintentional or arithmetical errors, first time error or inexperience of staff etc, were not considered as valid grounds for the waiver of penal interest. On similar lines, by way of an additional circular dated July 1, 2020, the RBI revised the scheme of penalties for banking outlets based on performance in rendering customer service to the members of the public, to ensure that all banking outlets provide better customer service to members of the public with regard to exchange of notes and coins.

In its order dated February 4, 2019, the RBI imposed a monetary penalty of Rs. 2.0 million on us for failing to comply with the RBI's KYC and AML standards, as set out in their circulars dated November 29, 2004 and May 22, 2008. In its order dated June 13, 2019, the RBI imposed a monetary penalty of Rs. 10 million on us for failing to comply with the KYC, AML and fraud reporting standards, following an investigation into bills of entry submitted by certain importers. The penalties were imposed under Section 47A(1)(c) and Section 46(4)(i) of the BR Act, 1949. We have since implemented corrective action to strengthen our internal control mechanisms so as to ensure that such incidents do not repeat themselves.

In 2020 the Bank received one fine for non-compliance with RBI regulations. In its order dated January 29, 2020, the RBI imposed a monetary penalty in the amount of Rs. 10 million on the Bank for failure to undertake ongoing due diligence with respect to 39 current accounts, which had been opened by customers of the Bank to participate in an initial public offering, but where the transactions effected were disproportionate to the declared income and profile of the customers. This penalty was imposed by the RBI using the powers conferred under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the BR Act, 1949. The Bank has since strengthened its internal control mechanisms to ensure that such incidents are not repeated. See also "*Risk Factors – We have previously been subject to penalties imposed by the RBI. Any regulatory investigations, fines, sanctions, and requirements relating to conduct of business and financial crime could negatively affect our business and financial results, or cause serious reputational harm*".

On May 27, 2021, the RBI levied a penalty of Rs. 100 million against the Bank for the marketing and sale of third-party non-financial products to the Bank's auto loan customers, after concluding that this was in contravention of Section 6(2) and Section 8 of the Banking Regulation Act, 1949. The penalty, which was imposed by the RBI using the powers conferred under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act 1949, has been paid by us. In May 2020, following an internal inquiry arising from a whistle-blower complaint, the Bank had determined that certain employees received unauthorized commissions from a third-party vendor of GPS products, with whom the

Bank had an agreement to offer GPS devices to our auto loan customers. The personal misconduct of these employees was in violation of our code of conduct and governance standards. The Bank has taken disciplinary action with respect to the employees involved, including separation of services of certain employees, discontinued the sale of such third-party non-financial products and taken certain other remedial actions.

During fiscal 2021, the RBI, through its letter dated December 4, 2020, imposed a monetary penalty of Rs. 1.0 million on the Bank for the failure to settle transactions in Government securities in the Subsidiary General Ledger which lead to a shortage in the balance of certain securities in the Bank's Constituent Subsidiary General Ledger account on November 19, 2020. The Bank has since enhanced its review mechanism to ensure that such incidents do not recur.

SEBI, through its order dated January 21, 2021, levied a penalty of Rs. 10.0 million on the Bank for alleged noncompliance with a SEBI interim order dated October 7, 2019 issued against BRH Wealth Kreators Ltd. ("**BRH**") The penalty was levied for the sale of securities pledged by BRH Wealth Kreators Ltd to the Bank, to recover amounts outstanding under recalled credit facilities the Bank had extended to BRH. The Bank filed an appeal against the SEBI order in the Securities Appellate Tribunal ("**SAT**") on February 8, 2021. The SAT, through its interim order dated February 19, 2021, stayed the operation of the SEBI order dated January 21, 2021. The matter is currently pending before the SAT.

Assets to be Maintained in India

Every bank is required to ensure that its assets in India (including import-export bills drawn on/in India and the RBI-approved securities, even if the bills and the securities are held outside India) are not less than 75.0 percent of its demand and time liabilities in India.

Secrecy Obligations

Banks' obligations relating to maintaining secrecy arise out of regulatory prescription and also common law principles governing the relationship between them and their customers. Banks cannot disclose any information to third parties except under certain limited and clearly defined circumstances as detailed in the guidelines issued by the RBI.

Subsidiaries and Other Investments

Banks require the prior permission of the RBI to incorporate a subsidiary. Banks are required to maintain an "arm's-length" relationship in respect of their subsidiaries and are prohibited from taking actions such as taking undue advantage in borrowing or lending funds, transferring or selling or buying securities at rates other than market rates, giving special consideration for securities transactions, overindulgence in supporting or financing subsidiaries and financing its clients through them when it itself is not able or not permitted to do so. Banks and their subsidiaries have to observe the prudential standards stipulated by the RBI, from time to time, in respect of their underwriting commitments.

Banks also require the prior specific approval of the RBI to participate in the equity of financial services ventures including stock exchanges and depositories, notwithstanding the fact that such investments may be within the ceiling prescribed under Section 19(2) of the BR Act. Further, investment by a bank in its subsidiaries, financial services companies or financial institutions should not exceed 10.0 percent of its paid-up capital and reserves. Investments by banks in companies which are not its subsidiaries and are not financial services companies would be subject to a limit of 10.0 percent of the investee company's paid up share capital or 10.0 percent of the Bank's paid up share capital and reserves, whichever is less. Any investment above this limit will be subject to the RBI approval except as provided otherwise. Equity investments in any non-financial services company held by (a) a bank; (b) the bank's subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and (c) mutual funds managed by Asset Management Companies controlled by the Bank should in the aggregate not exceed 20.0 percent of the investee company's paid-up share capital. Further, a bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20.0 percent of the Bank's paid-up share capital and reserves.

Introduction of Legal Entity Identifier for Large Corporate Borrowers

Pursuant to the Statement on Developmental and Regulatory Policies dated November 2, 2017, the RBI decided to introduce the Legal Entity Identifier ("LEI") system for all borrowers of banks having total fund based and non-fund based exposure of Rs. 50 million and above in a phased manner (and for their parent entity, as well as all subsidiaries and associates). The LEI is a 20-digit unique code to identify parties to financial transactions worldwide. Borrowers who do not obtain LEI as per the schedule are not to be granted renewal/enhancement of credit facilities.

In January 2021 the RBI announced that with effect from April 1, 2021 the LEI system shall be applicable for all payment transactions with a value of Rs. 500.0 million and above undertaken by entities using the RBI-run centralized payment systems Real Time Gross Settlement and National Electronic Funds Transfer.

Guidelines for Merger/Amalgamation of Private Sector Banks

The RBI issued detailed guidelines in May 2005 on the merger or amalgamation of private sector banks and for the amalgamation of a NBFC with a banking company. The guidelines lay down the process for a merger proposal, the determination of swap ratios, disclosures, the stages at which the board of directors will get involved in the merger process and norms of buying and selling of shares by the promoters before and during the merger process.

In April 2016, the RBI issued the Reserve Bank of India (Amalgamation of Private Sector Banks) Directions, 2016. The new directions are substantially the same as the 2005 guidelines mentioned above.

Appointment and Remuneration of the Chairman, the Managing Director and Other Directors

Banks require the prior approval of the RBI to appoint their Chairman and Managing Director and any other directors and to fix their remuneration. The RBI is empowered to remove the appointee on the grounds of public interest or the interest of depositors or to ensure the proper management of the Bank. Further, the RBI may order meetings of the board of directors of banks to discuss any matter in relation to the Bank, appoint observers to these meetings and in general may make changes to the management as it may deem necessary and can also order the convening of a general meeting of the company to elect new directors.

In January 2012, the RBI issued revised guidelines relating to salary and other remuneration payable to whole time directors, chief executive officers and other risk takers of new private sector banks. With these guidelines, the RBI aims to achieve effective governance of compensation, alignment of compensation with prudent risk taking and require banks to make appropriate disclosures in their financial statements. Banks are required to formulate and adopt a comprehensive compensation policy in line with the guidelines covering all their employees and conduct annual review thereof. The policy should cover all aspects of the compensation structure such as fixed pay, perquisites, bonus, variable pay deferrals, guaranteed pay, severance package, stock, pension plan and gratuity. These guidelines became effective from the fiscal year 2012-2013. The guidelines also state that private sector banks would be required to obtain regulatory approval for grant of remuneration to whole time directors/chief executive officers in terms of Section 35B of the BR Act, on a case-by-case basis. In June 2015, the RBI issued guidelines for compensation of non-executive directors of private sector banks. The guidelines required the banks to formulate and adopt a comprehensive compensation policy for the non-executive directors (other than the part-time non-executive Chairman) in accordance with the Companies Act. The policy may provide for payment of compensation in the form of profit related commissions (not exceeding Rs. 1.0 million per annum for each director), sitting fees and reimbursement of expenses for participation in the Board and other meetings.

In November 2019, the RBI issued revised guidelines regarding the compensation of full-time directors, chief executive officers, material risk takers and control function staff. The revised guidelines are applicable for pay cycles which began on April 1, 2020. The revised guidelines were issued based on experience gained by the RBI and evolving international best practices. Among other things, the RBI has directed all private sector banks to raise the variable portion of remuneration to at least half of the total compensation for the chief executives and full-time directors so that top management rewards reflect the "pay for performance" principle. In addition, total variable pay was limited to a maximum of 300.0 percent of the fixed pay.

On April 26, 2021, the RBI issued a circular stating that a comprehensive review of the framework regarding the governance of private banks has been carried out, and a Master Direction on Governance will be issued in due course. The circular also addressed several operative aspects and contained instructions with regard to the chair and meetings of the board of directors of banks, the composition of certain committees of the board of directors, the age, tenure and remuneration of directors, and the appointment of the whole-time directors ("**WTDs**"). Some of the key points addressed by the circular are as follows:

The chair of the board shall be an independent director.

- The posts of managing director ("**MD**") and chief executive officer ("**CEO**") or WTD cannot be held by the same person for more than 15 years. The individual will be eligible for reappointment as MD and CEO or WTD in the same bank, if considered necessary and desirable by the board of directors, after a minimum gap of three years, subject to meeting other conditions. During this three-year cooling period, the individual may not be appointed or associated with the bank or its group entities in any capacity, either directly or indirectly.

- The upper age limit for a person serving as MD and CEO or WTDs in a private bank would continue to be 70 years.

- A MD and CEO or WTD who is also a promoter or major shareholder, cannot hold these posts for more than 12 years.

The circular is applicable to private banks, SFBs and wholly owned subsidiaries of foreign banks. In respect of the State Bank of India and nationalized banks, the guidelines would apply to the extent its requirements are not inconsistent with provisions of specific statutes applicable to these banks or instructions issued under such statutes. The circular is not applicable to foreign banks operating as branches in India.

The instructions shall come into effect from the date of the issuance of the circular. However, in order to enable a smooth transition to the revised requirements, banks are permitted to delay compliance with these instructions until October 1, 2021.

Regulations and Guidelines of the SEBI

SEBI was established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992 to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market including all related matters. We are subject to SEBI regulations in respect of capital issuances as well as some of our activities, including acting as agent for collecting subscriptions to public offerings of securities made by other Indian companies, underwriting, custodial, depositary participant, and investment banking and because our equity shares are listed on Indian stock exchanges. These regulations provide for registering with SEBI and the functions, responsibilities and the code of conduct applicable for each of these activities, and compliance and disclosure requirements in relation to listed companies, including disclosures required to be made to the stock exchanges, and corporate governance requirements.

Foreign Ownership Restriction

Aggregate foreign investment from all sources in a private sector bank is permitted up to 49 percent of the paid-up capital under the automatic route. This limit can be increased to 74 percent of the paid-up capital with prior approval from the Government of India. Pursuant to a letter dated February 4, 2015, the Foreign Investment Promotion Board has approved foreign investment in the Bank up to 74 percent of its paid-up capital. The approval is subject to examination by the RBI for compounding on the change of foreign shareholding since April 2010. In the event the Bank is subject to any penalties or an unfavorable ruling by the RBI, this could have an adverse effect on the Bank's results of operation and financial condition. See "*Risk Factors – Foreign investment in our shares may be restricted due to regulations governing aggregate foreign investment in the Bank's paid-up equity share capital*". The RBI had previously imposed a restriction on the purchase of equity shares of the Bank by foreign investors, under its circular dated March 19, 2012. On February 16, 2017, the RBI lifted the restriction since the foreign shareholding in the Bank was below the maximum prescribed percentage of 74 percent. Thereafter the RBI notified by press release on February 17, 2017, and by separate letter to us dated February 28, 2017, that the foreign shareholding in all forms in the Bank crossed the said limit of 74 percent again. This was due to secondary market purchases of the Bank's equity shares during this period. Consequently, the RBI re-imposed the restrictions on the purchase of the Bank's equity shares by foreign investors. Further, SEBI also enquired regarding the measures that the Bank has taken and will take in respect of breaches of the maximum prescribed percentage of foreign shareholding in the Bank, by its letter dated March 9, 2018. As of March 31, 2021, foreign investment in the Bank, including the shareholdings of HDFC Limited and its subsidiaries, constituted 72.25 percent of the paid-up capital of the Bank. The restrictions on the purchases of the Bank's equity shares could negatively, affect the price of the Bank's shares and could limit the ability of investors to trade in the Bank's shares in the market. These limitations and any consequent regulatory actions may also negatively affect the Bank's ability to raise additional capital to meet its capital adequacy requirements or to fund future growth through issuances of additional equity shares, which could have a material adverse effect on the Bank's business and financial results.

On May 24, 2017, the Government announced its approval to phase out of the FIPB. The government has notified administrative ministries or departments in each relevant sector as competent authorities which will process applications for FDI requiring government approval as per the Standard Operating Procedure ("**SOP**").

In accordance with the Foreign Exchange Management Act, 1999 (the "**Foreign Exchange Management Act**"), and the Foreign Exchange Management (Non-debt) Instruments Rules, 2019 (the "**NDI Rules**") an FPI may invest in the capital of an Indian banking company in the private sector under the portfolio investment scheme which limits the individual holding of a FPI below 10 percent of the capital of the Indian banking company. The aggregate limit for FPI investment is limited by the sectoral caps applicable to an Indian company in relation to FDI in accordance with the NDI Rules. With respect to the Bank, this limit is 74.0 percent. Subject to a resolution of the board of directors, and a special resolution of the shareholders of the Indian banking company, this limit could be decreased to 24.0 percent or 49.0 percent of the total paid-up capital of a private sector banking company before March 31, 2020. An Indian banking company which has decreased its aggregate limit of FDI investment can increase it again, to the aggregate limit of 49.0 percent or 74.0 percent. However, once the aggregate limit of FPI investment is increased, such limit cannot be reduced to a lower threshold by the Indian banking company. Further, in accordance with the existing policy of the RBI, any allotment or transfer of shares which will take the aggregate shareholding of an individual or a group to an equivalent of 5.0 percent or more of the Bank's paid-up capital would require the prior acknowledgement of the RBI before we can affect the allotment or transfer of shares. Foreign banks are permitted to have presence in India either by opening banking outlets or through wholly owned subsidiaries, but not both.

Moratorium, Reconstruction and Amalgamation of Banks

A bank can apply to the high court for the suspension of its business. The high court, after considering the application of the Bank, may order a moratorium staying commencement of an action or proceedings against the relevant banking company for a maximum period of six months. Previously, during the period of moratorium, if the RBI was satisfied that it is: (a) in the public interest; or (b) in the interest of the depositors; or (c) in order to secure the proper management of the Bank; or (d) in the interests of the banking system of the country as a whole, it could prepare a scheme for the reconstruction of the Bank or amalgamation of the Bank with any other bank. Recently, pursuant to the Banking Regulation (Amendment) Act, 2020, the RBI has been permitted to initiate a scheme for reconstruction or amalgamation of a bank even where no moratorium has been imposed, if the considerations referred to above are met. In circumstances entailing reconstruction of the Bank or amalgamation of the Bank with another Bank, the RBI would invite suggestions and objections on the draft scheme prior to placing the scheme before the Government for its sanction. The Government may sanction the scheme with or without modifications. The law does not require consent of the shareholders or creditors of such banks.

Special Status of Banks in India

The special status of banks is recognized under various statutes including the erstwhile Sick Industrial Companies (Special Provisions) Act, 1985 (the "**SICA**"), Recovery of Debts and Bankruptcy Insolvency Resolution and Bankruptcy of Individuals and Partnership Firms Act, 1993 (the "**DRT Act**") and the SARFAESI Act. As a bank, we are entitled to certain benefits under the DRT Act which provide for the establishment of Debt Recovery Tribunals for expeditious adjudication and recovery of debts due to any bank or Public Financial Institution or to a consortium of banks and Public Financial Institutions. Under the DRT Act, the procedures for recovery of debt have been simplified and indicative time frames have been fixed for speedy disposal of cases and no court or other authority can exercise jurisdiction in relation to matters covered by this Act, except the higher courts in India in certain circumstances. The erstwhile SICA provided for reference of "sick" industrial companies to the Board for Industrial and Financial Reconstruction (the "**BIFR**"). Under the SICA, other than the board of directors of a company, a scheduled Bank (where it has an interest in the "sick" industrial company by any financial assistance or obligation, rendered by it or undertaken by it) could refer the company to the BIFR. The SICA has been repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2003 (the "**SICA Repeal Act**"). The Ministry of Finance has notified the SICA Repeal Act, and section 4(b) of the SICA Repeal Act came into force on December 1, 2016. Consequently, the SICA stands repealed and the BIFR and Appellate Authority for Industrial and Financial Reconstruction ("**AAIFR**") have been dissolved.

The SARFAESI Act focuses on improving the rights and simplifying the procedures for enforcement of security interest of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the SARFAESI Act. It also provides the legal framework for the securitization and reconstruction of financial assets.

The Insolvency and Bankruptcy Code, 2016

Banks, as creditors, will benefit from the Insolvency and Bankruptcy Code, 2016 (the "**Insolvency and Bankruptcy Code**"), which came into effect on December 1, 2016. The Insolvency and Bankruptcy Code is a comprehensive piece of legislation that provides for the efficient and timely resolution of insolvency. It amends 11 laws, including the Companies Act, the SARFAESI Act and the DRT Act. It provides for insolvency resolution processes for companies and individuals, and requires that such processes be completed within 180 days. As per the Insolvency and Bankruptcy Code, the insolvency process can end under either of two circumstances: (i) when the creditors decide to evolve a resolution plan or sell the assets of the debtor; or (ii) when the 180-daytime period for negotiations has come to an end. In case a plan cannot be negotiated during the time limit, the assets of the debtor will be sold to repay the debtor's outstanding dues. The proceeds from the sale of assets will be distributed based on an order of priority specified under the Insolvency and Bankruptcy Code.

In order to provide relief to corporate entities, which may be facing financial distress as a result of the COVID-19 pandemic, the Insolvency and Bankruptcy Code was amended with effect from June 5, 2020. Pursuant to the amendment, no application for the initiation of a corporate insolvency resolution process of a corporate debtor can be filed under the Insolvency and Bankruptcy Code, in relation to a default arising on or after March 25, 2020, for a period of six months or such further period, not exceeding one year from such date, as may be notified. Recently, the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021 was promulgated, which among others things, provides for a pre-packaged insolvency resolution process for corporate debtors which are classified as micro, small or medium enterprises. The objective of this amendment is to provide an efficient alternative insolvency resolution process for micro, small and medium enterprises which is efficient and cost effective. See also "Risk Factors – The COVID-19 pandemic or similar public health crises may have a material adverse effect on our business, financial condition and results of operation" for further information on the COVID-19 pandemic.

On June 13, 2017, the RBI announced the constitution of an Internal Advisory Committee (the "**IAC**") to focus on large stressed accounts. The IAC recommended 12 accounts totaling to approximately 25.0 percent of the current gross NPAs of the banking system for immediate reference under the Insolvency and Bankruptcy Code.

Amendments to the BR Act 1949

The Government of India enacted the Banking Regulation (Amendment) Act, 2017, which is deemed to have come into force on May 5, 2017. This amendment inserts two new sections in the BR Act, 1949. The sections enable the Government to authorize the RBI to direct banking companies to resolve specific stressed assets by initiating an insolvency resolution process, where required. The RBI has also been empowered to issue other directions for resolution, and appoint or approve for appointment, authorities or committees to advise banking companies for stressed asset resolution.

Recently, the Government enacted the Banking Regulation (Amendment) Act, 2020 which, among other things, brought co-operative banks under the supervision of the RBI. The amendment also allows the RBI to prepare a scheme for the reconstruction or amalgamation of a banking company without the necessity of first making an order of moratorium.

Credit Information Bureau

The Parliament of India has enacted the Credit Information Companies (Regulation) Act, 2005, pursuant to which every credit institution, including a bank, has to become a member of a credit information bureau and furnish to it such credit information as may be required of the credit institution by the credit information bureau about persons who enjoy a credit relationship with it. Other credit institutions, credit information bureaus and such other persons as the RBI specifies may access such disclosed credit information.

In August 2020, the RBI allowed lending institutions to implement viable resolution plans for eligible borrowers which had faced distress as a result of COVID-19. The lending institutions had to make the required credit reporting in relation to such restructured assets. The RBI has, through its circular dated March 12, 2021, revised the data format for the furnishing of information to credit information companies and other regulatory measures, in order to enable banks to report information relating restructured loans to credit information companies as envisaged in the resolution framework for COVID-19-related financial distress.

Regulations Governing International Banking Outlets and Representative Offices

We have overseas banking outlets in Bahrain, Hong Kong and the DIFC. We have one representative office each in Dubai, UAE, Abu Dhabi, UAE and Nairobi, Kenya. Our branch in Bahrain is regulated by the Central Bank of Bahrain, and has been granted a license designating it as a wholesale bank branch. The activities that can be carried out from the Bahrain branch are deposit taking, providing credit, dealing in financial instruments as principal, dealing in financial instruments as agent, managing financial instruments, operating a collective investment undertaking, arranging deals in financial instruments, advising on financial instruments and issuing/administering means of payment. Our branch in Hong Kong is a full service branch and is regulated by the Hong Kong Monetary Authority. The branch is permitted to undertake banking business in that jurisdiction with certain restrictions. In August 2014, we opened a branch in the DIFC to provide financial services covering arrangement of credit or deals in investments, advising on financial products or credit and arranging custodian services. The activities cater to the requirements of non-resident Indians and Indian corporates overseas. The branch is regulated by the Dubai Financial Services Authority.

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

In June 2017, we opened a branch at the International Financial Service Centre at GIFT City in Gandhinagar, Gujarat, India. This branch is considered a foreign branch by RBI, and offers products such as trade credits, foreign currency term loans (including external commercial borrowings) and derivatives to hedge loans.

National Bank for Financing Infrastructure and Development

The National Bank for Financing Infrastructure and Development Act, 2021 has been passed by the parliament of India. The Act seeks to establish the National Bank for Financing Infrastructure and Development as the principal development financial institution for infrastructure financing, in order to provide long-term finance for such segments of the economy where the risks involved are beyond the acceptable limits of commercial banks and other ordinary financial institutions.

RELATED PARTY TRANSACTIONS

The following is a summary of transactions we have engaged in with our promoter and principal shareholder, HDFC Limited, and its subsidiaries and other related parties, including those in which we or our management have a significant equity interest.

All transactions with HDFC group companies and the other related parties listed below are on terms that we believe are as favorable to us as those that could be obtained from a non-affiliated third-party in an arm's-length transaction. In addition, the RBI guidelines stipulate that we can only transact business with HDFC Limited and its affiliates on an arm's-length basis.

Housing Development Finance Corporation Limited ("HDFC Limited")

Home Loans

We participate in the home loan business by sourcing loans for HDFC Limited. Under this arrangement, HDFC Limited approves and disburses the loans, which are kept on the books of HDFC Limited, and we are paid a sourcing fee. We also have an option but not an obligation to purchase up to 70 percent of the fully disbursed home loans sourced under this arrangement. During fiscal 2021, we purchased home loans aggregating Rs. 189,797.8 million from HDFC Limited under the above arrangement, some of which qualified as priority sector advances. We earned Rs. 3,045.4 million from HDFC Limited in fiscal 2021 as fees for selling these loans. We paid Rs. 5,693.1 million to HDFC Limited towards administration and servicing of these loans. An amount of Rs. 1,387.5 million was receivable from HDFC Limited as of March 31, 2021. An amount of Rs. 1,109.0 million was payable to HDFC Limited as of March 31, 2021.

Property

We have facilities located on properties owned or leased by HDFC Limited. In fiscal 2021, we paid an aggregate of Rs. 24.4 million as rental fees, maintenance and service charges to HDFC Limited for use of these properties. As of March 31, 2021, an amount of Rs. 1.5 million was payable to HDFC Limited. We believe that we pay market rates for these properties. As of March 31, 2021, HDFC Limited held a deposit of Rs. 3.2 million that we have paid to secure these leased properties.

Other Transactions

We also enter into foreign exchange and derivative transactions with HDFC Limited. The notional principal amount and the mark to market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2021 were Rs. 77,574.9 million and Rs. 833.0 million, respectively. We have issued guarantee of Rs. 4.0 million on behalf of HDFC Limited. We earned Rs.19.9 million by rendering of various services to HDFC Limited. As of March 31, 2021, an amount of Rs. 0.2 million was receivable from HDFC Limited towards these services.

HDFC Life Insurance Company Limited ("HDFC Life")

In fiscal 2021, we paid HDFC Life Rs. 1,687.6 million as our contribution towards superannuation, gratuity and insurance premiums. In the same period, we received fees and commissions from HDFC Life aggregating Rs. 17,941.6 million for the sale of insurance policies and other services. As of March 31, 2021, Rs. 1,391.1 million was receivable from HDFC Life. During fiscal 2021, we received Rs. 29,082.9 million for debt securities sold to HDFC Life and we paid Rs. 114.3 million for debt securities purchased from HDFC Life. As of March 31, 2021, HDFC Life had invested Rs. 200.0 million in the Bank's Tier II bonds.

HDFC Asset Management Company Limited ("HDFC AMC")

In fiscal 2021, we earned Rs. 2.9 million fees from HDFC AMC for the distribution of units of mutual funds and other services rendered. As of March 31, 2021, an amount of Rs. 0.2 million was receivable from HDFC AMC.

HDFC Ergo General Insurance Company Limited ("HDFC Ergo")

During fiscal 2021, pursuant to the scheme sanctioned by the National Company Law Tribunal ("NCLT") and approved by the Insurance Regulatory and Development Authority of India ("IRDAI"), HDFC Ergo Health Insurance Limited was merged with HDFC Ergo. We paid Rs.1,168.7 million in insurance premiums to HDFC Ergo in fiscal 2021. During fiscal 2021, we received Rs. 1,811.6 million for the sale of insurance policies and other services rendered. As of March 31, 2021, an amount of Rs. 161.9 million was receivable from HDFC Ergo for the sale of insurance policies and other services rendered. As of March 31, 2021, HDFC Ergo had invested Rs. 200.0 million in the Bank's Tier II bonds. We have given a guarantee of Rs. 28.3 million on behalf of HDFC Ergo. During fiscal 2021, we received Rs. 368.2 million for debt securities sold to HDFC Ergo.

HDFC Credila Financial Services Limited ("Credila")

During fiscal 2021, we earned Rs. 44.6 million fees from Credila for sourcing education loans. As of March 31, 2021, Rs. 15.2 million was receivable from Credila. We also enter into foreign exchange transactions with Credila. The notional principal amount in respect of foreign exchange contracts outstanding as of March 31, 2021 was Rs. 1.8 million.

HDFC Pension Management Company Limited ("HDFC PMC")

We have given a guarantee of Rs. 16.0 million on behalf of HDFC PMC, which is a subsidiary of HDFC Life.

Key Management Personnel ("KMP")

As on October 26, 2020, Mr. Aditya Puri retired from services of the bank as Managing Director and Mr. Sashidhar Jagdishan was appointed as Managing Director and Chief Executive Officer, effective October 27, 2020. In fiscal 2021, we paid total remuneration of Rs. 224.8 million to KMPs, consisting of Mr. Aditya Puri, our former Managing Director, Mr. Sashidhar Jagdishan, our current Managing Director and Chief Executive Officer and Mr. Kaizad Bharucha, our Executive Director. In the same fiscal year, we paid Rs.1.4 million to Mr. Kaizad Bharucha, as rent for his residential accommodation. As of March 31, 2021, the outstanding balance of the loans given to Mr. Sashidhar Jagdishan and Mr. Kaizad Bharucha were Rs. 5.3 million and Rs. 3.9 million, respectively.

Salisbury Investments Private Limited ("Salisbury Investments")

In fiscal 2021, we paid rent of Rs. 3.8 million for residential accommodation of our former Managing Director to Salisbury Investments, in which the relatives of our former Managing Director held a stake. Salisbury Investments ceased to be a related party with effect from October 26, 2020 due to the retirement of our former Managing Director.

TERMS AND CONDITIONS OF THE ADDITIONAL TIER 1 NOTES

The following is the text of the terms and conditions of the Additional Tier 1 Notes which (subject to modification) will be endorsed on each individual certificate evidencing the Additional Tier 1 Notes (if issued).

The U.S.$1,000,000,000 aggregate principal amount of Additional Tier 1 Notes (the "**Additional Tier 1 Notes**", which expression includes any further Additional Tier 1 Notes issued pursuant to Condition 15 and forming a single series therewith) of HDFC Bank Limited (the "**Issuer**"), acting through its Registered Office in India, are constituted by a trust deed dated August 25, 2021 (the "**Trust Deed**") between the Issuer and Citicorp International Limited (the "**Trustee**", which expression shall include all persons for the time acting as the trustee or trustees under the Trust Deed) as trustee for the holders of the Additional Tier 1 Notes and have the benefit of an agency agreement dated August 25, 2021 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citicorp International Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Additional Tier 1 Notes) and Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Additional Tier 1 Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Additional Tier 1 Notes) and the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Additional Tier 1 Notes). References herein to the "**Agents**" are to the Registrar, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Additional Tier 1 Notes. The Noteholders have the benefit of the Trust Deed and are deemed to have notice of all the provisions of the Agency Agreement and the Trust Deed applicable to them. Copies of the Agency Agreement and the Trust Deed are available for inspection by Noteholders upon prior written request and satisfactory proof of holding during normal business hours at the principal office of the Trustee (presently at 20/F Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong) and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1 FORM, DENOMINATION AND STATUS

(a) Form and denomination

The Additional Tier 1 Notes are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) Status

The Additional Tier 1 Notes are direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* without preference among themselves. The rights and claims of Noteholders in respect of, or arising under, the Additional Tier 1 Notes are subordinated in the manner described in Condition 1(c).

The Additional Tier 1 Notes are not deposits of the Issuer and are not guaranteed or insured by the Issuer or any party related to the Issuer and they may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates.

(c) Subordination

The Issuer, for itself, its successors and assignees, covenants and agrees, and each Noteholder by subscribing for or purchasing an Additional Tier 1 Note irrevocably acknowledges and agrees that:

(i) the indebtedness evidenced by the Additional Tier 1 Notes constitutes unsecured and subordinated obligations of the Issuer; and

(ii) the subordination is for the benefit of the holders of indebtedness that rank senior to the Additional Tier 1 Notes.

In a winding up, liquidation or dissolution of the Issuer as determined pursuant to the Companies Act, 2013, as amended (the "**Companies Act**"), and the Banking Regulation Act, 1949, as amended (the "**BR Act**"), the claims of the holders of the Additional Tier 1 Notes and any related receipts or coupons pursuant thereto in respect of the Additional Tier 1 Notes will rank:

(A) senior to the claims of investors in equity shares and perpetual non-cumulative preference shares of the Issuer, whether currently outstanding or issued at any time in the future;

(B) subordinate to the claims of depositors, general creditors and holders of subordinated debt of the Issuer other than any subordinated debt qualifying as Additional Tier 1 Capital (as defined under the RBI Basel III Guidelines) of the Issuer; and

(C) *pari passu* and without preference among themselves and other subordinated debt classified as Additional Tier 1 Capital under the terms of the RBI Basel III Guidelines whether currently outstanding or issued at any time in the future.

The principal of, and interest and any additional amounts payable on, the Additional Tier 1 Notes will be subordinated in right of payment upon the occurrence of any winding up, liquidation or dissolution proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer (including liabilities of all offices and branches of the Issuer wherever located and any subordinated debt securities of the Issuer that rank senior to the Additional Tier 1 Notes), except in each case to those liabilities which by their terms rank, or are expressed to rank, equally in right of payment with or which are subordinated to the Additional Tier 1 Notes, in the manner and to the extent provided in the Trust Deed.

No Noteholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Additional Tier 1 Notes and each Noteholder shall by virtue of its subscription, purchase or holding of any Additional Tier 1 Note, be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

The Additional Tier 1 Notes are neither secured nor covered by a guarantee of the Issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

The Additional Tier 1 Notes will not contribute to liabilities exceeding assets if such a balance sheet test forms part of a requirement to prove insolvency under any law or otherwise. Accordingly, a payment in respect of the Additional Tier 1 Notes will not be due and payable to the extent that the Issuer is not solvent (as determined pursuant to Indian law) at the time of such payment or would not be solvent (as determined pursuant to Indian law) immediately after such payment. As used in these Conditions:

(I) "**Additional Tier 1 Capital**" has the meaning given to it in the RBI Basel III Guidelines;

(II) "**Common Equity Tier 1 Capital**" has the meaning given to it in the RBI Basel III Guidelines; and

(III) "**Tier 1 Capital**" has the meaning given to it in the RBI Basel III Guidelines.

As a consequence of these subordination provisions, if a winding up proceeding should occur, the Noteholders may recover less rateably than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Issuer. Moreover, holders of Additional Tier 1 Notes would likely be required to pursue their claims on the Additional Tier 1 Notes in proceedings in India as further described in Condition 9.

Holders of the Additional Tier 1 Notes will not be entitled to receive notice of, or attend or vote at, any meeting of shareholders of the Issuer or participate in the management of the Issuer.

The Additional Tier 1 Notes do not limit the amount of liabilities ranking senior or equal to the Additional Tier 1 Notes.

To the extent that holders of the Additional Tier 1 Notes are entitled to any recovery with respect to the Additional Tier 1 Notes in any Indian proceedings, such holders may not be entitled in such proceedings to a recovery in U.S. dollars and may be entitled to a recovery in Rupees.

For the avoidance of doubt, if the Issuer goes into winding up, liquidation or dissolution (as determined pursuant to the Companies Act and the BR Act) before any Write-Down under Condition 5, the Additional Tier 1 Notes will absorb losses in accordance with Condition 1(c). If the Issuer goes into liquidation after the Additional Tier 1 Notes have been written down, the Noteholders will have no claim on the proceeds of liquidation.

Nothing in Conditions 1(b) and (c) or in Condition 5 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

Upon issue, the Additional Tier 1 Notes offered outside the United States in reliance on Regulation S of the Securities Act will be represented by the Regulation S Global Note Certificate registered in the name of a nominee of, and deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream, Luxembourg and the Additional Tier 1 Notes offered within the United States to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A of the Securities Act will be represented by a Rule 144A Global Note Certificate registered in the name of, and deposited with a custodian for, DTC. The Conditions are modified by certain provisions contained in the Regulation S Global Note Certificate and the Rule 144A Global Note Certificate.

2 REGISTER, TITLE AND TRANSFERS

(a) Register

The Registrar will maintain a register (the "**Register**") in respect of the Additional Tier 1 Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of an Additional Tier 1 Note means the person in whose name such Additional Tier 1 Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

Except in limited circumstances, owners of interests in the Additional Tier 1 Notes will not be entitled to receive physical delivery of definitive Note Certificates.

(b) Title

The Holder of each Additional Tier 1 Note shall (except as otherwise required by law) be treated as the absolute owner of such Additional Tier 1 Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) Transfers

Subject to Conditions 2(f) and 2(g) (below, a Additional Tier 1 Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however*, that a Additional Tier 1 Note may not be transferred unless the principal amount of Additional Tier 1 Notes transferred and (where not all of the Additional Tier 1 Notes held by a Holder are being transferred) the principal amount of the balance of Additional Tier 1 Notes not transferred are Authorised Denominations. Where not all the Additional Tier 1 Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Additional Tier 1 Notes will be issued to the transferor.

Transfers of interests in the Additional Tier 1 Notes evidenced by either the Regulation S Global Note Certificate or the Rule 144A Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) Registration and delivery of Note Certificates

Within three business days of the surrender of a Note Certificate in accordance with Condition 2(c) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like aggregate nominal amount to the Additional Tier 1 Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) No charge

The transfer of an Additional Tier 1 Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may reasonably require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer, provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Additional Tier 1 Notes unless the Issuer is the counterparty directly liable for that documentary stamp tax.

(f) Closed periods

Noteholders may not require transfers to be registered during (i) the period of 15 days ending on the due date for any payment of principal or interest in respect of the Additional Tier 1 Notes; (ii) during the period of 15 days before any date on which the Additional Tier 1 Notes may be called for redemption by the Issuer at its option pursuant to Condition 4(b); (iii) after any such Note has been called for redemption; or (iv) during the period commencing on the date of a Loss Absorption Event Notice (as defined in Condition 5 below) and ending on (and including) the close of business in India on the effective date of the related Write-Down (as defined in Condition 5 below).

(g) Regulations concerning transfers and registration

All transfers of Additional Tier 1 Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Additional Tier 1 Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be made available at the specified office of the Registrar to any Noteholder who so requests.

3 INTEREST

(a) Interest

The Additional Tier 1 Notes bear interest on their outstanding principal amount from and including August 25, 2021 (the "**Issue Date**") at either the Initial Interest Rate or the Reset Interest Rate (each an "**Interest Rate**"), as applicable, in accordance with the provisions of this Condition 3.

The Interest Rate applicable to the Additional Tier 1 Notes shall be:

(i) in respect of the period from and including, the Issue Date, to but excluding, February 26, 2027 (the "**First Reset Date**"), 3.70 per cent. per annum (the "**Initial Interest Rate**"); and

(ii) in respect of the period from and including, the First Reset Date and each Reset Date falling thereafter, to but excluding, the immediately following Reset Date, the relevant Reset Interest Rate.

In these Conditions:

"**Reset Interest Rate**" in respect of any Reset Period will be the sum of the 5 year US Treasury Rate in relation to that Reset Period plus the Margin.

"**Reset Period**" means the period from and including the First Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

"**Reset Date**" means the First Reset Date and each date that falls five, or a multiple of five years following the First Reset Date.

"**Margin**" means 2.925 per cent per annum.

Subject as provided in this Condition 3, interest shall be payable semi-annually in arrear in equal instalments on February 25 and August 25 in each year (each an "**Interest Payment Date**"). Subject as provided in this Condition 3, the first Interest Payment Date is February 25, 2022. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is an "**Interest Period**".

Each Additional Tier 1 Note will cease to accrue interest from the effective date for redemption unless, upon surrender of the Note Certificate, payment of the principal amount of the Additional Tier 1 Notes is improperly withheld or refused. In such event, interest will continue to accrue until the date on which all amounts due in respect of such Additional Tier 1 Notes have been paid or as otherwise provided in the Trust Deed.

Further, each Additional Tier 1 Note (or in the case of the Write-Down of part only of an Additional Tier 1 Note, that part only of such Additional Tier 1 Note) will cease to accrue interest from the date of such Write-Down until the date (if any) of its subsequent Reinstatement.

(b) Calculation of interest amounts

Interest in respect of an Additional Tier 1 Note is calculated in respect of any period by determining the product of the Interest Rate, the Outstanding Nominal Amount of that Additional Tier 1 Note and the Day Count Fraction for the relevant period and rounding the resultant figure to the nearest cent, half of any cent being rounded upwards.

If an Additional Tier 1 Note has had two or more different Outstanding Nominal Amounts during the relevant period for which interest is being calculated (due to one or more Write-Downs or Reinstatements occurring during such period), interest in respect of the Additional Tier 1 Note shall be calculated as if such period was two or more (as relevant) consecutive interest periods and interest calculated based on the actual number of days for which each Outstanding Nominal Amount was applicable.

If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day count fraction (the "**Day Count Fraction**") will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

If any Interest Payment Date would otherwise fall on a day which is not a Business Day, then payment of the relevant interest amount will not be due until the next succeeding Business Day.

(c) Payment Limitation

The Issuer may, at its full discretion and as it deems fit, in accordance with the RBI Basel III Guidelines, elect at any time to cancel (in whole or in part) interest otherwise scheduled to be paid on an Interest Payment Date. The Issuer shall have full access to cancelled payments to meet its obligations as they fall due.

Further, the Issuer will cancel (in whole or, as the case may be, in part) the payment of any interest otherwise scheduled to be paid on an Interest Payment Date to the extent that such payment of interest on the Additional Tier 1 Notes is not permitted to be paid under the RBI Basel III Guidelines.

Pursuant to the RBI Basel III Guidelines, coupons on all Additional Tier 1 instruments (such as the Additional Tier 1 Notes) will be paid out of distributable items. In this context, coupons may be paid out of current year profits. However, if current year profits are not sufficient, coupon may be paid subject to availability of: (i) profits brought forward from previous years, and/or (ii) reserves representing appropriation of net profits, including statutory reserves, and excluding reserves created for specific purposes (including but not limited to, share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation). The accumulated losses and deferred revenue expenditure, if any, shall be netted off from (i) and (ii) above to arrive at the available balances for payment of coupon. In the event the aggregate of: (a) profits in the current year; (b) profits brought forward from the previous years and (c) permissible reserves as at sub-paragraph (ii) above, excluding statutory reserves, net of accumulated losses and deferred revenue expenditure are less than the amount of coupon, then the Issuer shall make the appropriation from the statutory reserves. In such cases, the Issuer is required to report to the RBI within 21 days from the date of such appropriation in compliance with Section 17(2) of the BR Act.

However, payment of interests on Additional Tier 1 Notes from the revenue reserves is subject to the Issuer meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios (each as defined and calculated in accordance with the RBI Basel III Guidelines) including the additional capital requirements for Domestic Systemically Important Banks at all times and subject to the requirements of the capital buffer frameworks (i.e. capital conservation buffer and counter cyclical capital buffer as referred to in the RBI Basel III Guidelines).

Interest on the Additional Tier 1 Notes will be non-cumulative. If interest is not paid in whole or in part on an Interest Payment Date pursuant to and in accordance with this Condition 3, or is cancelled pursuant to Condition 5, such interest will not be due and payable and the right of Noteholders to receive interest in respect of the Interest Period ending on such Interest Payment Date will be lost and the Issuer will have no further obligation in respect of the interest for such Interest Period, whether or not any amount of interest is paid for any future Interest Period. Non-Payment of interest in accordance with this Condition 3 will not constitute an event of default in respect of the Notes. For the avoidance of doubt, no Noteholder shall have any claim in respect of any interest or part thereof cancelled pursuant to this Condition 3. Accordingly, such interest shall not accumulate for the benefit of Noteholders or entitle the Noteholders to any claim in respect thereof against the Issuer.

In the event that the Issuer determines that it shall not, or is not permitted to, make a payment of interest on Additional Tier 1 Notes in accordance with this Condition 3, the Issuer shall notify or procure notification as soon as possible and at least five Business Days prior to, but not more than 60 calendar days prior to, the relevant Interest Payment Date, to the Trustee and the Paying Agents (in a certificate signed by two directors of the Issuer), the relevant stock exchange(s) (if any) on which the Additional Tier 1 Notes are for the time being listed and the holders of the Additional Tier 1 Notes (in accordance with Condition 16) of that fact and of the amount that shall not be paid provided that failure to give such notice shall not affect the cancellation of any interest payment (in whole or, as the case may be, in part) and shall not constitute a default.

For the avoidance of doubt, the cancellation of any interest will not impose any restrictions on the Issuer except in relation to distributions to common stakeholders as described in Condition 3(d) below.

(d) Dividend Stopper

If for any reason any payment of interest is not paid in full on an Interest Payment Date then, from the date of which such cancellation has first been notified to any of the Trustee, the Principal Paying Agent or the Noteholders (a "**Dividend Stopper Date**"), the Issuer will not, so long as any of the Additional Tier 1 Notes are outstanding:

(i) declare or pay any discretionary distribution or dividend or make any other payment on, or directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire its Common Equity Tier 1 Capital (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) pay discretionary interest or any other distribution on, or directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire, any of its instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, *pari passu* with, or junior to, the Additional Tier 1 Notes (excluding securities the terms of which stipulate a mandatory redemption),

in each case unless or until the next Interest Payment Date following the Dividend Stopper Date on which an interest amount has been paid in full (or an equivalent amount has been separately set aside for payment to the Noteholders), or the prior approval of the Noteholders has been obtained via an Extraordinary Resolution.

Nothing in Condition 3(d) will:

(A) stop payment on another instrument where the payments on such an instrument are not fully discretionary;

(B) prevent distribution to shareholders for a period that extends beyond the point in time at which interest on the Additional Tier 1 Notes is resumed;

(C) impede the normal operation of the Issuer, including actions in connection with employee share plans or any restructuring activity, including acquisitions and disposals; or

(D) impede the full discretion that the Issuer has, at all times, to cancel distributions or payments on the Additional Tier 1 Notes nor act in a way that could hinder the recapitalisation of the Issuer.

(e) Interest Rate Determination

The Calculation Agent will, on the Calculation Date before each Reset Date, determine the Reset Interest Rate in respect of the Additional Tier 1 Notes. The Calculation Agent will procure such Reset Interest Rate determined by it to be notified to the Trustee and the Noteholders as soon as possible after their determination but in no event later than the fourth business day thereafter. If the Additional Tier 1 Notes become due and payable under Condition 8, the Reset Interest Rate and Interest accrued per Calculation Amount shall nevertheless continue to be determined by the Calculation Agent in accordance with this Condition 3 but no publication of the Reset Interest Rate so calculated need be made. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agents and the Noteholders and (subject as aforesaid) no liability will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purpose.

(f) Definitions

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and New York;

"**Common Equity Tier 1 Capital**" has the meaning given to it in the RBI Basel III Guidelines;

"**Reserve Bank of India**" or "**RBI**" means the Reserve Bank of India established under the Reserve Bank of India Act, 1934 or any successor entity having primary bank regulatory authority with respect to the Issuer; and

"**RBI Basel III Guidelines**" means the Reserve Bank of India's Master Circular – Basel III Capital Regulations RBI 2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated 1 July 2015 as amended, revised, modified, supplemented or updated from time to time, read with RBI Circular No. DBR.No.BP.BC.71/21.06.201/2015-16 dated January 14, 2016, RBI Circular No. DBR.BP.BC.No.50/21.06.201/2016-17 dated February 2, 2017 and RBI Circular No. DOR.BP.BC.No15/21.06.201/2020-21 dated September 29, 2020, including without limitation, any relevant press releases, notifications, regulations, guidelines, circulars, directions, which may be issued by the RBI from time to time, each as amended, revised, modified, supplemented or updated at any time prior to the earliest date on which the Additional Tier 1 Notes were issued.

4 CALL, REDEMPTION AND PURCHASE

(a) No Maturity Date

The Additional Tier 1 Notes are perpetual and have no scheduled maturity date (the "**Maturity Date**").

(b) Redemption at the Option of the Issuer

The Issuer may, at its sole discretion but subject always to the Conditions for Redemption set out in Condition 4(e) having been satisfied, redeem the Additional Tier 1 Notes (in whole but not in part) at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption at any time from (and including) August 25, 2026 (the "**First Call Date**") to (but excluding) the First Reset Date or at any Interest Payment Date thereafter, other than any Reset Date, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 which notices shall specify the date fixed for redemption and be irrevocable. For avoidance of doubt, any call date with regard to an exercise of a redemption by the Issuer pursuant to this Condition 4(b) shall not be a date which is co-terminus with a Reset Date.

Any redemption of the Additional Tier 1 Notes is subject to compliance with applicable regulatory requirements, including the prior approval of the RBI. The RBI, while considering the request of the Issuer to so redeem any Additional Tier 1 Notes, may take into consideration, amongst other things, the Issuer's capital adequacy position both at the time of the proposed redemption and thereafter.

(c) Redemption or Variation for tax reasons

The Issuer may redeem the Additional Tier 1 Notes in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall specify the date fixed for redemption and which shall, subject to Condition 5, be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(i) on the occasion of the next payment due under the Additional Tier 1 Notes, the Issuer has or will become obliged to pay additional amounts or will, having been entitled to claim a deduction, no longer be entitled to claim a deduction in respect of computing its taxation liabilities with respect to interest on the Additional Tier 1 Notes, in each case as a result of any change in, or amendment to, the laws, regulations or rulings of India or any political subdivision or any authority thereof or therein having power to tax, or any change in the official application of such laws, regulations or rulings or the official interpretation of existing or new provisions contained in such laws, regulations or rulings, which change or amendment becomes effective on or after August 18, 2021; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (together, a "**Tax Event**"),

provided that (i) the Conditions for Redemption set out in Condition 4(e) have been satisfied and (ii) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Additional Tier 1 Notes then due. The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Tax Event, to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Additional Tier 1 Notes.

The exercise of the tax event call described above by the Issuer is subject to the requirements set out in the RBI Basel III Guidelines, including the receipt of prior approval of the RBI. RBI will permit the Issuer to exercise the tax event call only if the RBI is convinced that the Issuer was not in a position to anticipate the Tax Event at the time of issuance of the Additional Tier 1 Notes.

Prior to the publication of any notice of redemption pursuant to this Condition 4(c), the Issuer shall deliver to the Trustee to make available at its Specified Office to the Noteholders (1) a Redemption Certificate, and (2) an opinion of independent legal advisors of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the Redemption Certificate and the opinion as conclusive and sufficient evidence of the satisfaction of the conditions precedent set out above in which event they shall be conclusive and binding on the Noteholders.

Additional Tier 1 Notes redeemed pursuant to this Condition 4(c) will be redeemed at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption. Any notice of redemption will be irrevocable and will provide details of the date of redemption. If the redemption price in respect of any Additional Tier 1 Notes is improperly withheld or refused and is not paid by the Issuer, interest on the outstanding principal amount of such Additional Tier 1 Notes will continue to be payable as provided in the Trust Deed until the redemption price is actually paid.

The Trustee shall concur in and execute any necessary documentation to implement a variation permitted pursuant to this Condition without any consent of the Noteholders, provided that the Trustee shall not be obliged to participate in or assist with any such variation if the terms of the proposed Additional Tier 1 Notes or the participation in or assistance with such variation would impose, in the Trustee's opinion, more onerous obligations upon it or expose it to liabilities or reduce its protections.

(d) Redemption or Variation for Regulatory Reasons

Subject to the Conditions for Redemption set out in Condition 4(e) having been satisfied, the Issuer may at its sole discretion, redeem the Additional Tier 1 Notes in whole, but not in part, at any time in accordance with the RBI Basel III Guidelines, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall specify the date fixed for redemption and which shall, subject to Condition 5, be irrevocable), if a Regulatory Event has occurred and is continuing.

The Issuer may (subject to compliance with the Conditions for Redemption) elect, instead of redeeming the Additional Tier 1 Notes on the occurrence of a Regulatory Event, to vary the terms of the Additional Tier 1 Notes so that they become or remain Qualifying Additional Tier 1 Notes.

A "**Regulatory Event**" occurs if, as a result of change in regulation, the Issuer is notified in writing by the RBI to the effect that the Outstanding Nominal Amount (or the amount that qualifies as regulatory capital, if some amount of the Additional Tier 1 Notes is held by the Issuer or whose purchase is funded by the Issuer) of the Additional Tier 1 Notes is fully or partly excluded from the Tier 1 Capital of the Issuer.

The exercise of the regulatory event call described above by the Issuer is subject to the requirements set out in the RBI Basel III Guidelines, including the receipt of prior approval of the RBI. RBI will permit the Issuer to exercise the regulatory event call only if the RBI is convinced that the Issuer was not in a position to anticipate the Regulatory Event at the time of issuance of the Additional Tier 1 Notes.

Prior to the publication of any notice of redemption pursuant to this Condition 4(d), the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders, a Redemption Certificate.

Any Additional Tier 1 Notes redeemed pursuant to this Condition 4(d) will be redeemed at 100% of their Outstanding Nominal Amount together with interest accrued to (but excluding) the date of redemption. If the redemption price in respect of any Additional Tier 1 Notes is improperly withheld or refused and is not paid by the Issuer, interest on the outstanding principal amount of such Additional Tier 1 Notes will continue to be payable as provided in the Trust Deed until the redemption price is actually paid.

The Trustee shall concur in and execute any necessary documentation to implement a variation permitted pursuant to this Condition without any consent of the Noteholders, provided that the Trustee shall not be obliged to participate in or assist with any such variation if the terms of the proposed Additional Tier 1 Notes or the participation in or assistance with such variation would impose, in the Trustee's opinion, more onerous obligations upon it or expose it to liabilities or reduce its protections.

(e) Conditions for Redemption

The Issuer shall not redeem or vary any Additional Tier 1 Notes unless:

(i) the Issuer has obtained the prior approval of the RBI (Department of Banking Regulation) prior to the redemption of the Additional Tier 1 Notes;

(ii) in the case of a Tax Event or a Regulatory Event, the change of law or regulation giving rise to the right to redeem or vary the Additional Tier 1 Notes has occurred after the Issue Date and the RBI is convinced that the Issuer was not in a position to anticipate the Tax Event or the Regulatory Event at the time of issuance of the Additional Tier 1 Notes;

(iii) either (a) the Issuer replaces the Additional Tier 1 Notes with capital of the same or better quality and the replacement is done on conditions which are sustainable for the income capacity of the Issuer or (b) the Issuer demonstrates to the satisfaction of the RBI that its capital position would, following such redemption, be well above its minimum capital requirements after the call option is exercised,

(collectively, the "**Conditions for Redemption**"). Prior to any redemption or variation of the Additional Tier 1 Notes under this Condition 4, the Issuer shall deliver to the Trustee a Redemption Certificate.

(f) Definitions

In these Conditions,

"**Outstanding Nominal Amount**" means the issued nominal amount of the Additional Tier 1 Note, as reduced pursuant to any Write-Down and as increased pursuant to any Reinstatement, from time to time;

"**Qualifying Additional Tier 1 Notes**" means instruments issued by the Issuer that:

(i) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Additional Tier 1 Capital, including that they are fully paid-in;

(ii) have terms and conditions not materially less favourable to a Noteholder than the Additional Tier 1 Notes (as reasonably determined by the Issuer in accordance with the RBI Basel III Guidelines (provided that in making this determination the Issuer is not required to take into account the tax treatment of the new instrument in the hands of all or any holders of the Additional Tier 1 Notes, or any transfer or similar taxes that may apply on the acquisition of the new instrument) provided that a certification to such effect of an authorised signatory of the Issuer shall have been delivered to the Trustee prior to the variation of the terms of the instruments);

(iii) shall not at such time be subject to a Tax Event or a Regulatory Event;

(iv) will constitute direct obligations of the Issuer;

(v) rank, on a winding-up, liquidation or dissolution (as determined pursuant to the Companies Act and the BR Act) of the Issuer, at least *pari passu* with the obligations of the Issuer in respect of other Additional Tier 1 Capital;

(vi) have at least the same Outstanding Nominal Amount and interest payment or distribution dates as the Additional Tier 1 Notes and at least equal interest or distribution rate or rate of return as Additional Tier 1 Notes;

(vii) are listed on the same stock exchange as the Additional Tier 1 Notes (or another securities exchange of international standing regularly used for the listing and quotation of debt securities offered and traded in the international markets);

(viii) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid interest;

(ix) (where the instruments are varied prior to the first-occurring Optional Redemption Date) have the same issuer call date as the Additional Tier 1 Notes;

(x) have the same claim to amounts payable upon any redemption; and

(xi) which may include such technical changes as necessary to reflect the requirements of Additional Tier 1 Capital under the RBI Basel III Guidelines then applicable to the Issuer; and

"**Redemption Certificate**" means a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption or variation (as the case may be) and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem or vary the terms have occurred or been satisfied pursuant to the relevant provisions of this Condition 4. Such certificates shall be made available for inspection by the Noteholders. The Trustee shall be entitled without further action or enquiry to accept the certificate as conclusive and sufficient evidence of the contents and matters set forth therein in which event they shall be conclusive and binding on the Noteholders.

(g) No other redemption

The Issuer shall not be entitled to redeem the Additional Tier 1 Notes otherwise than as provided in Condition 4(b), Condition 4(c) and Condition 4(d) above.

(h) Purchase

The Issuer may, subject to the RBI Basel III Guidelines and obtaining the prior approval of the RBI, at any time repurchase the Additional Tier 1 Notes at any price in the open market or otherwise if such Additional Tier 1 Notes are surrendered to any Paying Agent and/or the Registrar for cancellation. For the avoidance of doubt, the Additional Tier 1 Notes repurchased under the Condition 4(h) may be not be held, reissued or resold.

The Issuer may repurchase the Additional Tier 1 Notes only if (i) the Issuer replaces the Additional Tier 1 Notes with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Issuer; or (ii) the Issuer demonstrates that its capital position is well above the minimum capital requirements after the repurchase.

For avoidance of doubt, in the case of any repurchase or redemption under these Conditions, the option to offer the Additional Tier 1 Notes for repayment upon the Issuer giving notice to repurchase or redeem the Additional Tier 1 Notes would lie with the Noteholders whereas in case of a call option being exercised by the Issuer in accordance with Condition 4(b), such an option would lie with the Issuer.

(i) Cancellation

All Additional Tier 1 Notes which are redeemed will forthwith be cancelled. All Additional Tier 1 Notes so cancelled and any Additional Tier 1 Notes purchased and cancelled pursuant to Condition 4(h) above shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Additional Tier 1 Notes) and may not be reissued or resold.

5 LOSS ABSORPTION

Each holder of Additional Tier 1 Notes shall be deemed to have authorised, directed and requested the Trustee, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Write-Down required by this Condition 5.

Neither the Trustee nor any Agent shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with any Write-Down or any consequent cancellation of the Additional Tier 1 Notes, and neither the Trustee nor the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same.

(a) Principal write-down on PONV Trigger Event

If a PONV Trigger Event occurs, the Issuer will, without the need for the consent of Noteholders or the Trustee:

(i) deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent within three Business Days of the occurrence of such PONV Trigger Event;

(ii) cancel any interest which is accrued and unpaid up to the relevant Loss Absorption Effective Date; and

(iii) *pari passu* and *pro rata* with any other Tier 1 Loss Absorbing Instruments (where possible), and taking into account the prior loss absorption in full of Tier 1 Loss Absorbing Instruments (where possible) irrevocably reduce the Outstanding Nominal Amount of each Additional Tier 1 Note by the relevant Write-Down Amount (such reduction being referred to as a "**Write-Down**" and "**Written Down**" being construed accordingly),

subject as is otherwise required by the RBI at the relevant time. The Issuer will effect a Write-Down within 30 days of the Write-Down Amount being determined by the RBI.

If a Write-Down occurs in respect of less than the full Outstanding Nominal Amount of the Additional Tier 1 Notes, one or more further Write-Downs may occur in respect of one or more subsequent PONV Trigger Events. Once the Outstanding Nominal Amount of an Additional Tier 1 Note has been Written Down pursuant to this Condition 5(a), the relevant Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.

Following the giving of a Loss Absorption Event Notice which specifies a Write-Down of Additional Tier 1 Notes, the Issuer shall procure that a similar notice is, or has been, given in respect of each Tier 1 Loss Absorbing Instrument (in accordance with its terms), and the prevailing nominal amount of each Tier 1 Loss Absorbing Instrument outstanding (if any) is permanently written down on a pro rata basis with the Outstanding Nominal Amount of the Additional Tier 1 Notes, as soon as reasonably practicable following the giving of such Loss Absorption Event Notice and, where possible, within 30 days of the amount of the permanent write-down of such Tier 1 Loss Absorbing Instrument being determined by the RBI.

For the avoidance of doubt, following any Write-Down of the Additional Tier 1 Notes in accordance with these provisions the principal amount so written down will be cancelled and interest will continue to accrue only on the Outstanding Nominal Amount.

If the Issuer is amalgamated with any other bank pursuant to Section 44A of the BR Act before the Additional Tier 1 Notes have been Written Down, the Additional Tier 1 Notes will become, part of the Additional Tier 1 capital of the new bank emerging after the merger.

If the Issuer is amalgamated with any other bank after the Additional Tier 1 Notes have been Written Down temporarily, the amalgamated entity can write-up these instruments as per its discretion.

For the avoidance of doubt, if the Issuer is amalgamated with any other bank after the Additional Tier 1 Notes have been Written Down pursuant to a PONV Trigger Event, these cannot be reinstated by the new bank emerging after the merger. If the RBI or other relevant authority decides to reconstitute the Issuer or amalgamate the Issuer with any other bank, pursuant to Section 45 of the BR Act, the Issuer will be deemed as non-viable or approaching non-viability and both the pre-specified trigger and the PONV Trigger Event will be activated. Accordingly, the Additional Tier 1 Notes will be permanently Written-Down in full prior to any reconstitution or amalgamation.

Following a Write-Down due to a PONV Trigger Event having occurred, all rights of any Noteholder for payment of any amounts under or in respect of the PONV Write-Down Amount in respect of their Additional Tier 1 Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, any default) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Loss Absorption Event Notice or the Loss Absorption Effective Date and even if the PONV Trigger Event has ended.

A Write-Down due to a PONV Trigger Event shall occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

The RBI Basel III Guidelines as at the Issue Date state that, for this purpose, a non-viable bank will be a bank which, owing to its financial and other difficulties, may no longer remain a going concern on its own in the opinion of the RBI unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. The difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier 1 Capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. Such measures would include a permanent write-off in combination with or without other measures as considered appropriate by the RBI.

A bank facing financial difficulties and approaching a point of non-viability shall be deemed to achieve viability if within a reasonable time in the opinion of the RBI, it will be able to come out of the present difficulties if appropriate measures are taken to revive it. The measures including a permanent write-off or public sector injection of funds are likely to:

(i) *restore confidence of the depositors/investors;*

(ii) *improve rating/creditworthiness of the bank and thereby improving its borrowing capacity and liquidity and reduce cost of funds; and*

(iii) *augment the resource base to fund balance sheet growth in the case of fresh injection of funds.*

(b) Principal write-down on CET1 Trigger Event

(i) Write-Down on the occurrence of a CET1 Trigger Event

If a CET1 Trigger Event occurs, the Issuer will, without the need for any consent from the Noteholders or the Trustee:

(A) deliver a Loss Absorption Event Notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent within three Business Days of the occurrence of such CET1 Trigger Event;

(B) cancel any interest which is accrued and unpaid on the Additional Tier 1 Notes up to the relevant Loss Absorption Effective Date; and

(C) *pari passu* and *pro rata* with any other Tier 1 Loss Absorbing Instruments (where possible) irrevocably Write-Down the Outstanding Nominal Amount of each Additional Tier 1 Note by the relevant Write-Down Amount.

The write-down of any CET 1 capital pursuant to a CET1 Trigger Event shall not be required before a write-down of any AT1 instruments (including the Additional Tier 1 Notes). The write-down will generate CET 1 under applicable Indian Accounting Standards (i.e. net of contingent liability recognised under the Indian Accounting Standards, potential tax liabilities, etc., if any).

When the Issuer breaches a pre-specified trigger level (as set out in Annexure 16 of the RBI Basel III Guidelines) and the equity is replenished through write-down, such replenished amount of equity will be excluded from the total equity of the Issuer for the purpose of determining the proportion of earnings to be paid out as dividend in terms of rules laid down for maintaining capital conservation buffer. However, once the Issuer has attained a total Common Equity Tier 1 Ratio of 8 per cent. without counting the replenished equity capital that point onwards, the Issuer may include the replenished equity capital for all purposes.

The Issuer shall have the discretion to write-down the Additional Tier 1 Notes multiple times in case the Issuer hits pre-specified trigger level subsequent to the first write-down which was partial. The Additional Tier 1 Notes which have been written off can be written up (partially or fully) at the absolute discretion of the Issuer and subject to compliance with RBI conditions (including permission, consent if any).

A Write-Down may occur on more than one occasion and (if applicable) the Additional Tier 1 Notes may be Written Down following one or more Reinstatements pursuant to Condition 5(b)(ii). Once the nominal amount of an Additional Tier 1 Note has been Written Down pursuant to this Condition 5(b), it may only be restored in accordance with Condition 5(b)(ii).

Following the giving of a Loss Absorption Event Notice which specifies a Write-Down of the Additional Tier 1 Notes, the Issuer shall procure that a similar notice is, or has been, given in respect of each Tier 1 Loss Absorbing Instrument (in accordance with its terms), and the prevailing nominal amount of each Tier 1 Loss Absorbing Instrument outstanding (if any) is written down on a pro rata basis with the Outstanding Nominal Amount of the Additional Tier 1 Notes, as soon as reasonably practicable following the giving of such Loss Absorption Event Notice.

If the Issuer is amalgamated with any other bank pursuant to Section 44A the BR Act before the Additional Tier 1 Notes have been Written Down, the Additional Tier 1 Notes will become part of the Additional Tier 1 capital of the new bank emerging after the merger. If the Issuer is amalgamated with any other bank after the Additional Tier 1 Notes have been Written Down pursuant to a CET1 Trigger Event, the amalgamated bank can reinstate these instruments according to its discretion, unless the Write-Down was full and permanent.

As per the RBI Basel III Guidelines, the Issuer must obtain a certificate from the statutory auditors clearly stating that the write-down mechanism chosen by the Issuer for the Additional Tier 1 Notes issuance is able to generate CET1 under the prevailing accounting standards.

For the avoidance of doubt, a Write-Down of the Additional Tier 1 Notes on a CET1 Trigger Event is not subject to the prior loss absorption of Common Equity Tier 1 Capital of the Issuer.

The purpose of a Write-Down on occurrence of the CET1 Trigger Event shall be to shore up the capital level of the Issuer. If the Issuer breaches the CET1 Trigger Event Threshold and equity is replenished through Write-Down of the Additional Tier 1 Notes, such replenished amount of equity will be excluded from the total equity of the Issuer for the purpose of determining the proportion of earnings to be paid out as dividend in terms of rules laid down for maintaining the capital conservation buffer (as described in the RBI Basel III Guidelines). However, once the Issuer has attained a total Common Equity Tier 1 Ratio of 8% without counting the replenished equity capital, from that point onwards, the Issuer may include the replenished equity capital for all purposes.

(ii) Reinstatement

Following a temporary Write-Down pursuant to Condition 5(b)(i), the Outstanding Nominal Amount of the Additional Tier 1 Notes may be increased up to the Maximum Reinstatement Amount (a "**Reinstatement**") at the Issuer's option and subject to any conditions specified in the RBI Basel III Guidelines, or as are otherwise notified to the Issuer by the RBI, from time to time. The Additional Tier 1 Notes may be subject to more than one Reinstatement. The Issuer will not reinstate the principal amount of any Tier 1 Loss Absorbing Instrument that has been written down (and which is capable under its terms of being reinstated) unless it does so on a *pro rata* basis with a Reinstatement on the Additional Tier 1 Notes.

The Issuer must give notice of any Reinstatement to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent at least 10 Business Days prior to such Reinstatement. The Trustee and Principal Paying Agent shall be entitled to rely absolutely on such notice without further enquiry and without liability to any Noteholder or any other person, which notice shall be conclusive evidence of the occurrence of a Reinstatement and shall be binding upon all Noteholders.

Neither the Trustee nor any Agents shall have the responsibility to monitor whether any Reinstatement has been undertaken or completed, and neither the Trustee nor the Agents shall have any responsibility to ensure that any Reinstatement, once undertaken, is completed.

(c) Interpretation

In these Conditions:

"**CET1 Trigger Event**" means that the Issuer's Common Equity Tier 1 Ratio is at or below the CET1 Trigger Event Threshold;

"**CET1 Trigger Event Threshold**" means:

(A) if calculated at any time prior to 1 October 2021, 5.5%; or

(B) if calculated at any time from and including 1 October 2021 (on account of deferred implementation of the last tranche of the capital conservation buffer), 6.125%;

"**Common Equity Tier 1 Ratio**" means the Common Equity Tier 1 Capital (as defined and calculated in accordance with the applicable RBI Basel III Guidelines) of the Issuer expressed as a percentage of the total risk weighted assets (as defined and calculated in accordance with the applicable RBI Basel III Guidelines) of the Issuer;

"**Loss Absorption Effective Date**" means the date that will be specified as such in the Loss Absorption Event Notice;

"**Loss Absorption Event Notice**" means a notice which specifies that a PONV Trigger Event or CET1 Trigger Event (as applicable) has occurred, the Write-Down Amount and the date on which the Write-Down will take effect. Any Loss Absorption Event Notice must be accompanied by a certificate signed by an authorised officer of the Issuer stating that the PONV Trigger Event or CET1 Trigger Event, as relevant, has occurred. The Trustee and Principal Paying Agent shall be entitled to rely absolutely on such certificate and notice without further enquiry and without liability to any Noteholder or any other person, which notice shall be conclusive evidence of the occurrence of a PONV Trigger Event or, as the case may be, a CET1 Trigger Event and shall be binding upon all Noteholders;

"**Maximum Reinstatement Amount**", in respect of an Additional Tier 1 Note, means the Issued Nominal Amount of such Additional Tier 1 Note as reduced pursuant to: (i) any Write-Down pursuant to a PONV Trigger Event; and (ii) any Write-Down pursuant to a CET1 Trigger Event if such Write-Down has been made permanent due to a subsequent PONV Trigger Event;

"**Ordinary Share**" means an ordinary share of the Issuer;

"**PONV Trigger Event**" in respect of the Issuer, means the earlier of:

(A) a decision that a write-down, without which the Issuer would become non-viable, is necessary, as determined by the RBI; and

(B) the decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, as determined by the RBI;

"**Tier 1 Loss Absorbing Instrument**" means, at any time, any instrument issued directly or indirectly by the Issuer, other than the Ordinary Shares and the Additional Tier 1 Notes, which (a) is eligible to qualify as Additional Tier 1 Capital pursuant to the RBI Basel III Guidelines; and (b) contains provisions relating to a write down or conversion into Ordinary Shares of the nominal amount of such instrument on the occurrence, or as a result, of a PONV Trigger Event or CET1 Trigger Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

"**Write-Down Amount**" means the amount by which the then Outstanding Nominal Amount of each Additional Tier 1 Note is to be Written Down pursuant to a Write-Down, being the minimum of:

(A) the amount (together with the Write-Down of the other Additional Tier 1 Notes and the write-down of any Tier 1 Loss Absorbing Instruments) that:

(I) in the case of a PONV Trigger Event, would be sufficient to satisfy the RBI that the Issuer will not become non-viable; or

(II) in the case of a CET1 Trigger Event, would, as determined by the Issuer in its absolute discretion, immediately return the Issuer's Common Equity Tier 1 Ratio to between the CET1 Trigger Event Threshold and 8 per cent.; and

(B) the amount necessary to reduce the Outstanding Nominal Amount to zero.

For the avoidance of doubt, the Write-Down Amount in the case of a Write-Down due to a PONV Trigger Event will be such amount as is required by the RBI or other relevant authority at the relevant time.

(d) Notwithstanding anything to the contrary that may be set out in these Conditions, the Trust Deed and the Agency Agreement:

(i) each Noteholder shall be deemed to have authorised, directed and requested the Trustee and the Agents to take any and all necessary action to give effect to any Write-Down following the occurrence of a PONV Trigger Event and/or a CET1 Trigger Event or any Reinstatement;

(ii) neither the Trustee nor any Agents shall be: (1) responsible or liable to any Noteholder for monitoring or determining whether a Trigger Event or Reinstatement has occurred and, unless expressly notified in writing, shall be entitled to assume that no such event or circumstance exists, (2) responsible for verifying or calculating any Write-Down Amount in connection with a PONV Trigger Event and/or a CET1 Trigger Event or for any mark down of Notes made pursuant to the Issuer's directions and shall not be responsible or liable to Noteholders or any other person for any failure by it to do so, (3) responsible for preparing any Loss Absorption Event Notice, (4) be responsible or liable to the holders or any persons with respect to any act, omission or default by the clearing systems (or its participants or members or broker-dealers or any third parties) with respect to the notification and/or implementation of any Write-Down relating to a PONV Trigger Event and/or a CET1 Trigger Event in respect of such Notes; and

(iii) each of the Trustee, the Agents, DTC and any other relevant clearing system shall be entitled without further enquiry and without liability to any Noteholder or any other person to rely conclusively on any Loss Absorption Event Notice and the Write-Down Amount specified therein, and the same shall, as to the amount of interest and/or principal to be Written-Down, be conclusive and binding on Noteholders.

Although the Issuer has agreed to notify the Noteholders via DTC not more than three Business Days after the occurrence of a PONV Trigger Event or a CET1 Trigger Event (as applicable), there will be a delay between the occurrence of a Trigger Event and the time that Noteholders via DTC are notified of the occurrence of the relevant Trigger Event through their DTC accounts or otherwise. Such delay may exceed several days during which trading and settlement in the Notes may continue. Any such delay will not change or delay the effect of the Trigger Event on the obligations of the Issuer under the Notes or on the rights of the Noteholders.

6 PAYMENTS

(a) Principal

Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the Specified Office of any Paying Agent.

(b) Interest

Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the Specified Office of any Paying Agent.

(c) Payments subject to fiscal laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

(d) Payments on business days

Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of an Additional Tier 1 Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) Partial payments

If a Paying Agent makes a partial payment in respect of any Additional Tier 1 Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) Record date

Each payment in respect of an Additional Tier 1 Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the 15th day before the due date for such payment (the "**Record Date**").

7 TAXATION

All payments of principal and interest in respect of the Additional Tier 1 Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of India or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders of the Additional Tier 1 Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Additional Tier 1 Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Additional Tier 1 Note:

(i) the holder of which is liable for such taxes or duties in respect of such Additional Tier 1 Note by reason of his having some connection with India or any political subdivision or any authority thereof or therein having power to tax other than the mere holding of such Additional Tier 1 Note; or

(ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a business day (as defined in Condition 6(d)); or

(iii) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder or any official interpretations thereof; or

(iv) presented for payment by or on behalf of a holder of such Additional Tier 1 Note who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim.

If the Issuer becomes subject at any time to any taxing jurisdiction other than India with respect to the Additional Tier 1 Notes, references in this Condition 7 to India shall be construed as references to India and/or such other jurisdiction.

As used herein, "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16.

8 RIGHTS OF ENFORCEMENT

If any order of the Government is made for the winding up, liquidation or dissolution of the Issuer (as determined pursuant to the Companies Act and the BR Act), save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of the Noteholders, the Trustee may, and if so requested in writing by the holders of at least one-fifth in Outstanding Nominal Amount of the Additional Tier 1 Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject to being indemnified, secured and/or prefunded to its satisfaction) give notice to the Issuer that the Additional Tier 1 Notes are, and they shall, subject to the prior approval of the RBI having been obtained, thereupon immediately become, due or repayable at their Outstanding Nominal Amount, together with accrued but unpaid interest as provided in the Trust Deed.

Pursuant to Section 37 and Section 38 of the BR Act, the Issuer may only be placed in liquidation by order of the High Court if the Issuer is unable to pay its debts, or an application is made by the RBI for the Issuer's winding up in this regard.

9 ENFORCEMENT

Without prejudice to Condition 8, the Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Additional Tier 1 Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Additional Tier 1 Notes unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in nominal amount of the Additional Tier 1 Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

10 PRESCRIPTION

Claims in respect of amounts due in respect of the Additional Tier 1 Notes shall become void unless made within 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11 REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

12 AGENTS

In acting under the Agency Agreement and in connection with the Additional Tier 1 Notes, the Agents act solely as agents of the Issuer and, in certain limited circumstances, of the Trustee, and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer is, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent and additional or successor paying agents and transfer agents; *provided, however*, that the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Trustee and the Noteholders pursuant to Condition 16.

13 MEETINGS OF NOTEHOLDERS; MODIFICATION

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Additional Tier 1 Notes or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10.00 per cent. in nominal amount of the Additional Tier 1 Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50.00 per cent. in nominal amount of the Additional Tier 1 Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Additional Tier 1 Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Additional Tier 1 Notes or the Trust Deed (including, *inter alia*, modifying any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Additional Tier 1 Notes or altering the currency of payment of the Additional Tier 1 Notes), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Additional Tier 1 Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Additional Tier 1 Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the Additional Tier 1 Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in nominal amount of the Additional Tier 1 Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

(b) Modification

The Trustee may (i) agree, without the consent of the Noteholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Additional Tier 1 Notes or the Trust Deed, or (ii) agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of laws. Any such modification shall be binding on the Noteholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 as soon as practicable thereafter.

(c) Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

(d) Substitution

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Additional Tier 1 Notes and the Trust Deed of an entity owned or controlled by the Issuer, subject to (a) the Additional Tier 1 Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied, in its absolute discretion, that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

(e) Modification, waiver etc. to be binding

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 16.

14 INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee shall have no responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Loss Absorption Event or Write-Down or any consequent cancellation of the Additional Tier 1 Notes pursuant to Condition 5, and shall have no responsibility to (i) monitor whether any Reinstatement has been undertaken or completed or (ii) ensure that any Reinstatement, once undertaken, is completed in each case pursuant to Condition 5. Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in respect of the foregoing.

15 FURTHER ISSUES

The Issuer shall be at liberty from time to time, without the consent of the Noteholders, to create and issue further notes having the same terms and conditions as the Additional Tier 1 Notes in all respects (or in all respects except for the amount and date of first payment of interest and the date from which interest starts to accrue and so that the same) so that such further issue shall be consolidated and form a single series with the Additional Tier 1 Notes.

16 NOTICES

Notices to the Noteholders will be sent to them at their respective addresses on the Register by first class mail (or its equivalent) or (if posted to an overseas address) by airmail or published in a leading newspaper having general circulation in Singapore or, if such publication is not practicable, in an English language newspaper having general circulation in Asia. Any such notice shall be deemed to have been validly given on the fourth day after the date of mailing or, in the case of publication, on the date of such publication or, if published more than once, on the first date on which it was published.

For an explanation regarding notices while the Additional Tier 1 Notes are represented by Global Note Certificates, see "Summary of Provisions Relating to the Additional Tier 1 Notes While in Global Form."

17 CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Additional Tier 1 Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Additional Tier 1 Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18 GOVERNING LAW AND JURISDICTION

(a) Governing law

The Trust Deed and the Additional Tier 1 Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that Conditions 1(b) and (c) are governed by, and shall be construed in accordance with, Indian law.

(b) English courts

Subject to Condition 18(d) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed and/or the Additional Tier 1 Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Additional Tier 1 Notes (a "**Dispute**") and all Disputes will be submitted to the exclusive jurisdiction of the English courts.

(c) Appropriate forum

Each of the Issuer and the Trustee and any Noteholders taking proceedings in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(d) Rights of the Noteholders to take proceedings outside England

Condition 18(b) is for the benefit of the Trustee and the Noteholders only. To the extent allowed by law, the Trustee and the Noteholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

(e) Service of process

The Issuer has irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being in London as its agent for service of process in England in respect of any proceedings in relation to any Dispute, and agrees that, in the event of such agent being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(f) Waiver of immunity, etc

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

19 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Additional Tier 1 Notes but this does not affect any right or remedy of any person which exists or is available apart from that Act.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase the Additional Tier 1 Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Memorandum are to be regarded as advice on the tax position of any Holder of the Additional Tier 1 Notes or of any person acquiring, selling or otherwise dealing in securities or on any tax implications arising from the acquisition, sale or other dealings in the Additional Tier 1 Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Additional Tier 1 Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers of the Additional Tier 1 Notes) may be subject to special rules.

Prospective purchasers of Additional Tier 1 Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Additional Tier 1 Notes, including the effect of any state or local taxes, under the tax laws applicable in India and each country of which they are residents. Additionally, in view of the number of different jurisdictions where local laws may apply, this Offering Memorandum does not discuss the local tax consequences applicable to a potential investor arising from the acquisition, holding or disposal of the Additional Tier 1 Notes. Prospective investors must, therefore, inform themselves as to any tax, exchange control legislation or other laws and regulations in force relating to the subscription, holding or disposal of the Additional Tier 1 Notes at their place of residence and in the countries of which they are citizens, or the countries of purchase, holding or disposition of the Additional Tier 1 Notes.

Indian Taxation

The following is a summary of the existing principal Indian tax consequences for investors who are not resident ("**Non-resident Investors**") in India and are subscribing to the Additional Tier 1 Notes issued by the Issuer. The summary is based on Indian taxation laws and practice in force as at the date of this Offering Memorandum and is subject to change, possibly with retrospective effect. The summary does not constitute legal or tax advice and is not intended to represent a complete analysis of the tax consequences under Indian law of the acquisition, ownership or disposal of the Additional Tier 1 Notes. Prospective investors should, therefore, consult their own tax advisers regarding the Indian tax consequences, as well as the tax consequences under any applicable taxing jurisdiction, of acquiring, owning and disposing of the Additional Tier 1 Notes.

Taxation of Interest

Interest on foreign currency denominated Notes will not be subject to income-tax in India if the proceeds from the issuance of such Notes are used for the purposes of the business carried on by the Issuer outside India as per Section 9(1)(v) of the IT Act. If the proceeds are utilized for the purposes of the business of the Issuer in India, Non-resident investors are liable to pay income tax on the interest paid at the rate of 4 per cent. or applicable rate (plus applicable surcharge, health and education cess) in case of a long term bond issued before July 1, 2023, which is listed only on a recognized stock exchange located in an International Financial Services Centre ("**IFSC**"), under Section 115A read with Section 194LC of the IT Act, in accordance with and subject to conditions as prescribed in the IT Act. The rate of tax could stand reduced under the beneficial provisions of a Tax Treaty, subject to fulfilment of the conditions prescribed therein.

A Non-resident Investor is obliged to pay such income tax on an amount equal to, or would be entitled to a refund of, as the case may be, of any difference between amounts withheld in respect of interest paid on the foreign currency denominated Notes and its ultimate Indian tax liability for such interest, subject to the conditions of the IT Act. The Non-resident Investors shall be obliged to provide all necessary information and documents, as may be required by the Issuer.

Withholding of Taxes

If the proceeds raised are utilized in India, there may be a requirement to withhold tax at 4 per cent. or applicable rate (plus applicable surcharge, health and education cess) in case of a long term bond issued before July 1, 2023, which is listed only on a recognized stock exchange located in an IFSC on interest payments made on the Additional Tier 1 Notes, subject to the conditions contained in the IT Act and also subject to any lower rate of tax provided for by an applicable Tax Treaty. An applicable Tax Treaty may reduce such tax liability, subject to fulfilment of the conditions prescribed therein.

Pursuant to the Conditions, all payments of, or in respect of, repayment of principal and interest on the Additional Tier 1 Notes, will be made free and clear of and without withholding or deduction on account of any present or future taxes within India unless it is required by law, in which case pursuant to

Condition 7, the Issuer will pay an additional amount as may be necessary in order that the net amount received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Additional Tier 1 Notes in the absence of the withholding or the deduction, subject to certain exceptions.

As of the date of this Offering Memorandum, the rate of tax in accordance with the IT Act, is 4 per cent. or applicable rate (plus applicable surcharge and health and education cess) in case of a long term bond issued before July 1, 2023, which is listed only on a recognized stock exchange located in an IFSC, in accordance with the provisions of Sections 115A read with 194LC of the IT Act. The rate of tax will stand reduced if the beneficial recipient is a resident of a country with which the Government of India has entered into a tax treaty which provides for the taxation of interest in India at a rate lower than the rate provided under the IT Act, provided the conditions prescribed therein are fulfilled.

Taxation of gains arising on disposal of the Additional Tier 1 Notes

Given below is a summary of taxation of capital gains arising upon disposal of Notes.

Taxation of Capital Gains Arising on Disposal of the Additional Tier 1 Notes

Any gains arising to a Non-resident Investor from disposal of the Additional Tier 1 Notes held (or deemed to be held) as a capital asset will generally be chargeable to income tax in India if the Additional Tier 1 Notes are regarded as property situated in India. A Non-resident Investor will generally not be chargeable with income tax in India from a disposition of Notes held as a capital asset provided the Additional Tier 1 Notes are regarded as being situated outside India. The issue as to where the Additional Tier 1 Notes should properly be regarded as being situated is not free from doubt. The ultimate decision, however, will depend upon the view taken by the Indian tax authorities on the position with respect to the situs of the rights being offered in respect of the Additional Tier 1 Notes. There is a possibility that the Indian tax authorities may treat the Additional Tier 1 Notes as being situated in India as the Issuer is a banking company incorporated in India.

If the Additional Tier 1 Notes are regarded as situated in India by the Indian tax authorities, upon disposition of a Note:

(a) Section 47(viiab) of the IT Act provides an exemption from capital gains tax on any transfer of a Note, if the Note is transferred by a Non-resident Investor on a recognized stock exchange located in an IFSC and where the consideration for such transaction is paid or payable in foreign currency;

(b) Where the conditions stated in clause (a) above are not met, a Non-resident Investor, who has held the Additional Tier 1 Notes for a period of more than 36 months immediately preceding the date of their disposition, would be liable to pay long-term capital gains tax at the rate of 10 per cent or 20 per cent of the capital gains (plus applicable surcharge, health and education cess) in accordance with the provisions of the IT Act;

(c) Where the conditions stated in clause (a) above are not met, a Non-resident Investor who has held the Additional Tier 1 Notes for 36 months or less could be liable to pay capital gains tax at rates ranging up to 40 per cent. of the capital gains (plus applicable surcharge, health and education cess), depending on the legal status of the Non-resident Investor, and his taxable income in India; and any taxation of capital gains would also depend upon the provisions/benefits available under the relevant Tax Treaty, subject to fulfilment of the conditions prescribed under the relevant Tax Treaty as well as the IT Act; and

(d) Any surplus realized by a Non-resident Investor from a disposition of the Additional Tier 1 Notes held as stock-in-trade would be subject to income tax in India to the extent, if any, that the surplus is attributable to a "business connection in India" or, where a Tax Treaty applies, to a "permanent establishment" of the Non-resident Investor in India. A Non-resident Investor would be liable to pay Indian tax on the profits which are so attributable to such "business connection" or "permanent establishment" at a rate of tax ranging up to 40 per cent. (plus applicable surcharge, health and education cess), depending on the legal status of the Non-resident Investor and his taxable income in India.

If applicable, under the tax law, tax may be withheld by the person making any payment to a Non-resident Investor on long-term capital gains at 10 or 20 per cent. (plus applicable surcharge, health and education cess) and short-term capital gains at rate ranging up to 40 per cent. (plus applicable surcharge, health and education cess), depending on the legal status of the recipient of income, subject to any lower rate provided for by a Tax Treaty. Tax payable shall be computed as set out in the IT Act. For the purpose of tax withholding, the Non-resident Investor shall be obliged to provide the prescribed information or documents, including a tax residency certificate (issued by the tax authorities of the country in which the Investor is resident), to claim Tax Treaty benefits.

Taxation of deemed Income

As a measure to prevent laundering of unaccounted income, the IT Act provides that any person receiving certain specified assets (including the Additional Tier 1 Notes) at a price less than their fair market value, shall be subject to income tax in India on the benefit accruing to him as per Section 56(2)(x) of the IT Act. Tax shall be payable at the rates applicable for the regular income. However, it may be noted that this provision would not be applicable if the asset is received from a relative or under a will or by way of inheritance or any other specific instances provided under the proviso to Section 56(2)(x) of the IT Act.

In case a non-resident receives Notes as per the above mechanism, the taxability of the same shall also be subject to the provisions of the applicable Tax Treaty, assuming the non-resident is entitled to claim benefits of the Tax Treaty.

Potential investors should, in any event, consult their own tax advisers on the tax consequences of transfer of the Additional Tier 1 Notes.

Wealth Tax

No wealth tax is payable at present in India in relation to the Additional Tier 1 Notes.

Estate Duty

No estate duty is payable at present in India in relation to the Additional Tier 1 Notes. There are no inheritance taxes or succession duties currently imposed in respect of the Additional Tier 1 Notes held outside India.

Gift Tax

No gift tax is payable at present in India in relation to the Additional Tier 1 Notes.

Stamp Duty

A transfer of the Additional Tier 1 Notes outside India will not give rise to any Indian stamp duty liability or implication unless the Additional Tier 1 Notes are brought into India. In the event that the Additional Tier 1 Notes are brought into India for enforcement or for any other purpose, the same will attract stamp duty as payable in the relevant state in India. According to Indian stamp duty laws, this stamp duty will have to be paid within a period of three months from the date the Additional Tier 1 Notes are first received in India.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Additional Tier 1 Notes by a U.S. Holder (as defined below). This summary deals only with U.S. Holders (as defined below) who purchase the Additional Tier 1 Notes in the initial offering and that will hold the Additional Tier 1 Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the Additional Tier 1 Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws (such as estate or gift tax laws). This summary also does not address tax considerations applicable to investors that own (directly, or indirectly or by attribution) 10 per cent. or more of the equity of the Issuer by vote or value, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Additional Tier 1 Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Additional Tier 1 Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad, U.S. holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement or investors whose functional currency is not the U.S. dollar, and U.S. holders who hold equity in the Issuer other than the Additional Tier 1 Notes).

As used herein, the term "U.S. Holder" means a beneficial owner of the Additional Tier 1 Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds the Additional Tier 1 Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "**Code**"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and India (the "**Treaty**"), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

U.S. Federal Income Tax Characterization of the Additional Tier 1 Notes

There is no direct legal authority as to the proper U.S. federal income tax treatment of an instrument with terms similar to the Additional Tier 1 Notes. To the extent the Issuer is required to take a position, it intends to take the position that the Additional Tier 1 Notes are properly characterized as equity for U.S. federal income tax purposes. This position will be binding on a U.S. Holder unless the U.S. Holder expressly discloses that it is adopting a contrary position on its income tax return. The remainder of this summary assumes that the Additional Tier 1 Notes are properly characterized as equity for U.S. federal income tax purposes.

Payments of Interest

General. Subject to the PFIC rules discussed below, payments of interest on an Additional Tier 1 Note (including any taxes withheld and any additional amounts paid with respect thereto) generally will be taxable to a U.S. Holder as dividend income to the extent paid out of the Issuer's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes)and will not be eligible for the dividends received deduction allowed to corporations. Interest payments in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Additional Tier 1 Notes and thereafter as capital gain. However, the Issuer does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles, U.S. Holders should therefore assume that interest payments will be treated as ordinary dividend income. Payments of interest generally will be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long-term capital gains, provided the Issuer qualifies for benefits under the Treaty, which the Issuer believes to be the case, and certain other requirements are met. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any interest payment received from the Issuer.

A U.S. Holder generally will be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Indian income taxes withheld by the Issuer. Payments of interest generally will constitute "passive category income" for purposes of the foreign tax credit. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Indian withholding taxes.

Sale or Other Disposition

Subject to the PFIC rules discussed below, upon a sale or other disposition of the Additional Tier 1 Notes, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Additional Tier 1 Notes, in each case as determined in U.S. dollars. Capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Additional Tier 1 Notes exceeds one year. U.S. Holders that actually or constructively continue to hold equity of the Issuer following a redemption of their Additional Tier 1 Notes may be subject to Section 302 of the Code, which could cause the redemption proceeds to be treated as dividend income. Such holders are advised to consult their own tax advisors regarding the tax treatment of a redemption of their Additional Tier 1 Notes.

Any gain or loss generally will be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any Indian withholding tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisers as to the availability of and limitations on any foreign tax credit attributable to this Indian withholding tax.

Write-Up or Write-Down of the Additional Tier 1 Notes

No statutory, judicial or administrative authority directly addresses the U.S. federal income tax treatment of a write-down of the Additional Tier 1 Notes, including the effect of the potential for a future write-up of the Additional Tier 1 Notes. Among other matters, there is no authority addressing whether you would be entitled to a deduction for loss at the time of a write-down. A U.S. Holder may, for example, be required to wait to take a deduction until it is certain that no write-up can occur, or until there is an actual or deemed sale, exchange or other taxable disposition of the Additional Tier 1 Notes. It is also possible that, if a U.S. Holder takes a deduction at the time of a write-down, the holder may be required to recognize gain at the time of a future write-up. Prospective purchasers should consult their tax advisers to determine the U.S. federal income tax consequences to them of a write-down or write-up of the Additional Tier 1 Notes.

Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. For these purposes, "passive income" generally includes interest, dividends and gains from non-dealer securities and transactions. However, under certain proposed U.S. treasury regulations, gross income derived from the active conduct of certain banking activities is treated as non-passive income. Additionally, in determining the value and composition of the Issuer's assets, cash generally is considered to be held for the production of passive income and thus is considered a passive asset.

The Issuer does not believe that it was a PFIC in its most recent taxable year and does not expect to be a PFIC for the current taxable year. This is based on the proposed U.S. treasury regulations described above, and on estimates of the Issuer's income and assets and expectations of active banking activity. However, because the proposed U.S. treasury regulations may not be finalised in their current form, the application of the proposed regulations to the Issuer's circumstances is not entirely clear. The Issuer's possible status as a PFIC must be determined annually and, as the composition of the Issuer's income and assets will vary over time, there can be no assurance that the Issuer will not be a PFIC for any year in which a U.S. Holder holds the Additional Tier 1 Notes.

If the Issuer is a PFIC in any year during which a U.S. Holder holds the Additional Tier 1 Notes, the U.S. Holder will generally be subject to special rules (regardless of whether the Issuer continues to be a PFIC) with respect to (i) any "excess distribution" (generally, any distribution during a taxable year in which distributions received by the U.S. Holder on the Additional Tier 1 Notes are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the Additional Tier 1 Notes) and (ii) any gain realised on the sale or other disposition of the Additional Tier 1 Notes. Under these rules (a) the excess distribution or gain will be allocated rateably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which the Issuer is a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year. Additionally, payments of interest on the Additional Tier 1 Notes will not be eligible for the special reduced rate of tax described above under "*Payments of Interest*".

U.S. Holders can avoid the interest charge by making a mark to market election with respect to the Additional Tier 1 Notes, provided that the Additional Tier 1 Notes are "marketable". The Additional Tier 1 Notes will be marketable if they are regularly traded on certain U.S. stock exchanges, or on a foreign stock exchange if: (i) the foreign exchange is regulated or supervised by a governmental authority of the country in which the exchange is located; (ii) the foreign exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, remove impediments to, and perfect the mechanism of, a free and open, fair and orderly, market, and to protect investors; (iii) the laws of the country in which the exchange is located and the rules of the exchange ensure that these requirements are actually enforced; and (iv) the rules of the exchange ensure active trading of listed stocks. For these purposes, the Additional Tier 1 Notes will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as one of their principal purposes the meeting of this requirement will be disregarded. A U.S. Holder that makes a mark to market election must include in ordinary income for each year an amount equal to the excess, if any, of the fair market value of the Additional Tier 1 Notes at the close of the taxable year over the U.S. Holder's adjusted basis in the Additional Tier 1 Notes. An electing holder may also claim an ordinary loss deduction for the excess, if any, of the U.S. Holder's adjusted basis in the Additional Tier 1 Notes over the fair market value of the Additional Tier 1 Notes at the close of the taxable year, but this deduction is allowable only to the extent of any net mark to market gains for prior years. Gains from an actual sale or other disposition of the

Additional Tier 1 Notes will be treated as ordinary income, and any losses incurred on a sale or other disposition of the Additional Tier 1 Notes will be treated as an ordinary loss to the extent of any net mark to market gains for prior years. Once made, the election cannot be revoked without the consent of the IRS unless the Additional Tier 1 Notes cease to be marketable.

In some cases, a shareholder of a PFIC can avoid the interest charge and the other adverse PFIC consequences described above by making a QEF election, the Issuer must provide U.S. Holders with certain information compiled according to U.S. federal income tax principles. The Issuer currently does not intend to provide such information for U.S. Holders, and therefore it is expected that this election will be unavailable.

A U.S. Holder who owns, or who is treated as owning, PFIC stock during any taxable year in which the Issuer is classified as a PFIC may be required to file IRS Form 8621. Prospective purchasers should consult their tax advisers regarding the requirement to file IRS Form 8621 and the potential application of the PFIC regime.

Substitution of the Issuer

If the relevant Issuer exercises the right to substitute the debtor of the Additional Tier 1 Notes, the substitution might, for U.S. federal income tax purposes, be treated as an exchange of the Additional Tier 1 Notes for new notes issued by the new Issuer. Such a substitution could, depending on the facts, result in the recognition of a taxable gain or loss for the respective investors.

Backup Withholding and Information Reporting

Payments of interest and other proceeds with respect to the Additional Tier 1 Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the acquisition, ownership or disposition of the Additional Tier 1 Notes, including requirements related to the holding of certain "specified foreign financial assets."

FATCA WITHHOLDING

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including India have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Additional Tier 1 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Additional Tier 1 Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Additional Tier 1 Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Additional Tier 1 Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Additional Tier 1 Notes, no person will be required to pay additional amounts as a result of the withholding.

UNITED STATES ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with an investment in the Additional Tier 1 Notes by a pension, profit sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the U.S. Code. THE FOLLOWING IS MERELY A SUMMARY, HOWEVER, AND SHOULD NOT BE CONSTRUED AS LEGAL ADVICE OR AS COMPLETE IN ALL RELEVANT RESPECTS. BECAUSE THIS SUMMARY WAS WRITTEN IN CONNECTION WITH THE MARKETING OF THE NOTE, IT IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY NOTEHOLDER FOR THE PURPOSE OF AVOIDING PENALTIES AND/OR EXCISE TAX. ALL PURCHASERS ARE URGED TO CONSULT THEIR LEGAL ADVISORS BEFORE MAKING THEIR OWN INDEPENDENT DECISIONS AND INVESTING ASSETS OF AN EMPLOYEE BENEFIT PLAN IN THE ADDITIONAL TIER 1 NOTES.

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of ERISA (an "**ERISA Plan**") should consider the fiduciary standards of ERISA in the context of the ERISA Plan's particular circumstances before authorizing an investment in the Additional Tier 1 Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the U.S. Code prohibit ERISA Plans, as well as individual retirement accounts and other plans subject to Section 4975 of the U.S. Code (together with ERISA Plans, "**Plans**"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the U.S. Code with respect to such Plans (together, "**Parties in Interest**"). For example, if the Bank is a Party in Interest with respect to a Plan (either directly or by reason of its ownership of its subsidiaries), the purchase of the Additional Tier 1 Notes by or on behalf of the Plan would likely be a prohibited transaction under Section 406(a)(1) of ERISA and Section 4975(c)(1) of the U.S. Code, unless relief were available under an applicable statutory or administrative exemption. Included among those exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the U.S. Code (relating to certain transactions between a plan and a non-fiduciary service provider), prohibited transaction class exemption ("**PTCE**") 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving the Additional Tier 1 Notes. Parties in Interest that participate in a non-exempt prohibited transaction may be subject to an excise tax under ERISA or the U.S. Code. In addition, the persons involved in the prohibited transaction may have to rescind the transaction and pay an amount to the Plan for any losses realized by the Plan or profits realized by such persons and certain other liabilities could result that have a significant adverse effect on such persons.

Certain employee benefit plans, including governmental plans (as described in Section 3(32) of ERISA), certain church plans (as described in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the U.S. Code but may be subject to similar rules under other US federal, state, local or foreign law that are substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the U.S. Code ("**Similar Law**"). Fiduciaries of such plans should consult with their counsel before purchasing any of the Additional Tier 1 Notes or any interest therein.

Accordingly, the Additional Tier 1 Notes may not be purchased or held by a Plan, any entity whose underlying assets include "plan assets" by reason of the Plan's investment in the entity, any person investing "plan assets" of a Plan or a governmental, church or foreign plan which is subject to Similar Law, unless the acquisition, holding and disposition of the Additional Tier 1 Notes would not result in a non-exempt prohibited transaction under ERISA and Section 4975 of the U.S. Code or a violation of any Similar Law. Any purchaser of the Additional Tier 1 Notes or any interest therein, including in the secondary market, will be deemed to have represented that, among other things, either (a) it is not and is not purchasing Additional Tier 1 Notes on behalf of a Plan, an entity deemed to hold "plan assets" of a Plan or a governmental, church or foreign plan which is subject to Similar Law or (b) its acquisition, holding and disposition of the Additional Tier 1 Notes would not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the U.S. Code or a violation of any Similar Law, and that such representations shall be deemed to be made each day from the date on which the purchaser purchases through and including the date on which the purchaser disposes of the Additional Tier 1 Notes. See "*Transfer Restrictions*" herein.

None of the Issuer, the Joint Lead Managers, Trustee, the Agents, or any of their respective affiliates (each, a "**Transaction Party**", and collectively, the "**Transaction Parties**") is undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the acquisition of any of Additional Tier 1 Notes by any Plan.

In addition each purchaser of the Additional Tier 1 Notes that is a Plan, including any fiduciary purchasing the Additional Tier 1 Notes on behalf of a Plan or who represents the Plan with respect to such purchase, will be deemed to have represented by its purchase of the Additional Tier 1 Notes that: none of the Transaction Parties has provided advice with respect to the acquisition of the Additional Tier 1 Notes by the Plan.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Additional Tier 1 Notes on behalf of, or with the "plan assets" of, any Plan consult with their counsel regarding the potential consequences under ERISA and the U.S. Code.

SUBSCRIPTION AND SALE

Subject to the terms and conditions of the subscription agreement dated August 18, 2021 (the "**Subscription Agreement**") between the Issuer and the Joint Lead Managers, the Issuer has agreed to sell to the Joint Lead Managers and the Joint Lead Managers have severally and not jointly agreed with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the principal amount of Additional Tier 1 Notes set forth opposite their names in the following table.

Principal Amount of Additional Tier 1 Notes to be Subscribed

Barclays Bank PLC	U.S.$111,111,000
Merrill Lynch (Singapore) Pte. Ltd	U.S.$111,112,000
Citigroup Global Markets Limited	U.S.$111,111,000
The Hongkong and Shanghai Banking Corporation Limited	U.S.$111,111,000
J.P. Morgan Securities plc	U.S.$111,111,000
Standard Chartered Bank	U.S.$111,111,000
BNP Paribas	U.S.$55,556,000
Emirates NBD Bank PJSC	U.S.$55,556,000
Morgan Stanley & Co. International plc	U.S.$55,556,000
MUFG Securities Asia Limited	U.S.$55,555,000
Société Générale	U.S.$55,555,000
UBS AG Singapore Branch	U.S.$55,555,000
Total	U.S.$1,000,000,000

The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the Offering.

The Joint Lead Managers are offering the Additional Tier 1 Notes in accordance with the terms of the Purchase Agreement and subject to certain conditions contained in the Purchase Agreement, including the receipt by the Joint Lead Managers of documentation related to the issuance and sale of the Additional Tier 1 Notes, officers' certificates and legal opinions. The Purchase Agreement may be terminated by the Joint Lead Managers in certain circumstances prior to payment of the Additional Tier 1 Notes.

The Issuer will pay the Joint Lead Managers customary fees and commissions in connection with the Offering and will reimburse the Joint Lead Managers for certain expenses incurred in connection with the Offering.

It is expected that delivery of the Additional Tier 1 Notes will be made against payment therefor on or about August 25, 2021, which will be the fifth business day following the date of pricing of the Additional Tier 1 Notes. Pursuant to Rule 15c6- 1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Additional Tier 1 Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Additional Tier 1 Notes initially will settle five business days following the pricing date (T+5), to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Additional Tier 1 Notes who wish to trade Additional Tier 1 Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Joint Lead Managers propose to offer the Additional Tier 1 Notes at the offering price set forth on the cover page of this Offering Memorandum in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulations S under the Securities Act. The price at which the Additional Tier 1 Notes are offered may be changed at any time without notice. The Joint Lead Managers will not offer or sell the Additional Tier 1 Notes except:

- within the United States to persons they reasonably believe to be "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act; or

- outside the United States in offshore transactions in compliance with Regulation S under the Securities Act.

The Additional Tier 1 Notes may not be offered or resold in the United States, except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act and in accordance with the restrictions under "*Transfer Restrictions*". The Joint Lead Managers may offer and sell the Additional Tier 1 Notes through certain of their affiliates.

The Joint Lead Managers or their respective affiliates may purchase the Additional Tier 1 Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Additional Tier 1 Notes and/or other securities of the Issuer, its subsidiaries or affiliates at the same time as the offer and sale of Additional Tier 1 Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Additional Tier 1 Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Additional Tier 1 Notes). The Joint Lead Managers or certain of their affiliates may purchase Additional Tier 1 Notes and be allocated Additional Tier 1 Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Joint Lead Managers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In connection with the Offering of the Additional Tier 1 Notes, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer, may place orders, receive allocations and purchase Additional Tier 1 Notes for their own account (without a view to distributing such Additional Tier 1 Notes) and such orders and/or allocations of Additional Tier 1 Notes may be material. Such entities may hold or sell such Additional Tier 1 Notes or purchase further Additional Tier 1 Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Additional Tier 1 Notes or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Additional Tier 1 Notes being 'offered' should be read as including any offering of the Additional Tier 1 Notes to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Additional Tier 1 Notes. If this is the case, liquidity of trading in the Additional Tier 1 Notes may be constrained (see "*Risk Factors – Risks Relating to an Investment in the Additional Tier 1 Notes – The Additional Tier 1 Notes may have limited liquidity.*"). The Issuer and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Additional Tier 1 Notes among individual investors.

Some of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer. The Joint Lead Managers have received, or may in the future receive, customary fees and commissions for these transactions.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Issuer's securities and/or instruments, including the Additional Tier 1 Notes. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Additional Tier 1 Notes offered hereby. Any such short positions could adversely affect future trading prices of the Additional Tier 1 Notes offered hereby.

The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views (positive or negative) in respect of such securities or other financial instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and other financial instruments.

In connection with the issue of the Additional Tier 1 Notes, any of the Joint Lead Managers appointed and acting in its capacity as the stabilization manager (the "**Stabilization Manager**") or persons acting on behalf of the Stabilization Manager) may over-allot the Additional Tier 1 Notes or effect transactions with a view to supporting the price of the Additional Tier 1 Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date, but in so doing, the Stabilization Manager shall act as principal and not as agent of the Issuer. However, there is no obligation on such Stabilization Manager to do this. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the Additional Tier 1 Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Additional Tier 1 Notes. Such stabilization shall be in compliance with all applicable laws, regulations and rules.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction by us or the Joint Lead Managers that would permit a public offering of the Additional Tier 1 Notes or the possession, circulation or distribution of this Offering Memorandum (in preliminary or final form) or any other material relating to us or the Additional Tier 1 Notes in any jurisdiction where action for the purpose is required. Accordingly, the Additional Tier 1 Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Additional Tier 1 Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. Persons into whose hands this Offering Memorandum comes are required by us and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Additional Tier 1 Notes or have in their possession, distribute or publish this Offering Memorandum (in preliminary or final form) or any other offering material relating to the Additional Tier 1 Notes, in all cases at their own expense. This Offering Memorandum does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering, the distribution of this Offering Memorandum and resales of the Additional Tier 1 Notes. See "*Transfer Restrictions*.".

United States

The Additional Tier 1 Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "*Transfer Restrictions*" for a description of other restrictions on the transfer of Additional Tier 1 Notes. Accordingly, the Additional Tier 1 Notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A and outside the United States in offshore transactions in accordance with Regulation S. Resales of the Additional Tier 1 Notes are restricted as described under "Transfer Restrictions." Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Additional Tier 1 Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Initial Purchaser has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Additional Tier 1 Notes which are the subject of the offering contemplated by this Offering Memorandum in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(1) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(2) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Prohibition of Sales to UK Retail Investors

Each Initial Purchaser has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Additional Tier 1 Notes which are the subject of the offering contemplated by this Offering Memorandum in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision: expression "retail investor" means a person who is one (or more) of the following:

(1) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(2) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(1) *Financial promotion*: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Additional Tier 1 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(2) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Additional Tier 1 Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document any Additional Tier 1 Notes other than (a) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, of Hong Kong) (the "**SFO**") and any rules made under the SFO, or (b) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, of Hong Kong) (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Additional Tier 1 Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Additional Tier 1 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Initial Purchaser has acknowledged that this Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. As such, each of the Joint Lead Managers has severally represented and agreed that it has not offered or sold any Additional Tier 1 Notes or caused the Additional Tier 1 Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Additional Tier 1 Notes or cause the Additional Tier 1 Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Additional Tier 1 Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") pursuant Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Additional Tier 1 Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivative contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Additional Tier 1 Notes pursuant to an offer made under Section 275 of the SFA except: to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Additional Tier 1 Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Additional Tier 1 Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

India

Each Joint Lead Manager represents, agrees, and acknowledges (severally and not jointly) that (a) the Disclosure Package and the Offering Memorandum has not been and will not be registered, produced or published as an offer document (whether as a prospectus in respect of a public offer or information memorandum or other offering material in respect of any private placement of securities under the Companies Act, 2013, as amended from time to time and the rules framed thereunder or any other applicable Indian laws) with the Registrar of Companies or the Securities and Exchange Board of India or the RBI or any other statutory or regulatory body of a like nature in India, save and except any information forming part of the Offering Memorandum which is mandatorily required to be disclosed or filed in India under any applicable Indian laws including but not limited to, the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, as amended from time to time, and under the listing agreement with any Indian stock exchange pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time or pursuant to the directives of any statutory, regulatory and adjudicatory body in India; (b) the Additional Tier 1 Notes have not been and will not be offered or sold to any person or prospective investor in India by means of the Disclosure Package, the Offering Memorandum or any document, other than to persons permitted under Indian laws to acquire the Additional Tier 1 Notes, whether as a principal or as an agent; (c) the Offering Memorandum or any other offering document or material relating to the Additional Tier 1 Notes have not been and will not be circulated or distributed, directly or indirectly, to any person or the public in India or any member of the public in India or otherwise generally distributed or circulated in India. The Additional Tier 1 Notes have not been offered or sold and will not be offered or sold in India to any person in circumstances which could constitute an advertisement, invitation, offer, sale or solicitation of and an offer to subscribe for or purchase any securities within the meaning of the Companies Act, 2013, as amended from time to time, or any other applicable Indian laws for the time being in force.

Additional Selling Restrictions as per RBI Basel III Guidelines

In accordance with the provisions of the RBI Basel III Guidelines, the Issuer nor a related party over which the Issuer exercises control or significant influence (as defined under relevant Indian Accounting Standards) shall be permitted to purchase the Additional Tier 1 Notes. Additionally, the Issuer should not directly or indirectly fund the purchase of the Additional Tier 1 Notes. Further, the Issuer shall also not grant advances against the security of the Additional Tier 1 Notes issued by the Issuer itself.

Canada

Each Joint Lead Manager has acknowledged and agreed that the Additional Tier 1 Notes are not being and will not be registered under the laws of any province or territory of Canada, and that the Offering Memorandum may not be distributed and the Additional Tier 1 Notes may not be offered or sold in Canada or to, or for the benefit of, residents of Canada except to purchasers which are both an "accredited investor" as defined in National Instrument 45-106 *Prospectus and Registration Exemptions* or subsection 73.3(1) of the Securities Act (Ontario), and a "permitted client" as defined in National Instrument 31-103 "*Registration Requirements, Exemptions and Ongoing Registrant Obligations.*" Any resale of the Additional Tier 1 Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Under Canadian securities law, National Instrument 33-105 *Underwriting Conflicts* (NI 33-105) provides disclosure requirements with respect to potential conflicts of interest between an issuer and underwriters. To the extent any conflict of interest between the Bank and any of the Joint Lead Managers (or any other underwriter acting in connection with this offering) may exist in respect of this offering, the applicable parties to this offering are relying on the exemption from these disclosure requirements provided to them by section 3A.3 of NI 33-105 (Exemption based on U.S. disclosure).

Upon receipt of this document, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Additional Tier 1 Notes (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

CLEARANCE AND SETTLEMENT

*The information set out below concerning the operations and procedures of Euroclear, Clearstream and DTC (together, the "**Clearing Systems**") is provided solely as a matter of convenience and no responsibility is taken for the accuracy or completeness thereof. In particular, these operations and procedures are solely in the control of the respective Clearing Systems and are subject to change by them. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the operations and procedures of the relevant Clearing System and no responsibility is taken for the continued applicability of such operations and procedures.*

Book-Entry Ownership

The Additional Tier 1 Notes will be evidenced on issue by the Regulation S Global Note Certificate (registered in the name of a nominee of, and shall be deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream) and the Rule 144A Global Note Certificate (registered in the name of a nominee of, and shall be deposited with a custodian for, DTC), as follows:

(i) Additional Tier 1 Notes sold to qualified institutional buyers under Rule 144A will be represented by one or more Rule 144A Global Note Certificates; and

(ii) Additional Tier 1 Notes sold outside the United States in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Note Certificates.

The Bank, and a relevant US agent appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Additional Tier 1 Notes represented by the Regulation S Global Note Certificate and the Rule 144A Global Note Certificate. The Bank will also make application to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of the Additional Tier 1 Notes to be represented by the Regulation S Global Note Certificate. The Regulation S Global Note Certificate and the Rule 144A Global Note Certificate will each have an ISIN and a Common Code. The Rule 144A Global Note Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Note Certificate, as set out under "Transfer Restrictions." In certain circumstances, as described below, transfers of interests in the Rule 144A Global Note Certificate may be made as a result of which such legend may no longer be required.

Upon the Global Note Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Additional Tier 1 Notes held within the DTC system. Investors may hold their beneficial interests in the Global Note Certificates directly through DTC if they are participants in the DTC system, or indirectly through organizations (including Euroclear and Clearstream) which are participants in such system (together, such direct and indirect participants of DTC shall be referred to as "**DTC participants**"). All interests in the Global Note Certificates, including those held through Euroclear or Clearstream may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Payments through DTC

Payments of the principal of, and interest on, each Global Note Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Global Note Certificate. The Bank expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Global Note Certificate as shown on the records of DTC or the nominee. The Bank also expects that payments by DTC participants to owners of beneficial interests in such Global Note Certificates held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Bank, the Principal Paying Agent, the Registrar or any other Paying Agent or Transfer Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Transfers of Additional Tier 1 Notes

Transfers of interests in the Global Note Certificates within Euroclear, Clearstream and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the U.S. require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Note Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Note Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Note Certificate may only be held through Euroclear or Clearstream. In the case of Additional Tier 1 Notes to be cleared through Euroclear, Clearstream and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Note Certificate to a transferee who wishes to take delivery of such interest through the Rule 144A Global Note Certificate provided that any such transfer will, subject to the applicable procedures of Euroclear, Clearstream and/or DTC from time to time, only be made upon receipt by any transfer agent of a written certificate from Euroclear or Clearstream, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the U.S. Any such transfer made thereafter of the Additional Tier 1 Notes represented by such Regulation S Global Note Certificate will only be made upon request through Euroclear or Clearstream by the holder of an interest in the Regulation S Global Note Certificate to the Principal Paying Agent or other Paying Agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Note Certificate. Transfers at any time by a holder of any interest in the Rule 144A Global Note Certificate to a transferee who takes delivery of such interest through the Regulation S Global Note Certificate will, subject to the applicable procedures of Euroclear, Clearstream and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, as the case may be, and DTC to be credited and debited, respectively, with an interest in the relevant Global Note Certificate.

Subject to compliance with the transfer restrictions applicable to the Additional Tier 1 Notes described above and under "*Transfer Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian of the Global Note Certificates, the Registrar and the Principal Paying Agent and other paying agents.

On or after the Issue Date, transfers of Additional Tier 1 Notes between accountholders in Euroclear and/or Clearstream and transfers of Additional Tier 1 Notes between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, on the other, transfers of interests between the Global Note Certificates will be effected through the Principal Paying Agent and other Paying Agents, the custodian of the Global Note Certificates, the Registrar and any Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or other Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Additional Tier 1 Notes, see "*Transfer Restrictions*."

DTC will take any action permitted to be taken by a Holder of the Additional Tier 1 Notes only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Note Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Note Certificate as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Note Certificates will surrender the relevant Global Note Certificate for exchange for individual definitive certificates in certain limited circumstances.

DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the US Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream and DTC they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Bank, the Principal Paying Agent, the Registrar or any other Paying Agent or Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations. While the Global Note Certificates are lodged with DTC, Additional Tier 1 Notes represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream or DTC.

Individual Definitive Certificates

Registration of title to Additional Tier 1 Notes in a name other than a custodian or its nominee for DTC will be permitted only in the circumstances set forth in "*Summary of Provisions Relating to the Additional Tier 1 Notes While in Global Form*." In such circumstances, the Bank will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a Global Note Certificate must provide the Registrar with certain information as specified in the Agency Agreement.

Pre-issue Trades Settlement

It is expected that delivery of Additional Tier 1 Notes will be made against payment therefor on the Issue Date, which will be more than two business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within two business days ("**T+2**"), unless the parties to any such trade expressly agree otherwise. Accordingly, since the Issue Date will be more than two business days following the date of pricing, purchasers who wish to trade the Additional Tier 1 Notes in the U.S. between the date of pricing and the date that is three business days prior to the Issue Date will be required, by virtue of the fact that such Additional Tier 1 Notes initially will settle beyond T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Additional Tier 1 Notes may be affected by such local settlement practices and, in the event that the Issue Date is more than two business days following the relevant date of pricing, purchasers of Additional Tier 1 Notes who wish to trade Additional Tier 1 Notes between the date of pricing and the date that is three business days prior to the Issue Date should consult their own adviser.

Euroclear and Clearstream

The Regulation S Additional Tier 1 Notes will be evidenced at issue by Regulation S Global Note Certificates deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream. Beneficial interests in a Regulation S Global Note Certificate may be held only through Euroclear or Clearstream any time.

The Regulation S Global Note Certificates representing the Regulation S Additional Tier 1 Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream.

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Regulation S Global Note Certificates directly through Euroclear or Clearstream if they are accountholders or indirectly through organizations that are accountholders therein.

Trading between Euroclear/Clearstream Seller and DTC

When book-entry interests in the Additional Tier 1 Notes are to be transferred from the account of a Euroclear or Clearstream accountholder of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note Certificate, the Euroclear or Clearstream participant must sent to Euroclear or Clearstream, delivery free of payment instructions one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream and the Registrar or Transfer Agent (as the case may be) to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note Certificate who will in turn delivery such book-entry interests in the Additional Tier 1 Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar or the Transfer Agent (as the case may be) to (i) decrease the amount of Additional Tier 1 Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by the relevant Regulation S Global Note Certificate, and (ii) increase the amount of Additional Tier 1 Notes registered in the name of Cede & Co, and evidenced by the relevant Rule 144A Global Note Certificate.

SUMMARY OF PROVISIONS RELATING TO THE ADDITIONAL TIER 1 NOTES WHILE IN GLOBAL FORM

The Global Note Certificates

The Additional Tier 1 Notes will be evidenced on issue by the Regulation S Global Note Certificate (registered in the name of a nominee of, and deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream) and the Rule 144A Global Note Certificate (registered in the name of a nominee of, and deposited with a custodian for, DTC), as follows:

(i) Additional Tier 1 Notes sold to qualified institutional buyers under Rule 144A will be represented by one or more Rule 144A Global Note Certificates; and

(ii) Additional Tier 1 Notes sold outside the United States in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Note Certificates.

Beneficial interests in the Regulation S Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. See "*Clearance and Settlement.*" By acquisition of a beneficial interest in the Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it will transfer such interest only to a person whom the seller reasonably believes (a) is purchasing the Additional Tier 1 Notes in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate (if applicable). See "*Transfer Restrictions.*"

Beneficial interests in the Rule 144A Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearance and Settlement.*" By acquisition of a beneficial interest in the Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions.*" Beneficial interests in the Global Note Certificates will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Additional Tier 1 Notes represented by the Rule 144A Global Note Certificate, as set forth in Rule 144A. The Additional Tier 1 Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions.*"

Transfers

Beneficial interests in the Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate, subject to certain requirements. See "*Clearance and Settlement.*" Any beneficial interest in the Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in the Regulation S Global Note Certificate and become an interest in the Rule 144A Global Note Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note Certificate for as long as it remains such an interest.

Beneficial interests in the Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate, subject to certain requirements. See "*Clearance and Settlement.*" Any beneficial interest in the Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Note Certificate and become an interest in the Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note Certificate for so long as it remains such an interest.

No service charge will be made for any registration of transfer or exchange of Additional Tier 1 Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of the individual definitive certificates. No Additional Tier 1 Notes will be issued in bearer form.

Exchange

Registration of title to Additional Tier 1 Notes initially represented by the Rule 144A Global Note Certificate in a name other than DTC will not be permitted in respect of the Additional Tier 1 Notes unless DTC (or any other clearing system (an "**Alternative Clearing System**") as shall have been designated by the Issuer and approved by the Trustee and the Principal Paying Agent on behalf of which the Additional Tier 1 Notes evidenced by the Rule 144A Global Note Certificate may be held) notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Additional Tier 1 Notes, or ceases to be a clearing agency registered under the US Exchange Act of 1934, or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC (or, in the case of an Alternative Clearing System, such system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so).

Registration of title to Additional Tier 1 Notes initially represented by the Regulation S Global Note Certificate in a name other than DTC will not be permitted in respect of the Additional Tier 1 Notes unless DTC (or any Alternative Clearing System as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Additional Tier 1 Notes evidenced by the Regulation S Global Note Certificate may be held) notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Additional Tier 1 Notes, or ceases to be a clearing agency registered under the US Exchange Act of 1934, or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC (or, in the case of an Alternative Clearing System, such system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so).

If any of the events in the first or second paragraphs of this section occurs, the relevant Global Note Certificate shall be exchangeable in full for Note Certificates and the Issuer will, at its own expense, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders following surrender of the Global Note Certificates. A person having an interest in the Rule 144A Global Note Certificate or the Regulation S Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (b) in the case of the Rule 144A Global Note Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Note Certificates issued in exchange for an interest in the Rule 144A Global Note Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

The Registrar will not register the transfer of, or exchange of interests in, the Rule 144A Global Note Certificates or the Regulation S Global Note Certificates for Note Certificates for a period of 15 calendar days ending on the date for any payment of principal in respect of the Additional Tier 1 Notes.

Amendments to Conditions

Each Global Note Certificate contains provisions that apply to the Additional Tier 1 Notes that it represents, some of which modify the effect of the terms and conditions of the Additional Tier 1 Notes set out in this Offering Memorandum. The following is a summary of certain of those provisions:

Payments

Payments of principal and interest in respect of Additional Tier 1 Notes represented by the Global Note Certificates will be made without presentation or if no further payment falls to be made in respect of the Additional Tier 1 Notes, against presentation and surrender of the Global Note Certificates to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. All payments in respect of Additional Tier 1 Notes represented by a Global Note Certificate will be made to, or to the order of, the person whose name is registered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive, except December 25 and January 1 or any other day on which banks are permitted or required to be closed in the City of New York.

Meetings

The registered Holder of each Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.$1,000 in principal amount of Additional Tier 1 Notes evidenced by such Global Note Certificate.

Trustee's Powers

In considering the interests of Noteholders while each Global Note Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note Certificate and may consider such interests as if such accountholders were the Holders of the Additional Tier 1 Notes represented by such Global Note Certificate.

Notices

So long as the Regulation S Global Note Certificate or the Rule 144A Global Note Certificate is held on behalf of DTC or an Alternative Clearing System, notices to Holders of the Additional Tier 1 Notes represented by a beneficial interest in such Global Note Certificate may be given by delivery of the relevant notice to DTC or the Alternative Clearing System.

TRANSFER RESTRICTIONS

The Additional Tier 1 Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Additional Tier 1 Notes are being offered and sold only (a) to QIBs (as defined in Rule 144A) in compliance with Rule 144A, and (b) outside the United States in offshore transactions in reliance upon Regulation S. As used in this section, the term "United States" has the meaning given to it in Regulation S.

Each purchaser of the Additional Tier 1 Notes, by accepting delivery of this Offering Memorandum, will be deemed to have represented, acknowledged and agreed that, either (i) it is not and for so long as it holds a Note (or any interest therein) will not be (A) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (B) a "plan" as defined in and subject to Section 4975 of the U.S. Code, (C) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the U.S. Code, or (D) a governmental, church, non-U.S. or other employee benefit plan which is subject to any U.S. federal, state, local or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the U.S. Code, or (ii) its acquisition, holding and disposition of the Additional Tier 1 Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the U.S. Code or, in the case of such a governmental, church, non-U.S. or other employee benefit plan, any such substantially similar U.S. federal, state, local or non-U.S. law for which an exemption is not available.

Rule 144A Additional Tier 1 Notes

Each purchaser of Additional Tier 1 Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Memorandum, will be deemed to have represented, acknowledged, and agreed as follows:

1. It is (a) a QIB within the meaning of Rule 144A, (b) acquiring such Additional Tier 1 Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Additional Tier 1 Notes has been advised, that the sale of the Additional Tier 1 Notes to it is being made in reliance on Rule 144A.

2. It understands that such Additional Tier 1 Notes have not been and will not be registered under the Securities Act and (a) may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States; (b) the purchaser will, and each subsequent purchaser is required to, notify any subsequent purchaser of such Additional Tier 1 Notes from it of the resale restrictions referred to in (a) above; and (c) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of the Additional Tier 1 Notes.

3. If it is a person other than a person outside the United States, it agrees that if it should resell or otherwise transfer the Additional Tier 1 Notes, it will do so only: (a) to the Bank or any of its respective affiliates; (b) inside the United States to a qualified institutional buyer in compliance with Rule 144A; (c) outside the United States in compliance with Rules 903 or 904 under the Securities Act; (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (e) pursuant to an effective registration statement under the Securities Act.

4. It understands that such Additional Tier 1 Notes, unless otherwise agreed between the Bank and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION

UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THESE ADDITIONAL TIER 1 NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE."

5. The Bank, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Additional Tier 1 Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

6. It understands that the Additional Tier 1 Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Note Certificate. Before any interest in the Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Additional Tier 1 Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Additional Tier 1 Notes

Each purchaser of the Additional Tier 1 Notes outside the United States pursuant to Regulation S, by accepting delivery of this Offering Memorandum and the Additional Tier 1 Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time such Additional Tier 1 Notes are purchased will be, the beneficial owner of such Additional Tier 1 Notes and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.

(2) It understands that such Additional Tier 1 Notes have not been and will not be registered under the Securities Act.

(3) The Bank, the Registrar, the Initial Purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Additional Tier 1 Notes are no longer accurate, it agrees to promptly notify us.

LEGAL MATTERS

Certain legal matters in connection with the issue and sale of the Additional Tier 1 Notes will be passed upon for us by Linklaters Singapore Pte. Ltd. with respect to matters of New York, Delaware and U.S. federal securities law and J. Sagar Associates with respect to matters of Indian law.

Certain legal matters in connection with the issue and sale of the Additional Tier 1 Notes will be passed upon for the Joint Lead Managers by Clifford Chance Pte. Ltd. with respect to matters of New York and U.S. federal securities law and Cyril Amarchand Mangaldas with respect to matters of Indian law.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of HDFC Bank Limited and subsidiaries as of March 31, 2021 and 2020, and for each of the years in the three-year period ended March 31, 2021, included in this offering memorandum, and the effectiveness of internal control over financial reporting as of March 31, 2021, have been audited by KPMG Assurance and Consulting Services LLP, independent registered public accounting firm, as stated in their reports appearing herein. The audit report covering the March 31, 2021 consolidated financial statements refers to a change to the method of accounting for the recognition and measurement of credit losses.

The consolidated financial statements of HDFC Bank Limited and subsidiaries as of March 31, 2020 and 2019, and for each of the years in the three-year period ended March 31, 2020, included in this Offering Memorandum, and the effectiveness of internal control over financial reporting as of March 31, 2020, have been audited by KPMG Assurance and Consulting Services LLP, independent registered public accounting firm, as stated in their reports appearing herein.

The consolidated financial statements of HDFC Bank Limited and subsidiaries as of March 31, 2019 and 2018, and for each of the years in the three-year period ended March 31, 2019, included in this Offering Memorandum, and the effectiveness of internal control over financial reporting as of March 31, 2019, have been audited by KPMG, independent registered public accounting firm, as stated in their reports appearing herein.

Our unaudited consolidated financial results as at and for the three months ended June 30, 2020 and 2021 prepared under Indian GAAP included in this Offering Memorandum have been reviewed by MSKA & Associates, Chartered Accountants.

GENERAL INFORMATION

1. The creation and issue of the Additional Tier 1 Notes has been authorized by resolutions of the Issuer's board of directors dated July 17, 2021.

2. The Bank is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Bank.

3. Save as disclosed in this Offering Memorandum, there has been no significant or material adverse change in the financial or trading position of the Bank since June 30, 2021.

4. Copies of the following documents, all of which are published in English, may be inspected upon prior written request and satisfactory proof of holding during normal business hours at the offices of the principal place of business of the Trustee after the date of this Offering Memorandum for so long as any of the Additional Tier 1 Notes remains outstanding:

   (a) the Bank's constitutional documents as of the date of this Offering Memorandum;

   (b) the Trust Deed and the Agency Agreement; and

   (c) The Bank's audited consolidated financial statements for the years ended March 31, 2019, 2020 and 2021 and its consolidated unaudited financial results for the three months ended June 30, 2020 and 2021.

5. The Additional Tier 1 Notes are expected to be accepted for clearance through Euroclear, Clearstream and DTC. The ISIN and CUSIP for each of the Rule 144A Additional Tier 1 Notes and the Regulation S Additional Tier 1 Notes are as follows:

	Rule 144A Additional Tier 1 Notes	**Regulation S Additional Tier 1 Notes**
ISIN	US40415FAA93	USY3119PFH74
CUSIP	40415F AA9	Y3119P FH7

6. Application will be made to the India INX for the listing and trading on the GSM of the India INX of the Additional Tier 1 Notes. The listing of the Additional Tier 1 Notes is in compliance with the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021, as amended from time to time.

7. The Issuer's legal entity identifier is 335800ZQ6I4E2JXENC50.

UNAUDITED REVERSE RECONCILIATION OF SELECTED FINANCIAL INFORMATION AND SUMMARY OF DIFFERENCES BETWEEN INDIAN GAAP AND US GAAP

We have included in this Offering Memorandum certain financial information as of and for the three months ended June 30, 2021 and the three months ended June 30, 2020 based on our results prepared in accordance with Indian GAAP. The basis of the consolidated audited financial information included in this Offering Memorandum, which is presented in accordance with U.S. GAAP, is different from Indian GAAP in certain respects. We present below a reverse reconciliation from U.S. GAAP to Indian GAAP of total equity and net income as of and for the year ended March 31, 2021.

The following table is a reconciliation of consolidated shareholders' equity in accordance with U.S. GAAP to consolidated shareholders' funds determined under Indian GAAP as of March 31, 2021

Particulars	As of March 31, 2021
	(Rs. in millions)
Shareholders' equity in accordance with U.S. GAAP	**2,159,628.4**
Significant differences between U.S. GAAP and Indian GAAP	
(a) Allowance for credit losses	90,831.0
(b) Loan acquisition costs and fees	(7,094.7)
(c) Investments	(63,143.4)
(d) Income taxes	(14,252.4)
(e) Foreign exchange and derivatives	(654.1)
(f) Business combination	(66,933.4)
Others	(279.5)
Shareholders' funds under Indian GAAP	**2,098,101.9**

The following table is a reconciliation of consolidated net income in accordance with U.S. GAAP to consolidated net profit determined under Indian GAAP for the year ended March 31, 2021.

Particulars	Year ended March 31, 2021
	(Rs. in millions)
Consolidated net income in accordance with U.S. GAAP	**325,977.1**
Significant differences between U.S. GAAP and Indian GAAP	
(a) Allowance for credit losses	(3,627.2)
(b) Loan acquisition costs and fees	1,144.3
(c) Investments	(21,195.8)
(d) Income taxes	4,441.8
(e) Stock based compensation	10,817.1
(f) Foreign exchange and derivatives	77.9
Others	696.9
Consolidated net profit determined under Indian GAAP	318,332.1

The following are the principal differences between U.S. GAAP and Indian GAAP that apply to the Bank:

(a) Allowance for credit losses

Effective April 1, 2020, the Bank adopted the CECL accounting guidance. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures including undrawn commitments not cancellable, Investments including AFS Securities and other financial assets measured at amortized cost. This framework requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions.

The Banks allowance for credit losses comprises:

- the allowance for loan losses, which covers the Bank's loan portfolios and is presented separately on the balance sheet in Loans,
- the allowance for lending-related commitments, which is recognized on the balance sheet in Accrued expenses and other liabilities,
- the allowance for credit losses on investment securities, which covers the Bank's AFS debt securities and is recognized on the balance sheet in Investments available for sale debt securities on the balance sheet and,

- the allowance for credit losses on other financial assets measured at amortized cost, and other off-balance sheet credit exposures, which is recognized on the balance sheet in Accrued expenses and other liabilities.

All changes in the allowance for credit losses is recognized in the income statement.

The Bank's portfolio is bifurcated into Retail and Wholesale portfolios, wherein the Retail portfolio is segmented into homogenous pools using various factors such as nature of product, delinquencies, and other demographic and behavioral variables of the borrowers. The wholesale portfolio is segmented into various risk grades on the basis of host of quantitative and qualitative factors including financial performance, industry risk, business risk and management quality. The allowance for loan-related losses and allowance for lending-related commitments represents expected credit losses over the remaining expected life of outstanding loans and lending-related commitments that are not unconditionally cancellable. The expected life for retail loans and wholesale loans is determined by considering its contractual term and expected prepayments. The expected life of funded credit card loans is generally estimated by considering expected future payments on the credit card account. The Bank has Unconditionally Cancellable Clause (UCC) for credit card lines and as allowed by CECL accounting guidance, the Bank makes an allowance only for debt drawn at the time of expected loss measurement. Bank applies expected principal payments to the credit card receivable balances existing at the reporting date until the balance is exhausted.

In order to estimate the allowance, the Bank primarily relies on its risk-segmentation models, which are also an integral part of the Bank's risk management framework. Risk segmentation aims to group homogenous exposures together to allow for collective assessment of expected losses. Expected Loss estimation under collective assessment, is primarily based on Probabilities Probability of Default, Loss given Default, Exposure at Default estimates. The Bank has modeled its probability of default estimates at the aforementioned granularity for its retail and wholesale portfolios and has also created the tenor structure of the same for computation of credit losses.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

The methodology for estimating the amount of credit losses reported in the allowance for credit losses has two basic components: first, a pooled component for expected credit losses for pools of loans that share similar risk characteristics and second an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans.

As an integral part of the credit process, the Bank has a credit rating model appropriate to its retail and wholesale credit segments. The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

The majority of the Bank's credit exposures share risk characteristics with other similar exposures, and as a result are collectively assessed for allowance ("**portfolio-based component**"). If an exposure does not share risk characteristics with other exposures, the Bank generally estimates expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual exposure ("**asset-specific component**"). The asset-specific component covers loans modified or reasonably expected to be modified in a TDR, collateral-dependent loans, as well as, borrowers with financial difficulties. ***Portfolio-based component (Pooled Loans)***

The portfolio-based component begins with a quantitative calculation that considers the likelihood of the borrower changing delinquency status or moving from one risk rating to another. The quantitative calculation covers expected credit losses over an instrument's expected life and is estimated by applying credit loss factors to the Bank's exposure at default.

Apart from its historical experience, the Bank seeks to incorporate any reasonable and supportable information regarding the prevalent and future economic and operating conditions, and their impact on credit losses for the Bank into its allowance. The Bank therefore includes in its estimation the use of quantitative statistical models to predict impact of macro-economic variables on defaults. The Bank relies on a single economic variable to develop reasonable and supportable forecasts. In deploying these models the Bank has assessed the impact of an exhaustive set of macro-economic variables such as GDP, inflation, Gross Capital Formation and Index of Industrial Production on its expected losses, and uses consensus macro-economic forecasts surveyed and published by the Reserve Bank of India. As the consensus macro-economic forecasts are published for a year the Bank reverts to the historical average default rate beyond this period. Any adjustments needed to the modeled expected losses in the quantitative calculations are addressed through a qualitative adjustment. Qualitative adjustment, among other things: the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession; the uncertainty of economic conditions related to an alternative downside scenario; certain portfolio characteristics and concentrations; collateral coverage; model limitations; idiosyncratic events; and other relevant criterion. The qualitative adjustment also reflects the estimated impact of the pandemic on the economic forecasts and the impact on credit loss estimates. The total ACL is comprised of the quantitative and qualitative components.

The Bank estimates its allowance for credit losses for pooled loans based on its probability of default and loss given default, determined for the respective risk pools.

Asset-specific component

To determine the asset-specific component of the allowance, collateral-dependent loans (including those loans for which foreclosure is probable) and larger, non-accrual risk-rated loans in the wholesale portfolio segment are generally evaluated individually, while smaller loans (both scored and risk-rated) are aggregated for evaluation using factors relevant for the respective class of assets.

The Bank generally measures the asset-specific allowance as the difference between the amortized cost of the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in impairment, including those related to passage of time, are generally recognized as an adjustment to the allowance for credit losses. For collateral-dependent loans, the fair value of collateral less estimated costs to sell is used to determine the charge-off amount for declines in value (to reduce the amortized cost of the loan to the fair value of collateral) or the amount of negative allowance that should be recognized (for recoveries of prior charge-offs associated with improvements in the fair value of collateral).

Under Indian GAAP, specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels. Specific loan loss provisions in respect of nonperforming advances are charged to the Profit and Loss Account and included under Provisions and Contingencies. Non-performing advances are written-off in accordance with the Bank's policies. Recoveries from bad debts written-off are recognised in the Profit and Loss Account and included under other income.

In relation to non-performing derivative contracts, as per the extant RBI guidelines, the Bank makes provision for the entire amount of overdue and future receivables relating to positive marked to market value of the said derivative contracts. The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market values of interest rate and foreign exchange derivative contracts and gold in accordance with the guidelines and at levels stipulated by RBI from time to time. In the case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI. Provision for standard assets is included under other liabilities.

Provisions made in addition to the Bank's policy for specific loan loss provisions for non-performing assets and regulatory general provisions are categorised as floating provisions. Creation of floating provisions is considered by the Bank up to a level approved by the Board of Directors. In accordance with the RBI guidelines, floating provisions are used up to a level approved by the Board only for contingencies under extraordinary circumstances and for making specific provisions for impaired accounts as per these guidelines or any regulatory guidance/instructions. Floating provisions are included under other liabilities. Further to the provisions required to be held according to the asset classification status, provisions are held for individual country exposures (other than for home country exposure). Countries are categorised into risk categories as per Export Credit Guarantee Corporation of India Ltd. ("**ECGC**") guidelines and provisioning is done in respect of that country where the net funded exposure is one percent or more of the Bank's total assets. Provision for country risk is included under other liabilities.

In addition to the above, the Bank on a prudent 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 or basis regulatory guidance/instructions, of a possible slippage of a specific advance or a group of advances or exposures or potential exposures. These are classified as contingent provisions and included under other liabilities.

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance/securities, which would generally include, among others, alteration of repayment period/repayable amount/the amount of instalments/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. Restructuring of an account is done at a borrower level. In accordance with the RBI guidelines on the prudential framework for resolution of stressed assets and the resolution framework for COVID-19 related stress, the Bank in accordance with its Board approved policy, carried out one-time restructuring of eligible borrowers. The asset classification and necessary provisions thereon are done in accordance with the said RBI guidelines.

(b) Loan acquisition costs and fees

Loan acquisition costs principally consist of commissions paid to third-party referral agents who obtain loans. Under U.S. GAAP, such costs and fees are deferred and amortized as a yield adjustment over the life of the loans. Under Indian GAAP, such costs are expensed as incurred and the fees are recognized as income when due.

(c) Investments

Under both U.S. GAAP and Indian GAAP, Investments are classified as held for trading ("**HFT**"), held to maturity ("**HTM**") or available for sale ("**AFS**"), based on management's holding intent at the time of purchase.

Under U.S. GAAP, HFT investments are marked to market on each balance sheet date with both unrealized gains and losses included in net income. Under Indian GAAP, HFT investments are also marked to market, and any net unrealized loss arising on a portfolio basis is recognized in the statement of income, but net unrealized gains arising on a portfolio basis are not recognized.

Under U.S. GAAP, AFS investments are carried at their fair values with both unrealized gains and losses recorded in accumulated comprehensive income, a component of share holders' equity. Equity securities are classified under other assets. Marketable securities are measured at fair value, change in fair value recorded in earnings. Non- marketable equity securities under the measurement alternative are carried at cost plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and impairment, if any. The Bank's review for impairment for equity method, cost method and measurement alternative securities typically includes an analysis of the facts and circumstances of each security, the intent or requirement to sell the security, and the expectations of cash flows. Under Indian GAAP, AFS investments are marked to market and any net unrealized loss arising on a portfolio basis is recognized in the statement of income, whilst net unrealized gains arising on a portfolio basis are not recognized.

Under U.S. GAAP, HTM investments are carried at amortized cost. Under Indian GAAP, HTM securities are carried at acquisition cost or at amortized cost if purchased at premium.

Under Indian GAAP, Non-performing investments are identified and depreciation/provision are made thereon based on the RBI guidelines. The depreciation/provision on such non-performing investments are not set off against the appreciation in respect of other performing securities. Under U.S. GAAP, The Bank conducts review of all available-for-sale securities with fair value below their carrying value or with zero loss expectation. The Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded through a provision for credit loss expense, limited by the amount that fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. The allowance is increased or decreased if credit conditions subsequently worsen or improve. Reversal of credit losses are recognized in earnings. The Bank recognizes the entire difference between amortized cost basis and fair value in earnings for impaired AFS debt securities that the Bank has an intent to sell or for which the Bank believes it will more-likely-than-not be required to sell prior to recovery of the amortized cost basis.

Under Indian GAAP, transfers from the HTM category to the AFS category are permitted for any reason once a year, or more frequently if the RBI permits banks to do so. Under U.S. GAAP, such transfers are only permitted for certain specified reasons. Because of such transfers under Indian GAAP, the Bank has not established an HTM portfolio under US GAAP.

Under U.S. GAAP, purchased premiums and discounts are both amortized as yield adjustments over the life of the related instrument. Under Indian GAAP, purchased discounts are not amortized but are recognized upon sale or maturity of the instrument.

(d) Income taxes

Under U.S. GAAP, deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying value of assets and liabilities and their respective tax bases, and operating loss carried forward, if any. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the income statement for the period of enactment of the change.

Under Indian GAAP, deferred tax assets and liabilities are recognized 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 applicable on the balance sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future.

In addition, in the U.S. GAAP financial statements, the deferred tax effect of other U.S. GAAP to Indian GAAP conversion differences is also recognized.

(e) Stock based compensation

For U.S. GAAP purposes, the Bank has adopted the provisions of SFAS No. 123(R) "Accounting for Stock-Based Compensation" with effect from April 1, 2006. The fair value of stock-based compensation is estimated on the date of each grant based on a binomial pricing model.

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

(f) Foreign exchange and derivatives

Under U.S. GAAP, the Bank recognizes derivative instruments and forward exchange contracts, as assets or liabilities in the balance sheet and measures them at fair value, unless those instruments qualify to be accounted for as hedge contracts. For derivatives and forward exchange contracts not designated as a hedge, changes in fair value are recognized in net income in the period of change.

Under Indian GAAP, the Bank recognizes all derivative instruments and forward exchange contracts as assets or liabilities in the balance sheet and measures them at the market value as per generally accepted practices prevalent in the industry. 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 the Statement of Profit and Loss in the relevant period. Accordingly, certain derivative contracts classified as hedges under Indian GAAP may not qualify as hedges under U.S. GAAP and are accounted for as trading derivatives with changes in fair value being recorded in the income statement.

(g) Business combination

Under U.S. GAAP, the Bank accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The valuations are based on information available at the acquisition date. Purchase consideration in excess of the Bank's interest and the net fair value of identifiable assets and liabilities acquired is recognized as goodwill. Intangible assets are amortized over their estimated useful lives.

Under Indian GAAP, amalgamation is permitted to be accounted for using the pooling of interest method. Accordingly, the assets and liabilities of acquired businesses are accounted at the values at which they appeared in the books of the amalgamated entity on the date of acquisition and provisions arising out of harmonization of accounting policies and estimates including those as prescribed in the amalgamation scheme are made for the difference between the net value appearing in the books of the acquired entity and value as determined by the acquirer. No goodwill or intangible assets were recognized in our past acquisitions.

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HDFC BANK
We understand your world

HDFC BANK LIMITED

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UNAUDITED STANDALONE FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2021

(₹ in lac)

	Particulars	Quarter ended			Year ended 31.03.2021
		30.06.2021	31.03.2021	30.06.2020	
		Unaudited	Audited (Refer note 4)	Unaudited	Audited
1	Interest Earned (a)+(b)+(c)+(d)	3048297	3042359	3037797	12085823
	a) Interest / discount on advances / bills	2359273	2381163	2403737	9483454
	b) Income on investments	649314	616633	559764	2321427
	c) Interest on balances with Reserve Bank of India and other inter bank funds	30283	31487	62648	234125
	d) Others	9427	13076	11648	46817
2	Other Income	628850	759391	407531	2520489
3	**Total Income (1)+(2)**	**3677147**	**3801750**	**3445328**	**14606312**
4	Interest Expended	1347401	1330344	1471255	5597866
5	Operating Expenses (i)+(ii)	816043	918129	691146	3272262
	i) Employees cost	276558	267885	251344	1036479
	ii) Other operating expenses	539485	650244	439802	2235783
6	**Total Expenditure (4)+(5) (excluding Provisions and Contingencies)**	**2163444**	**2248473**	**2162401**	**8870128**
7	**Operating Profit before Provisions and Contingencies (3)-(6)**	**1513703**	**1553277**	**1282927**	**5736184**
8	Provisions (other than tax) and Contingencies	483084	469370	389152	1570285
9	Exceptional Items	-	-	-	-
10	**Profit / (Loss) from Ordinary Activities before tax (7)-(8)-(9)**	**1030619**	**1083907**	**893775**	**4165899**
11	Tax Expense	257655	265256	227913	1054246
12	**Net Profit / (Loss) from Ordinary Activities after tax (10)-(11)**	**772964**	**818651**	**665862**	**3111653**
13	Extraordinary items (net of tax expense)	-	-	-	-
14	**Net Profit / (Loss) for the period (12)-(13)**	**772964**	**818651**	**665862**	**3111653**
15	Paid up equity share capital (Face Value of ₹ 1/- each)	55267	55128	54903	55128
16	Reserves excluding revaluation reserves				20316953
17	**Analytical Ratios**				
	(i) Percentage of shares held by Government of India	Nil	Nil	Nil	Nil
	(ii) Capital Adequacy Ratio	19.1%	18.8%	18.9%	18.8%
	(iii) Earnings per share (EPS) (₹) (Face Value of ₹ 1/- each)				
	(a) Basic EPS before & after extraordinary items (net of tax expense) - not annualized	14.0	14.9	12.1	56.6
	(b) Diluted EPS before & after extraordinary items (net of tax expense) - not annualized	13.9	14.7	12.1	56.3
	(iv) NPA Ratios				
	(a) Gross NPAs	1709851	1508600	1377346	1508600
	(b) Net NPAs	548580	455482	327996	455482
	(c) % of Gross NPAs to Gross Advances	1.47%	1.32%	1.36%	1.32%
	(d) % of Net NPAs to Net Advances	0.48%	0.40%	0.33%	0.40%
	(v) Return on assets (average) - not annualized	0.45%	0.50%	0.44%	1.97%

Segment information in accordance with the Accounting Standard 17 - Segment Reporting of the operating segments of the Bank is as under:

(₹ in lac)

	Particulars	Quarter ended			Year ended
		30.06.2021	31.03.2021	30.06.2020	31.03.2021
		Unaudited	Audited (Refer note 4)	Unaudited	Audited
1	**Segment Revenue**				
a)	Treasury	864433	803574	800126	3233767
b)	Retail Banking	2697467	2761274	2710162	11021021
c)	Wholesale Banking	1440699	1472812	1418359	5715430
d)	Other Banking Operations	486344	554367	389683	1993753
e)	Unallocated	-	3082	-	3082
	Total	**5488943**	**5595109**	**5318330**	**21967053**
	Less: Inter Segment Revenue	1811796	1793359	1873002	7360741
	Income from Operations	**3677147**	**3801750**	**3445328**	**14606312**
2	**Segment Results**				
a)	Treasury	270743	243236	250517	903050
b)	Retail Banking	109036	419239	222005	1057480
c)	Wholesale Banking	535672	446455	364445	1743754
d)	Other Banking Operations	152858	11539	97376	620714
e)	Unallocated	(37690)	(36562)	(40568)	(159099)
	Total Profit Before Tax	**1030619**	**1083907**	**893775**	**4165899**
3	**Segment Assets**				
a)	Treasury	50692647	51964174	46153925	51964174
b)	Retail Banking	52627989	52199722	46899518	52199722
c)	Wholesale Banking	64890618	62873157	54979292	62873157
d)	Other Banking Operations	6270073	6711608	5664473	6711608
e)	Unallocated	912781	938391	813123	938391
	Total	**175394108**	**174687052**	**154510331**	**174687052**
4	**Segment Liabilities**				
a)	Treasury	7646558	7627660	7798899	7627660
b)	Retail Banking	113146545	109621782	96820706	109621782
c)	Wholesale Banking	30827241	33811531	29166649	33811531
d)	Other Banking Operations	491736	585765	523185	585765
e)	Unallocated	2033234	2668233	2405425	2668233
	Total	**154145314**	**154314971**	**136714864**	**154314971**
5	**Capital Employed**				
	(Segment Assets - Segment Liabilities)				
a)	Treasury	43046089	44336514	38355026	44336514
b)	Retail Banking	(60518556)	(57422060)	(49921188)	(57422060)
c)	Wholesale Banking	34063377	29061626	25812643	29061626
d)	Other Banking Operations	5778337	6125843	5141288	6125843
e)	Unallocated	(1120453)	(1729842)	(1592302)	(1729842)
	Total	**21248794**	**20372081**	**17795467**	**20372081**

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 the RBI.

Notes :

1 Statement of Assets and Liabilities as at June 30, 2021 is given below:

(₹ in lac)

Particulars	As at 30.06.2021	As at 30.06.2020	As at 31.03.2021
	Unaudited	**Unaudited**	**Audited**
CAPITAL AND LIABILITIES			
Capital	55267	54903	55128
Reserves and Surplus	21193527	17740564	20316953
Deposits	134582934	118938729	133506022
Borrowings	13127502	11638900	13548733
Other Liabilities and Provisions	6434878	6137235	7260216
Total	**175394108**	**154510331**	**174687052**
ASSETS			
Cash and Balances with Reserve Bank of India	10462511	9662537	9734073
Balances with Banks and Money at Call and Short notice	1535458	1301793	2212966
Investments	43613164	37935041	44372829
Advances	114765164	100329886	113283663
Fixed Assets	500538	446411	490932
Other Assets	4517273	4834663	4592589
Total	**175394108**	**154510331**	**174687052**

2 The above financial results have been approved by the Board of Directors at its meeting held on July 17, 2021. The financial results for the quarter ended June 30, 2021 have been subjected to a "Limited Review" by the statutory auditors of the Bank. The report thereon is unmodified.

3 The Bank has applied its significant accounting policies in the preparation of these financial results that are consistent with those followed in the annual financial statements for the year ended March 31, 2021.

4 The figures for the quarter ended March 31, 2021 are the balancing figures between audited figures in respect of the financial year 2020-21 and the published year to date figures upto December 31, 2020.

5 The Board of Directors at its meeting held on June 18, 2021 recommended a dividend of ₹ 6.50 per equity share of face value of ₹ 1 each out of the net profits for the year ended March 31, 2021, subject to approval of the shareholders of the Bank at its ensuing Annual General Meeting. Effect of the proposed dividend has been reckoned in determining capital funds in the computation of capital adequacy ratio as at June 30, 2021.

6 During the quarter ended June 30, 2021, the Bank allotted 1,39,42,616 shares pursuant to the exercise of options under the approved employee stock option schemes.

7 Consequent to the outbreak of the COVID-19 pandemic, the Indian government announced a lockdown in March 2020. Subsequently, the national lockdown was lifted by the government, but regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. During the quarter ended June 30, 2021, India experienced a “second wave” of COVID-19, including a significant surge of COVID-19 cases following the discovery of mutant coronavirus variants in the country.

The impact of COVID-19, including changes in customer behaviour and pandemic fears, as well as restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activities. The disruptions following the outbreak, have led to a decrease in loan originations, the sale of third party products, the use of credit and debit cards by customers and the efficiency in collection efforts. This may lead to a continued rise in the number of customer defaults and consequently an increase in provisions thereagainst. The extent to which the COVID-19 pandemic will continue to impact the Bank's results will depend on ongoing as well as future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic, and any action to contain its spread or mitigate its impact whether government-mandated or elected by us.

8 Details of resolution plan implemented under the Resolution Framework for COVID-19-related Stress as per RBI circular dated August 6, 2020 (Resolution Framework 1.0) are given below:

₹ in crore except number of accounts

Type of Borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) Exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan and implementation	(E) Increase in provisions on account of the implementation of the resolution
Personal Loans	287507	5457.35	-	-	545.74
Corporate persons	1510	1735.30	-	-	318.62
Of which, MSMEs	64	27.08	-	-	2.71
Others	47090	607.92	-	-	60.79
Total	**336107**	**7800.57**	**-**	**-**	**925.15**

There were 33 borrower accounts having an aggregate exposure of ₹ 10.64 crore to the Bank, where resolution plans had been implemented and now modified under RBI's Resolution Framework 2.0 dated May 5, 2021.

9 Other income relates to income (including commission) from non-fund based banking activities, fees, earnings from foreign exchange and derivative transactions, profit and loss (including revaluation) from investments, dividends from subsidiaries and recoveries from accounts previously written off.

10 Figures of the previous periods have been regrouped / reclassified wherever necessary to conform to current period's classification.

11 ₹ 10 lac = ₹ 1 million
₹ 10 million = ₹ 1 crore

SASHIDHAR JAGDISHAN

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Date: 2021.07.17 12:26:25 +05'30'

Place : Mumbai
Date : July 17, 2021

Sashidhar Jagdishan
Managing Director

HDFC BANK
We understand your world

HDFC BANK LIMITED

CIN : L65920MH1994PLC080618

Sandoz House, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai 400 018.

Website: https://www.hdfcbank.com, Tel.: 022- 6652 1000, Fax: 022- 2496 0739

UNAUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2021

(₹ in lacs)

	Particulars	Quarter ended			Year ended
		30.06.2021	31.03.2021	30.06.2020	31.03.2021
		Unaudited	Audited (Refer note 4)	Unaudited	Audited
1	Interest Earned (a)+(b)+(c)+(d)	3225376	3260692	3235161	12855240
	a) Interest / discount on advances / bills	2528096	2589859	2597800	10229913
	b) Income on investments	647645	618183	559941	2321162
	c) Interest on balances with Reserve Bank of India and other inter bank funds	32066	33169	64158	241430
	d) Others	17569	19481	13262	62735
2	Other Income	667987	830257	434698	2733288
3	**Total Income (1)+(2)**	**3893363**	**4090949**	**3669859**	**15588528**
4	Interest Expended	1421850	1408324	1560849	5924759
5	Operating Expenses (i)+(ii)	870689	980792	740608	3500126
	i) Employees cost	364374	357054	330100	1367667
	ii) Other operating expenses	506315	623738	410508	2132459
6	**Total Expenditure (4)+(5) (excluding Provisions and Contingencies)**	**2292539**	**2389116**	**2301457**	**9424885**
7	**Operating Profit before Provisions and Contingencies (3)-(6)**	**1600824**	**1701833**	**1368402**	**6163643**
8	Provisions (Other than tax) and Contingencies	536633	575260	434451	1884029
9	Exceptional Items	-	-	-	-
10	**Profit / (Loss) from ordinary activities before tax (7)-(8)-(9)**	**1064191**	**1126573**	**933951**	**4279614**
11	Tax Expense	270163	282140	239863	1093937
12	**Net Profit / (Loss) from Ordinary Activities after tax (10)-(11)**	**794028**	**844433**	**694088**	**3185677**
13	Extraordinary items (net of tax expense)	-	-	-	-
14	**Net Profit / (Loss) for the period (12)-(13)**	**794028**	**844433**	**694088**	**3185677**
15	Less: Share of minority shareholders	1819	1055	1364	2356
16	**Consolidated Net Profit / (Loss) for the period (14)-(15)**	**792209**	**843378**	**692724**	**3183321**
17	Paid up equity share capital (Face Value of ₹ 1/- each)	55267	55128	54903	55128
18	Reserves excluding revaluation reserves				20925890
19	**Analytical Ratios**				
	(i) Percentage of shares held by Government of India	Nil	Nil	Nil	Nil
	(ii) Earnings per share (EPS) (₹) (Face Value of ₹ 1/- each)				
	(a) Basic EPS before & after extraordinary items (net of tax expense) - not annualized	14.4	15.3	12.6	57.9
	(b) Diluted EPS before & after extraordinary items (net of tax expense) - not annualized	14.3	15.2	12.6	57.6

Consolidated Segment information in accordance with the Accounting Standard 17 - Segment Reporting of the operating segments of the Bank is as under:

(₹ in lacs)

	Particulars	Quarter ended			Year ended
		30.06.2021	31.03.2021	30.06.2020	31.03.2021
		Unaudited	Audited (Refer note 4)	Unaudited	Audited
1	**Segment Revenue**				
a)	Treasury	864433	803574	800126	3233767
b)	Retail Banking	2697467	2761274	2710162	11021021
c)	Wholesale Banking	1440699	1472812	1418359	5715430
d)	Other Banking Operations	702560	843566	614214	2975969
e)	Unallocated	-	3082	-	3082
	Total	**5705159**	**5884308**	**5542861**	**22949269**
	Less: Inter Segment Revenue	1811796	1793359	1873002	7360741
	Income from Operations	**3893363**	**4090949**	**3669859**	**15588528**
2	**Segment Results**				
a)	Treasury	270743	243236	250517	903050
b)	Retail Banking	109036	419239	222005	1057480
c)	Wholesale Banking	535672	446455	364445	1743754
d)	Other Banking Operations	186430	54205	137552	734429
e)	Unallocated	(37690)	(36562)	(40568)	(159099)
	Total Profit Before Tax and Minority Interest	**1064191**	**1126573**	**933951**	**4279614**
3	**Segment Assets**				
a)	Treasury	50692647	51964174	46153925	51964174
b)	Retail Banking	52627989	52199722	46899518	52199722
c)	Wholesale Banking	64890618	62873157	54979292	62873157
d)	Other Banking Operations	11406952	11975219	10779377	11975219
e)	Unallocated	912781	938391	813123	938391
	Total	**180530987**	**179950663**	**159625235**	**179950663**
4	**Segment Liabilities**				
a)	Treasury	7646558	7627660	7798899	7627660
b)	Retail Banking	113146545	109621782	96820706	109621782
c)	Wholesale Banking	30827241	33811531	29166649	33811531
d)	Other Banking Operations	4935981	5177164	5014782	5177164
e)	Unallocated	2033234	2668232	2405425	2668232
	Total	**158589559**	**158906369**	**141206461**	**158906369**
5	**Capital Employed**				
	(Segment Assets - Segment Liabilities)				
a)	Treasury	43046089	44336514	38355026	44336514
b)	Retail Banking	(60518556)	(57422060)	(49921188)	(57422060)
c)	Wholesale Banking	34063377	29061626	25812643	29061626
d)	Other Banking Operations	6470971	6798055	5764595	6798055
e)	Unallocated	(1120453)	(1729841)	(1592302)	(1729841)
	Total	**21941428**	**21044294**	**18418774**	**21044294**

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 the RBI.

Notes :

1 Consolidated Statement of Assets and Liabilities as at June 30, 2021 is given below:

(₹ in lacs)

Particulars	As at 30.06.2021	As at 30.06.2020	As at 31.03.2021
	Unaudited	**Unaudited**	**Audited**
CAPITAL AND LIABILITIES			
Capital	55267	54903	55128
Reserves and Surplus	21821709	18304694	20925890
Minority Interest	64452	59177	63276
Deposits	134487389	118727997	133372087
Borrowings	17259080	15968123	17769675
Other Liabilities and Provisions	6843090	6510341	7764607
Total	**180530987**	**159625235**	**179950663**
ASSETS			
Cash and balances with Reserve Bank of India	10465660	9664986	9737035
Balances with Banks and Money at Call and Short notice	1764759	1380416	2390216
Investments	43064532	37725874	43882311
Advances	119787580	105368253	118528352
Fixed Assets	518657	466205	509956
Other Assets	4929799	5019501	4902793
Total	**180530987**	**159625235**	**179950663**

2 The above financial results represent the consolidated financial results for HDFC Bank Limited and its subsidiaries constituting the 'Group'. These financial results have been approved by the Board of Directors of the Bank at its meeting held on July 17, 2021. The financial results for the quarter ended June 30, 2021 have been subjected to a "Limited Review" by the statutory auditors of the Bank. The report thereon is unmodified.

3 The Group has applied its significant accounting policies in the preparation of these financial results that are consistent with those followed in the annual financial statements for the year ended March 31, 2021.

4 The figures for the quarter ended March 31, 2021 are the balancing figures between audited figures in respect of the financial year 2020-21 and the published year to date figures upto December 31, 2020.

5 The Board of Directors at its meeting held on June 18, 2021 recommended a dividend of ₹ 6.50 per equity share of face value of ₹ 1 each out of the net profits for the year ended March 31, 2021, subject to approval of the shareholders of the Bank at its ensuing Annual General Meeting. Effect of the proposed dividend has been reckoned in determining capital funds in the computation of capital adequacy ratio as at June 30, 2021.

6 Consequent to the outbreak of the COVID-19 pandemic, the Indian government announced a lockdown in March 2020. Subsequently, the national lockdown was lifted by the government, but regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. During the quarter ended June 30, 2021, India experienced a “second wave” of COVID-19, including a significant surge of COVID-19 cases following the discovery of mutant coronavirus variants in the country.

The impact of COVID-19, including changes in customer behaviour and pandemic fears, as well as restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activities. The disruptions following the outbreak, have led to a decrease in loan originations, the sale of third party products, the use of credit and debit cards by customers and the efficiency in collection efforts. This may lead to a continued rise in the number of customer defaults and consequently an increase in provisions thereagainst. The extent to which the COVID-19 pandemic will continue to impact the Group's results will depend on ongoing as well as future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic, and any action to contain its spread or mitigate its impact whether government-mandated or elected by us.

7 In accordance with the RBI guidelines, banks are required to make consolidated Pillar 3 disclosures including leverage ratio and liquidity coverage ratio under the Basel III Framework. These disclosures are available on the Bank's website at the following link: http://www.hdfcbank.com/aboutus/basel_disclosures/ default.htm. The disclosures have not been subjected to audit or review by the statutory auditors.

8 Figures of the previous periods have been regrouped / reclassified wherever necessary to conform to current period's classification.

9 ₹ 10 lac = ₹ 1 million
₹ 10 million = ₹ 1 crore

SASHIDHAR JAGDISHAN
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Date: 2021.07.17 12:27:12 +05'30'

Place : Mumbai
Date : July 17, 2021

Sashidhar Jagdishan
Managing Director

MSKA
& Associates
Chartered Accountants

602, Floor 6, Raheja Titanium
Western Express Highway, Geetanjali
Railway Colony, Ram Nagar, Goregaon (E)
Mumbai 400063, INDIA
Tel: +91 22 6831 1600

Independent Auditor's Review Report on Unaudited Standalone Financial Results of HDFC Bank Limited pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

The Board of Directors
HDFC Bank Limited,
HDFC Bank House, Senapati Bapat Marg,
Lower Parel (West), Mumbai - 400 013.

1. We have reviewed the accompanying statement of Unaudited Standalone Financial Results of HDFC Bank Limited (the "Bank") for the quarter ended June 30, 2021 ("the Statement") being submitted by the Bank pursuant to the requirements of Regulation 33 of the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015 as amended ("the Regulation").

2. This Statement, which is the responsibility of the Bank's Management and approved by the Board of Directors has been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 'Interim Financial Reporting' ("AS 25") prescribed under section 133 of the Companies Act, 2013 read with relevant rules issued thereunder, the relevant provisions of the Banking Regulation Act, 1949, the circulars, guidelines and directions issued by the Reserve Bank of India ("the RBI") from time to time ("RBI Guidelines") and other recognized accounting principles generally accepted in India. Our responsibility is to express a conclusion on the Statement based on our review.

3. We conducted our review of the Statement in accordance with the Standard on Review Engagements (SRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial results are free of material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying Statement prepared in accordance with the recognition and measurement principles laid down in AS 25 prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder, RBI Guidelines and other accounting principles generally accepted in India, has not disclosed the information required to be disclosed in terms of the Regulation including the manner in which it is to be disclosed, or that it contains any material misstatement or that it has not been prepared in accordance with the relevant prudential norms issued by the RBI in respect of income recognition, asset classification, provisioning and other related matters.

5. We draw attention to Note 7 to the unaudited standalone financial results, which describes the extent to which the Covid - 19 Pandemic will continue to impact the Bank's results will depend on ongoing and uncertain future developments.

   Our conclusion is not modified in respect of this matter.

For **MSKA & Associates**
Chartered Accountants
ICAI Firm Registration Number: 105047W

Swapnil Kale

MSKA & ASSOCIATES Chartered Accountants

Swapnil Kale
Partner
Membership Number: 117812
UDIN: 21117812AAAAKQ9357

Mumbai
July 17, 2021

MSKA
& Associates
Chartered Accountants

602, Floor 6, Raheja Titanium
Western Express Highway, Geetanjali
Railway Colony, Ram Nagar, Goregaon (E)
Mumbai 400063, INDIA
Tel: +91 22 6831 1600

Independent Auditor's Review Report on Quarterly Unaudited Consolidated Financial Results of HDFC Bank Limited pursuant to the Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

The Board of Director,
HDFC Bank Limited,
HDFC Bank House, Senapati Bapat Marg,
Lower Parel (West), Mumbai - 400 013.

1. We have reviewed the accompanying statement of Unaudited Consolidated Financial Results of HDFC Bank Limited ("the Bank") and its subsidiaries (the Bank and its subsidiaries together referred to as "the Group") for the quarter ended June 30, 2021 ("the Statement"), being submitted by the Bank pursuant to the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("the Regulation"), except for the disclosures as stated in Note 7 to the Statement relating to consolidated Pillar 3 disclosure as at June 30, 2021, including leverage ratio and liquidity coverage ratio under Basel III Capital Regulations as have been disclosed on the Bank's website and in respect of which a link has been provided in the Statement and have not been reviewed by us.

2. This Statement, which is the responsibility of the Bank's Management and approved by the Bank's Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 'Interim Financial Reporting' ("AS 25"), prescribed under Section 133 of the Companies Act, 2013, the relevant provisions of the Banking Regulation Act, 1949, the circulars, guidelines and directions issued by the Reserve Bank of India ("the RBI") from time to time ("RBI Guidelines") and other accounting principles generally accepted in India. Our responsibility is to express a conclusion on the Statement based on our review.

3. We conducted our review of the Statement in accordance with the Standard on Review Engagements (SRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial results are free of material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

   We also performed procedures in accordance with the circular issued by the SEBI under Regulation 33 (8) of the Regulation to the extent applicable.

4. The Statement includes the results of the following subsidiaries:

   a. HDB Financial Services Limited; and
   b. HDFC Securities Limited

MSKA & ASSOCIATES Chartered Accountants

5. Based on our review conducted and procedures performed as stated in paragraph 3 above and based on the consideration of the review reports of the other auditors referred to in paragraph 7 below, nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in AS 25 prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder, RBI Guidelines and other accounting principles generally accepted in India, has not disclosed the information required to be disclosed in terms of the Regulation, including the manner in which it is to be disclosed, except for the disclosures as stated in Note 7 to the Statement relating to consolidated Pillar 3 disclosure as at June 30, 2021, including leverage ratio and liquidity coverage ratio under Basel III Capital Regulations as have been disclosed on the Bank's website and in respect of which a link has been provided in the Statement and have not been reviewed by us, or that it contains any material misstatement.

6. We draw attention to Note 6 to the unaudited consolidated financial results, which describes the extent to which the Covid - 19 Pandemic will continue to impact the Group's results will depend on uncertain future developments.

   Our conclusion is not modified in respect of this matter.

7. We did not review the interim financial information of two subsidiaries included in the unaudited consolidated financial results, whose interim financial information reflects total revenues of Rs. 295,311 lacs and total net profit of Rs. 39,113 lacs for the quarter ended June 30, 2021, as considered in the consolidated unaudited financial results. These interim financial information have been reviewed by other auditors whose reports have been furnished to us by the Management of the Bank and our conclusion on the Statement, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, is based solely on the reports of the other auditors and the procedures performed by us as stated in paragraph 3 above.

   Our conclusion is not modified in respect of this matter.

For **MSKA & Associates**
Chartered Accountants
ICAI Firm Registration Number: 105047W

Swapnil Kale

Swapnil Kale
Partner
Membership Number: 117812
UDIN: 21117812AAAAKP4796

MSKA & ASSOCIATES
Chartered Accountants

Mumbai
July 17, 2021

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of **HDFC Bank Limited** (the "Bank") is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control system was designed to provide reasonable assurance to the Bank's management, its Audit Committee and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any internal control or system of control, however well-designed, including the possibility of human error and the possible circumvention or overriding of such controls or systems. Moreover, because of changing conditions, the reliability of internal controls may vary over time. As a result, even effective internal controls can provide no more than reasonable assurance with respect to the accuracy and completeness of financial statements and their process of preparation.

The Bank management assessed the effectiveness of the Bank's internal control over financial reporting as of March 31, 2021. In making this assessment, it has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on those criteria and our assessment we believe that, as of March 31, 2021, the Bank's internal control over financial reporting was effective.

The Bank's independent registered public accounting firm, KPMG Assurance and Consulting Services LLP, has issued an audit report on the Bank's internal control over financial reporting.

HDFC BANK LIMITED
HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013, India

July 28, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on Internal Control Over Financial Reporting

We have audited HDFC Bank Limited and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated July 28, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Assurance and Consulting Services LLP

Mumbai, India
July 28, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of HDFC Bank Limited and subsidiaries (the Company) as of March 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 28, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2(i) to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of April 1, 2020 due to the adoption of ASC Topic 326, Financial Instruments - Credit Losses.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements as of and for the year ended March 31, 2021 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation, and, in our opinion, such financial statements expressed in Indian rupee have been translated into United States dollars on the basis set forth in Note 2(z) to the consolidated financial statements.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Assessment of allowance for credit losses for loans evaluated on a collective basis

As discussed in Note 2(x) to the consolidated financial statements, the Company adopted ASC Topic 326, Financial Instruments – Credit Losses, as of April 1, 2020. The total allowance for credit losses for loans as of April 1, 2020 was Rs. 279,846.2 million, of which Rs. 250,486.0 million related to the allowance for credit losses on loans evaluated on a collective basis (the April 1, 2020 collective ACL). As discussed in Notes 2 (i) and 9 to the consolidated financial statements, the Company's allowance for credit losses for loans as of March 31, 2021 was Rs. 343,528.7 million, of which Rs. 306,595.1 million related to the allowance for credit losses on loans evaluated on a collective basis (the March 31, 2021 collective ACL). The April 1, 2020 collective ACL and the March 31, 2021 collective ACL include the measure of expected credit losses on a collective (pooled) basis for those loans that share similar risk characteristics. The Company estimated the collective ACL using a current expected credit losses methodology which is based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the loan balances. The expected credit losses are primarily based on the Company's estimate of probability of default (PD), loss given default (LGD), and exposure at default (EAD), computed for the respective pools. The Company uses models to develop the PD and LGD, which are derived from internal or external historical default and loss experience, that incorporate various macroeconomic assumptions over reasonable and supportable forecast period. After the reasonable and supportable forecast period, the Company reverts to its historical loss experience for the remaining expected life of the loans. The Company segments the portfolio into pools, incorporating internal rating grade for wholesale loans and shared risk characteristics for homogenous retail loans. A portion of the collective ACL is comprised of adjustments to modeled expected losses in the quantitative calculations based on qualitative factors considering the uncertain nature of economic forecasting, model limitations and idiosyncratic events not reflected in the quantitative models but are likely to impact the measurement of estimated credit losses.

We identified the assessment of the April 1, 2020 collective ACL and the March 31, 2021 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the collective ACL due to significant measurement uncertainty. Specifically, this assessment encompassed the evaluation of the various components of the collective ACL methodology, including the methods and models used to estimate the PD, LGD and their significant assumptions. Such significant assumptions included portfolio segmentation, the forward looking scenario and macroeconomic assumptions, the reasonable and supportable forecast period, tenor structure, the historical look-back period, credit rating models for wholesale loans and shared risk characteristics for homogenous retail loans. The assessment also included the evaluation of the qualitative adjustments and their significant assumptions, including selection of relevant macroeconomic variables and consideration of uncertain nature of economic forecasting, model limitations and idiosyncratic events. The assessment also included an evaluation of the conceptual soundness and performance of the PD, LGD and credit rating models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the April 1, 2020 collective ACL and the March 31, 2021 collective ACL estimates, including controls over the:

- development and review of the Company's collective ACL methodology
- development and validation of the PD, LGD and credit rating models
- identification and determination of the significant assumptions used in the PD and LGD models and the qualitative adjustments
- analysis of the collective ACL results and trends

We evaluated the Company's process to develop the April 1, 2020 collective ACL and the March 31, 2021 collective ACL estimates by reviewing certain sources of data, factors and assumptions that the Company used and considered the appropriateness, relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's collective ACL methodology and key assumptions for compliance with U.S. generally accepted accounting principles
- evaluating judgements made by the Company relative to the development and performance testing of the PD, LGD and credit rating models by comparing them to relevant applicable industry and regulatory practices
- assessing the conceptual soundness and performance review of the PD, LGD and credit rating models by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating the methodology used for the forward looking scenario and macroeconomic assumptions by comparing them to the Company's business environment and relevant industry practices

- assessing the appropriateness of source for macroeconomic assumptions through comparison to publicly available forecasts
- evaluating the tenor structure, and length of the historical look-back period and reasonable and supportable forecast period by comparing them to specific portfolio risk characteristics and trends
- determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices
- assessing the conceptual soundness and methodology used for estimation of individual credit ratings for wholesale loans by reviewing both qualitative and quantitative validation of credit rating models used to assign the credit ratings
- evaluating the appropriateness of the qualitative adjustments and the effect of those adjustments on the collective ACL by reviewing relevant credit risk factors.

We also assessed the sufficiency of the audit evidence obtained related to the April 1, 2020 collective ACL and March 31, 2021 collective ACL estimates by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

/s/ KPMG Assurance and Consulting Services LLP

We have served as the Company's auditor since 2015.

Mumbai, India
July 28, 2021

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of		
	March 31, 2020	March 31, 2021	March 31, 2021
	(In millions, except number of shares)		
ASSETS:			
Cash and due from banks, and restricted cash	Rs. 611,961.0	Rs. 930,694.7	US$ 12,724.8
Investments held for trading, at fair value	304,962.9	99,620.2	1,362.0
Investments available for sale debt securities, at fair value [includes restricted investments of Rs. 1,760,859.1 and Rs. 1,694,645.4 (US$ 23,169.9), as of March 31, 2020 and March 31, 2021, respectively]	3,406,289.2	4,275,449.9	58,455.7
Securities purchased under agreements to resell	250,000.0	270,060.0	3,692.4
Loans [net of allowance of Rs. 198,833.2 and Rs. 343,528.7 (US$ 4,696.9), as of March 31, 2020 and March 31, 2021, respectively]	10,425,022.4	11,700,189.2	159,969.8
Accrued interest receivable	103,035.9	118,762.9	1,623.8
Property and equipment, net	48,327.7	53,094.4	725.9
Goodwill	74,937.9	74,937.9	1,024.6
Other assets	737,352.1	456,972.8	6,247.9
Total assets	Rs. 15,961,889.1	Rs. 17,979,782.0	US$ 245,826.9
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Interest-bearing deposits	Rs. 9,730,481.3	Rs. 11,226,467.8	US$ 153,492.9
Non-interest-bearing deposits	1,731,590.0	2,110,762.4	28,859.2
Total deposits	11,462,071.3	13,337,230.2	182,352.1
Securities sold under repurchase agreements	507,982.0	356,059.2	4,868.2
Short-term borrowings	377,417.6	239,264.1	3,271.3
Accrued interest payable	80,078.9	77,969.1	1,066.0
Long-term debt	1,026,518.3	1,174,758.2	16,061.8
Accrued expenses and other liabilities	611,327.2	631,096.4	8,628.6
Total liabilities	Rs. 14,065,395.3	Rs. 15,816,377.2	US$ 216,248.0
Commitments and contingencies (see note 26)			
Shareholders' equity:			
Equity shares: par value—Rs. 1.0 each; authorized 6,500,000,000 shares and 6,500,000,000 shares; issued and outstanding 5,483,286,460 shares and 5,512,776,482 shares, as of March 31, 2020 and March 31, 2021, respectively	Rs. 5,483.3	Rs. 5,512.8	US$ 75.4
Additional paid-in capital	765,888.6	794,220.3	10,858.9
Retained earnings	713,340.6	897,873.7	12,276.1
Statutory reserve	356,038.3	434,835.3	5,945.2
Accumulated other comprehensive income (loss)	52,331.6	27,186.3	371.7
Total HDFC Bank Limited shareholders' equity	1,893,082.4	2,159,628.4	29,527.3
Noncontrolling interest in subsidiaries	3,411.4	3,776.4	51.6
Total shareholders' equity	1,896,493.8	2,163,404.8	29,578.9
Total liabilities and shareholders' equity	Rs. 15,961,889.1	Rs. 17,979,782.0	US$ 245,826.9

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions, except share and per share amounts)			
Interest and dividend revenue:				
Loans	Rs. 827,683.0	Rs. 981,794.8	Rs.1,017,047.8	US$ 13,905.5
Trading securities	8,892.9	7,392.1	3,373.8	46.2
Available for sale debt securities	190,992.5	198,383.2	226,690.9	3,099.4
Other	14,146.5	24,412.8	28,855.1	394.5
Total interest and dividend revenue	1,041,714.9	1,211,982.9	1,275,967.6	17,445.6
Interest expense:				
Deposits	410,026.4	507,888.8	501,260.2	6,853.4
Short-term borrowings	39,054.3	27,216.8	12,531.8	171.3
Long-term debt	85,081.1	83,200.5	78,361.5	1,071.4
Other	47.5	149.4	127.6	1.7
Total interest expense	534,209.3	618,455.5	592,281.1	8,097.8
Net interest revenue	507,505.6	593,527.4	683,686.5	9,347.8
Provision for credit losses	72,279.3	117,621.9	154,233.4	2,108.7
Net interest revenue after provision for credit losses	435,226.3	475,905.5	529,453.1	7,239.1
Non-interest revenue, net:				
Fees and commissions	134,155.2	160,099.5	165,410.4	2,261.6
Trading securities gain/(loss), net	1,028.4	1,323.4	1,481.0	20.2
Realized gain/(loss) on sales of available for sale debt securities, net	2,596.0	25,826.2	55,925.2	764.6
Allowance on available for sale debt securities[(1)]	(1,081.0)	(9,109.0)	(2,915.1)	(39.9)
Foreign exchange transactions	1,917.8	15,265.6	27,762.6	379.6
Derivatives gain/(loss), net	12,409.1	3,550.0	(3,253.0)	(44.5)
Other, net	9,096.7	1,263.3	8,564.6	117.1
Total non-interest revenue, net	160,122.2	198,219.0	252,975.7	3,458.7
Total revenue, net	595,348.5	674,124.5	782,428.8	10,697.8
Non-interest expense:				
Salaries and staff benefits	104,652.6	130,506.9	143,755.9	1,965.5
Premises and equipment	29,527.7	31,533.9	35,763.2	489.0
Depreciation and amortization	12,247.8	12,800.3	13,860.2	189.5
Administrative and other	108,960.4	133,439.4	149,223.0	2,040.2
Amortization of intangible assets	1.0	—	—	—
Total non-interest expense	255,389.5	308,280.5	342,602.3	4,684.2
Income before income tax expense	339,959.0	365,844.0	439,826.5	6,013.6
Income tax expense	119,393.5	105,480.0	113,820.1	1,556.2
Net income before noncontrolling interest	Rs. 220,565.5	Rs. 260,364.0	Rs. 326,006.4	US$ 4,457.4
Less: Net income attributable to shareholders of noncontrolling interest	461.7	94.1	29.3	0.4
Net income attributable to HDFC Bank Limited	Rs. 220,103.8	Rs. 260,269.9	Rs. 325,977.1	US$ 4,457.0
Per share information: (see note: 28)				
Earnings per equity share—basic	Rs. 41.07	Rs. 47.59	Rs. 59.27	US$ 0.81
Earnings per equity share—diluted	Rs. 40.66	Rs. 47.27	Rs. 59.02	US$ 0.80
Per ADS information (where 1 ADS represents 3 shares): (see note: 28)				
Earnings per ADS—basic	Rs. 123.21	Rs. 142.77	Rs. 177.81	US$ 2.43
Earnings per ADS—diluted	Rs. 121.98	Rs. 141.81	Rs. 177.06	US$ 2.40
Dividends declared per equity share	Rs. 7.5	Rs 2.5	Rs 6.5	US$ 0.09

(1) For fiscal 2019 and 2020 the amount represents Other than temporary impairment. The Bank adopted the CECL accounting guidance on April 1, 2020.

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Net income before noncontrolling interest	Rs. 220,565.5	Rs. 260,364.0	Rs. 326,006.4	US$ 4,457.4
Other comprehensive income, net of tax:				
Foreign currency translation adjustment:				
Net unrealized gain (loss) arising during the period [net of tax Rs. (356.6), Rs. (426.7) and Rs. 381.0, as of March 31, 2019, March 31, 2020 and March 31, 2021, respectively]	663.9	1,771.7	(1,132.8)	(15.5)
Available for sale debt securities:				
Net unrealized gain (loss) arising during the period [net of tax Rs. (9,187.8), Rs. (15,704.2) and Rs. 249.0, as of March 31, 2019, March 31, 2020 and March 31, 2021, respectively]	17,105.1	47,574.2	(740.6)	(10.1)
Reclassification adjustment for net (gain) loss included in net income [net of tax Rs. 1,018.1, Rs. 4,739.2 and Rs. 7,827.8, as of March 31, 2019, March 31, 2020 and March 31, 2021, respectively]	(1,895.5)	(8,823.1)	(23,271.9)	(318.2)
Other comprehensive income, net of tax	15,873.5	40,522.8	(25,145.3)	(343.8)
Total comprehensive income	236,439.0	300,886.8	300,861.1	4,113.6
Less: Comprehensive income attributable to shareholders of noncontrolling interest	461.7	94.1	29.3	0.4
Comprehensive income attributable to HDFC Bank Limited	Rs. 235,977.3	Rs. 300,792.7	Rs. 300,831.8	US$ 4,113.2

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Cash flows from operating activities:				
Net income before noncontrolling interest	Rs.220,565.5	Rs.260,364.0	Rs.326,006.4	US$ 4,457.4
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	72,279.3	117,621.9	154,233.4	2,108.7
Depreciation and amortization	12,247.8	12,800.3	13,860.2	189.5
Amortization of intangible assets	1.0	—	—	—
Amortization of deferred customer acquisition costs and fees	10,423.1	11,673.2	7,930.2	108.4
Amortization of premium (discount) on investments	4,532.1	5,196.8	5,875.3	80.3
Allowance on available for sale debt securities	1,081.0	9,109.0	2,915.1	39.9
Deferred tax expense/ (benefit)	(8,129.4)	(101.2)	(8,267.3)	(112.9)
Other gains, net	(6,717.5)	133.7	(7,428.4)	(101.6)
Share-based compensation expense	5,343.3	7,476.1	10,603.5	145.0
Net realized (gain) loss on sale of available for sale debt securities	(2,596.0)	(25,826.2)	(55,925.2)	(764.6)
(Gain) loss on disposal of property and equipment, net	(64.8)	81.9	(16.2)	(0.2)
Unrealized exchange (gain) loss	574.6	3,312.5	(356.8)	(4.9)
Net change in:				
Investments held for trading	(96,555.7)	(227,480.4)	388,530.5	5,312.1
Accrued interest receivable	(15,060.3)	(9,752.6)	(15,804.6)	(216.1)
Other assets	(112,726.3)	(140,959.9)	82,993.4	1,134.7
Accrued interest payable	13,775.0	563.7	(2,073.9)	(28.4)
Accrued expense and other liabilities	84,299.5	146,966.9	18,700.6	255.7
Net cash provided by operating activities	183,272.2	171,179.7	921,776.2	12,603.0
Cash flows from investing activities:				
Term placements, net	24,447.4	6,055.7	4,168.0	57.0
Activity in available for sale debt securities:				
Purchases	(1,781,754.9)	(2,608,516.6)	(3,217,140.1)	(43,986.1)
Proceeds from sales	453,778.9	1,214,082.0	1,609,149.3	22,000.9
Maturities, prepayments and calls	937,072.0	653,889.0	784,327.6	10,723.6
Net change in repurchase agreements and reverse repurchase agreements	609,805.1	160,195.5	(171,982.8)	(2,351.4)
Loans purchased	(240,356.2)	(252,738.1)	(189,797.8)	(2,595.0)
Repayments on loans purchased	89,713.3	122,821.6	124,275.6	1,699.1
Increase in loans originated, net of principal collections	(1,610,724.3)	(1,428,007.7)	(1,446,355.1)	(19,775.1)
Additions to property and equipment	(16,355.0)	(18,294.3)	(17,806.5)	(243.5)
Proceeds from sale or disposal of property and equipment	212.3	182.4	152.8	2.1
Activity in equity securities, net	(2,821.4)	(157.9)	(140.7)	(1.9)
Net cash used in investing activities	(1,536,982.8)	(2,150,488.4)	(2,521,149.7)	(34,470.3)

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Cash flows from financing activities:				
Net increase in deposits	1,331,850.9	2,213,972.5	1,882,763.1	25,741.9
Net increase (decrease) in short-term borrowings	(127,707.1)	(277,587.3)	(138,024.7)	(1,887.1)
Proceeds from issue of shares by a subsidiary to noncontrolling interests	459.8	466.8	492.4	6.7
Proceeds from issuance of long-term debt	320,093.6	272,104.7	481,989.2	6,590.0
Repayment of long-term debt	(224,084.5)	(315,209.6)	(326,285.0)	(4,461.1)
Proceeds from issuance of equity shares for options exercised	22,008.2	18,486.8	17,601.0	240.6
Proceeds from issuance of equity shares (net of issuance cost)	235,896.2	—	—	—
Payment of dividends and dividend tax	(41,015.2)	(66,447.3)	(166.6)	(2.3)
Net cash provided by financing activities	1,517,501.9	1,845,786.6	1,918,369.4	26,228.7
Effect of exchange rate changes on cash and due from banks, and restricted cash	(3,069.7)	10,610.5	(262.2)	(3.6)
Net change in cash and due from banks, and restricted cash	160,721.6	(122,911.6)	318,733.7	4,357.8
Cash and due from banks, and restricted cash, beginning of year	574,151.0	734,872.6	611,961.0	8,367.0
Cash and due from banks, and restricted cash, end of year	Rs. 734,872.6	Rs. 611,961.0	Rs. 930,694.7	US$12,724.8
Supplementary cash flow information:				
Interest paid	Rs. 520,351.2	Rs. 617,749.1	Rs. 594,390.9	US$ 8,126.8
Income taxes paid, net of refunds	Rs. 119,365.0	Rs. 104,013.4	Rs. 130,214.5	US$ 1,780.3
Non-cash investment activities				
i) Payable for purchase of property and equipment	Rs. 1,323.7	Rs. 1,232.7	Rs. 2,061.2	US$ 28.2
ii) Trade date sale receivable of available for sale debt securities	Rs. —	Rs. 32,730.8	Rs. —	US$ —

iii) Operating lease right-of-use assets represent non-cash investing activities. Refer note 26- lease commitments for more information and balances as at March 31, 2021.

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
				(In millions, except for equity shares)					
Balance at March 31, 2018	**5,190,180,534**	**Rs. 5,190.2**	**Rs. 476,570.4**	**Rs. 462,876.2**	**Rs. 233,323.5**	**Rs. (3,796.7)**	**Rs. 1,174,163.6**	**Rs. 2,329.7**	**Rs. 1,176,493.3**
Adoption of accounting standard (1)				268.0		(268.0)	—		—
Shares issued in public offering (net of issuance cost of Rs. 1,262.9 million)	208,888,078	208.9	235,687.3				235,896.2		235,896.2
Shares issued upon exercise of options	47,544,608	47.5	21,960.7				22,008.2		22,008.2
Share-based compensation			5,343.3				5,343.3		5,343.3
Dividends, including dividend tax				(41,015.2)			(41,015.2)		(41,015.2)
Change in ownership interest in subsidiary			201.9				201.9	(201.9)	—
Shares issued to noncontrolling interest							—	459.8	459.8
Transfer to statutory reserve				(54,997.6)	54,997.6		—		—
Net income				220,103.8			220,103.8	461.7	220,565.5
Net change in accumulated other comprehensive income						15,873.5	15,873.5		15,873.5
Balance at March 31, 2019	**5,446,613,220**	**Rs. 5,446.6**	**Rs. 739,763.6**	**Rs. 587,235.2**	**Rs. 288,321.1**	**Rs. 11,808.8**	**Rs. 1,632,575.3**	**Rs. 3,049.3**	**Rs. 1,635,624.6**

(1) *Effective April 1, 2018, the Bank adopted ASU 2016-01 "Financial Instruments—Overall (Subtopic 825-10)*

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
				(In millions, except for equity shares)					
Balance at March 31, 2019	**5,446,613,220**	**Rs. 5,446.6**	**Rs. 739,763.6**	**Rs. 587,235.2**	**Rs. 288,321.1**	**Rs. 11,808.8**	**Rs. 1,632,575.3**	**Rs. 3,049.3**	**Rs. 1,635,624.6**
Shares issued upon exercise of options	36,673,240	36.7	18,450.1				18,486.8		18,486.8
Share-based compensation			7,476.1				7,476.1		7,476.1
Dividends, including dividend tax				(66,447.3)			(66,447.3)		(66,447.3)
Change in ownership interest in subsidiary			198.8				198.8	(198.8)	—
Shares issued to noncontrolling interest							—	466.8	466.8
Transfer to statutory reserve				(67,717.2)	67,717.2		—		—
Net income				260,269.9			260,269.9	94.1	260,364.0
Net change in accumulated other comprehensive income						40,522.8	40,522.8		40,522.8
Balance at March 31, 2020	5,483,286,460	Rs. 5,483.3	Rs. 765,888.6	Rs. 713,340.6	Rs. 356,038.3	Rs. 52,331.6	Rs. 1,893,082.4	Rs. 3,411.4	Rs. 1,896,493.8

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—(Continued)

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
				(In millions, except for equity shares)					
Balance at March 31, 2020	**5,483,286,460**	**Rs. 5,483.3**	**Rs. 765,888.6**	**Rs. 713,340.6**	**Rs. 356,038.3**	**Rs. 52,331.6**	**Rs. 1,893,082.4**	**Rs. 3,411.4**	**Rs. 1,896,493.8**
Adoption of accounting standard (1)				(62,480.4)			(62,480.4)		(62,480.4)
Shares issued upon exercise of options	29,490,022	29.5	17,571.5				17,601.0		17,601.0
Share-based compensation			10,603.5				10,603.5		10,603.5
Dividends				(166.6)			(166.6)		(166.6)
Change in ownership interest in subsidiary			156.7				156.7	(156.7)	—
Shares issued to noncontrolling interest							—	492.4	492.4
Transfer to statutory reserve				(78,797.0)	78,797.0		—		—
Net income				325,977.1			325,977.1	29.3	326,006.4
Net change in accumulated other comprehensive income						(25,145.3)	(25,145.3)		(25,145.3)
Balance at March 31, 2021	**5,512,776,482**	**Rs. 5,512.8**	**Rs. 794,220.3**	**Rs. 897,873.7**	**Rs. 434,835.3**	**Rs. 27,186.3**	**Rs. 2,159,628.4**	**Rs. 3,776.4**	**Rs. 2,163,404.8**
Balance at March 31, 2021	**5,512,776,482**	**US$ 75.4**	**US$ 10,858.9**	**US$ 12,276.1**	**US$ 5,945.2**	**US$ 371.7**	**US$ 29,527.3**	**US$ 51.6**	**US$ 29,578.9**

* *Under local regulations, the Bank is required to transfer 25% of its profit after tax (per Indian GAAP) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval.*

(1) *Effective April 1, 2020, the Bank adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (see note 2(g), 2 (i), 2(x),5,9,20 and 23)*

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Bank overview

HDFC Bank Limited (the "Bank") was incorporated in August 1994 with its registered office in Mumbai, India. The Bank is a banking company governed by India's Banking Regulation Act, 1949. The Bank's shares are listed on the BSE Limited (formerly known as Bombay Stock Exchange Limited) and The National Stock Exchange of India Ltd. Its American Depositary Shares (ADS) are listed on the New York Stock Exchange. Global Depositary Receipts (GDR) which were listed on the Luxembourg Stock Exchange have since been delisted effective July 15, 2019.

The Bank's largest shareholder is Housing Development Finance Corporation Limited ("HDFC Limited"), which, along with its subsidiaries, owns 21.2% and 21.1% of the Bank's equity as of March 31, 2020 and March 31, 2021, respectively. The remainder of the Bank's equity is widely held by the public and by foreign and Indian institutional investors.

By way of an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of the Bank's equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

On July 17, 2018, the Bank made a preferential allotment of 78,193,634 equity shares to Housing Development Finance Corporation Limited at an issue price of Rs. 1,087.05 per equity share. On August 2, 2018, the Bank issued 35,000,000 American Depositary Shares (ADSs) representing 105,000,000 equity shares at a price of US$ 52.00 per ADS. The Bank also allotted 25,694,444 equity shares pursuant to a qualified institutional placement (QIP) offering at a price of Rs. 1,080.0 per equity shares. The total number of shares issued pursuant to exercise of stock options during the period is 47,544,608 shares.

The Bank's principal business activities are retail banking, wholesale banking and treasury services. The Bank's retail banking division provides a variety of deposit products as well as loans, credit cards, debit cards, third-party mutual funds and insurance, depositary services, trade finance, foreign exchange and derivative services and sale of gold bars. Through its wholesale banking operations, the Bank provides loans, deposit products, documentary credits, guarantees, bullion trading, foreign exchange, and derivative products. It also provides cash management services, clearing and settlement services for stock exchanges, tax and other collections for the government, custody services for mutual funds and correspondent banking services. The Bank's treasury group manages its debt securities and money market operations and its foreign exchange and derivative products.

2. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights and/or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary (see note 2j). All significant inter-company balances and transactions are eliminated on consolidation.

b. Basis of presentation

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulation Act 1949 and related regulations issued by the Reserve Bank of India ("RBI") (collectively "Indian GAAP"), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences, insofar as they relate to the Bank, include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred taxes, stock-based compensation, loan origination fees, derivative financial instruments, business combination, lease accounting and the presentation format and disclosures of the financial statements and related notes.

c. Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, impairment in securities, valuation of derivatives, stock-based compensation, unrecognized tax benefits, valuation of lease liabilities and impairment assessment of goodwill.

d. Cash and due from banks, and restricted cash

Cash and due from banks comprise of cash and deposit with banks that have original maturities of 90 days or less. The Bank has captioned cash and cash equivalent as "cash and due from banks, and restricted cash" on the consolidated balance sheets. Cash and due from banks includes restricted cash (see note 3).

e. Customer acquisition costs

Customer acquisition costs principally consist of commissions paid to third party referral agents who source retail loans and such costs are deferred and amortized as a yield adjustment over the life of the loans. Advertising and marketing expenses incurred to solicit new business are expensed as incurred.

f. Investments in securities

Investments consist of securities purchased as part of the Bank's treasury operations, such as government securities and other debt securities, and investments purchased as part of the Bank's wholesale banking operations, such as credit substitute securities issued by the Bank's wholesale banking customers.

Credit substitute securities typically consist of commercial paper and debentures issued by the same customers with whom the Bank has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and the Bank bears the same customer credit risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Bank with the issuer. As the Bank's exposures to such securities are similar to its exposures on its loan portfolio, additional disclosures have been provided on impairment status in note 7 and on concentrations of credit risk in note 10.

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

Securities that are held principally for resale in the near term are classified as held for trading ("HFT") and are carried at fair value, with changes in fair value recorded in net income.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity ("HTM") and are carried at amortized cost.

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

Up to March 31, 2018, equity securities with readily determinable fair values that were not classified as HFT were classified as available for sale and were carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, were reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Dividend income on such securities was included in Interest and dividend revenue-available for sale debt securities. Non-marketable equity securities were carried at cost.

Equity securities are classified under other assets. Marketable securities are measured at fair value, change in fair value recorded in earnings. Non-marketable equity securities under the measurement alternative are carried at cost plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and impairment, if any. The Bank's review for impairment for equity method, cost method and measurement alternative securities typically includes an analysis of the facts and circumstances of each security, the intent or requirement to sell the security, and the expectations of cash flows.

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

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

g. Impairment of debt securities

Up to March 31, 2020, declines in the fair values of held to maturity and available for sale debt securities below their carrying value that were other than temporary were reflected in net income as other than temporary impairment losses, based on management's best estimate of the fair value of the investment. The Bank conducted a review each year to identify other than temporary declines based on an evaluation of all significant factors. The Bank's review of impairment generally entailed identification and evaluation of investments that had indications of possible impairment, analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment and documentation of the results of these analysis, as required under business policies. Estimates of any declines in the fair values of credit substitute securities that were other than temporary were measured on a case-by-case basis together with loans to those customers. The Bank did not recognize an impairment for debt securities if the cause of the decline was related solely to interest rate increase and the Bank did not intend to sell the security and it was not more likely than not that the Bank would be required to sell the security before recovery of its amortized cost basis.

The Bank adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL) with effect from April 1, 2020. The Bank conducts review of all available-for-sale securities with fair value below their carrying value or with zero loss expectation. The Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded through a provision for credit loss expense, limited by the amount that fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. The allowance is increased or decreased if credit conditions subsequently worsen or improve. Reversal of credit losses are recognized in earnings. The Bank recognizes the entire difference between amortized cost basis and fair value in earnings for impaired AFS debt securities that the Bank has an intent to sell or for which the Bank believes it will more-likely-than-not be required to sell prior to recovery of the amortized cost basis. The Bank applied ASC 326 to AFS debt securities when Other Than Temporary Impairment has been recognized before the adoption. Amortized cost of a security, including the security's effective interest rate where an other-than-temporary impairment had been recognized up to March 31, 2020 has remained unchanged. Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows continue to be accreted to interest income over the remaining life of the security on a level-yield basis. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption are recorded to income in the period received. The Bank does not record an allowance on accrued interest receivables on the balance sheet due to its policy to reverse interest income on Debt securities in a timely manner in line with the Bank's non-accrual and past due policies and also on any Debt security classified as non-performing. The Bank does not purchase debt securities with credit deterioration.

h. Loans

The Bank grants retail and wholesale loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for an allowance for credit losses. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to net income over the lives of the related loans.

Interest is accrued on the unpaid principal balance and is included in interest income. Loans are generally placed on "non-accrual" status when interest or principal payments are three months past due or if they are considered non-performing , at which time no further interest is accrued and any unrealized interest recognized in the income statement is reversed. Interest income and principal payments on loans placed on non-accrual status is recognized when received. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, and future payments are reasonably assured.

i. Allowance for credit losses

The Bank provides an allowance for credit losses based on management's best estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans. Upon adoption of ASC 326, the Bank revised its accounting policy for Allowance for credit losses as detailed below:

Retail

Up to March 31, 2020 the Bank's retail loan loss allowance consisted of specific allowance and allowance for loans collectively evaluated for impairment (termed as "unallocated allowance"). The Bank established a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally, the Bank monitored loan to value ratios for loan against securities. The loans were charged off against allowances typically when the account became 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off were 150 days past due for personal loans, credit card receivables, auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believed that any future cash flows from these loans were remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. Subsequent recoveries, if any, against write-off cases, were adjusted to provision for credit losses in the consolidated statement of income. The Bank also recorded unallocated allowances for its retail loans by product type. The Bank's retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. The Bank established an unallocated allowance for loans in each product group based on its estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimated its unallocated allowance for retail loans based on its probability of default and loss given default, determined for the respective risk pools.

Wholesale

Up to March 31, 2020, the allowance for wholesale loans consisted of specific and unallocated components. The allowance for such credit losses was evaluated on a regular basis by management and was based upon management's view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that are susceptible to significant revision as more information became available.

Loans were charged off against the allowance when management believes that the loan balance may not be recovered. Subsequent recoveries, if any, against write-off cases, were adjusted to provision for credit losses in the consolidated statement of income. The Bank grades its wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

The Bank established specific allowances for each impaired wholesale loan customer, in the aggregate, for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent. Collateral values are generally based on appraisals from internal and external valuation sources. Wholesale loans that experienced insignificant payment delays and payment shortfalls were generally not classified as impaired but were placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed. These factors were considered by the Bank for selection of loans for credit reviews and assessment of impairment.

The Bank also established an unallocated allowance for wholesale standard loans based on the internal rating grades assigned, and the probability of default associated with internal rating grade pools and the loss given default.

Effective April 1, 2020, the Bank adopted the CECL accounting guidance. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures including undrawn commitments not cancellable, Investments including AFS Securities and other financial assets measured at amortized cost. This framework requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions.

The Banks allowance for credit losses comprises:

- the allowance for loan losses, which covers the Bank's loan portfolios and is presented separately on the balance sheet in Loans,
- the allowance for lending-related commitments, which is recognized on the balance sheet in Accrued expenses and other liabilities,
- the allowance for credit losses on investment securities, which covers the Bank's AFS debt securities and is recognized on the balance sheet in Investments available for sale debt securities on the balance sheet and,
- the allowance for credit losses on other financial assets measured at amortized cost, and other off-balance sheet credit exposures, which is recognized on the balance sheet in Accrued expenses and other liabilities.

All changes in the allowance for credit losses is recognized in the income statement.

Determining the appropriateness of the allowance for credit losses is complex and requires significant judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of credit exposures, considering the macroeconomic conditions, forecasts and other factors then prevailing, may result in significant changes in the allowance for credit losses in future periods.

The Bank's policies used to determine its allowance for credit losses and its allowance for lending-related commitments are described in the following paragraphs.

The Bank's portfolio is bifurcated into Retail and Wholesale portfolios, wherein the Retail portfolio is segmented into homogenous pools using various factors such as nature of product, delinquencies, and other demographic and behavioral variables of the borrowers. The wholesale portfolio is segmented into various risk grades on the basis of host of quantitative and qualitative factors including financial performance, industry risk, business risk and management quality. The allowance for loan-related losses and allowance for lending-related commitments represents expected credit losses over the remaining expected life of outstanding loans and lending-related commitments that are not unconditionally cancellable. The Bank does not record an allowance for future draws on unconditionally cancellable lending-related commitments (e.g., credit cards). The Bank does not record an allowance on accrued interest receivables on the balance sheet due to its policy to reverse interest income on loans more than 90 days past due and in case of agricultural loans more than 365 days past due, and also on any loans classified as non-performing. The expected life for retail loans and wholesale loans is determined by considering its contractual term and expected prepayments. The expected life of funded credit card loans is generally estimated by considering expected future payments on the credit card account. The Bank has Unconditionally Cancellable Clause (UCC) for credit card lines and as allowed by CECL accounting guidance, the Bank makes an allowance only for debt drawn at the time of expected loss measurement. Bank applies expected principal payments to the credit card receivable balances existing at the reporting date until the balance is exhausted.

The estimate of expected credit losses includes expected recoveries of amounts previously charged off or expected to be charged off, even if such recoveries result in a negative allowance. The Retail loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans, credit card receivables, and 180 days for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. The wholesale Loans are charged off against the allowance when management believes that the loan balance may not be recovered including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements were not feasible. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

Wholesale loans are considered non-performing when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining non-performance include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due. Wholesale loans that experienced insignificant payment delays and payment shortfalls are generally not classified as non-performing but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed. These factors are considered by the Bank for selection of loans for credit reviews and assessment of allowance.

In order to estimate the allowance, the Bank primarily relies on its risk-segmentation models, which are also an integral part of the Bank's risk management framework. Risk segmentation aims to group homogenous exposures together to allow for collective assessment of expected losses. Expected Loss estimation under collective assessment, is primarily based on Probability of Default (PD), Loss given Default (LGD), Exposure at Default (EAD) estimates. The Bank has modeled its probability of default (PD) estimates at the aforementioned granularity for its retail and wholesale portfolios and has also created the tenor structure of the same for computation of credit losses.

The Bank's off-balance sheet credit exposures include unfunded loan commitments, financial guarantees, including standby letters of credit, and other similar instruments. For off-balance sheet credit exposures, the Bank recognizes an Allowance for credit loss (ACL) associated with the unfunded amounts. The Bank does not recognize an ACL for commitments that are unconditionally cancelable at Bank's discretion. ACL for off-balance sheet credit exposures are reported as a liability in accrued expenses and other liabilities on the consolidated balance sheet. ACL is in such cases is measured for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts.

Collective and Individual Assessments

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

The methodology for estimating the amount of credit losses reported in the allowance for credit losses has two basic components: first, a pooled component for expected credit losses for pools of loans that share similar risk characteristics and second an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans..

. As an integral part of the credit process, the Bank has a credit rating model appropriate to its retail and wholesale credit segments. The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

The majority of the Bank's credit exposures share risk characteristics with other similar exposures, and as a result are collectively assessed for allowance ("portfolio-based component"). If an exposure does not share risk characteristics with other exposures, the Bank generally estimates expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual exposure ("asset-specific component"). The asset-specific component covers loans modified or reasonably expected to be modified in a TDR, collateral-dependent loans, as well as, borrowers with financial difficulties

Portfolio-based component (Pooled Loans)

The portfolio-based component begins with a quantitative calculation that considers the likelihood of the borrower changing delinquency status or moving from one risk rating to another. The quantitative calculation covers expected credit losses over an instrument's expected life and is estimated by applying credit loss factors to the Bank's exposure at default.

Apart from its historical experience, the Bank seeks to incorporate any reasonable and supportable information regarding the prevalent and future economic and operating conditions, and their impact on credit losses for the Bank into its allowance. The Bank therefore includes in its estimation the use of quantitative statistical models to predict impact of macro-economic variables on defaults. The Bank relies on a single economic variable to develop reasonable and supportable forecasts. In deploying these models the Bank has assessed the impact of an exhaustive set of macro-economic variables such as GDP, inflation, Gross Capital Formation and Index of Industrial Production(IIP) on its expected losses, and uses consensus macro-economic forecasts surveyed and published by the Reserve Bank of India. As the consensus macro-economic forecasts are published for a year the Bank reverts to the historical average default rate beyond this period. Any adjustments needed to the modeled expected losses in the quantitative calculations are addressed through a qualitative adjustment. Qualitative adjustment , among other things: the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession; the uncertainty of economic conditions related to an alternative downside scenario; certain portfolio characteristics and concentrations; collateral coverage; model limitations; idiosyncratic events; and other relevant criterias. The qualitative adjustment also reflects the estimated impact of the pandemic on the economic forecasts and the impact on credit loss estimates. The total ACL is comprised of the quantitative and qualitative components.

The Bank estimates its allowance for credit losses for pooled loans based on its probability of default and loss given default, determined for the respective risk pools.

Asset-specific component

To determine the asset-specific component of the allowance, collateral-dependent loans (including those loans for which foreclosure is probable) and larger, non-accrual risk-rated loans in the wholesale portfolio segment are generally evaluated individually, while smaller loans (both scored and risk-rated) are aggregated for evaluation using factors relevant for the respective class of assets.

The Bank generally measures the asset-specific allowance as the difference between the amortized cost of the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in impairment, including those related to passage of time, are generally recognized as an adjustment to the allowance for credit losses. For collateral-dependent loans, the fair value of collateral less estimated costs to sell is used to determine the charge-off amount for declines in value (to reduce the amortized cost of the loan to the fair value of collateral) or the amount of negative allowance that should be recognized (for recoveries of prior charge-offs associated with improvements in the fair value of collateral).

The asset-specific component of the allowance for credit losses that have been or are expected to be modified in TDRs incorporates the effect of the modification on the loan's expected cash flows (including forgone interest, principal forgiveness, as well as other concessions), and also the potential for redefault. For wholesale loans modified or expected to be modified in TDRs, expected losses incorporate management's expectation of the borrower's ability to repay under the modified terms.

Estimating the timing and amounts of future cash flows is highly judgmental as these cash flow projections rely upon estimates such as loss severities, asset valuations, default rates (including redefault rates on modified loans), the amounts and timing of interest or principal payments (including any expected prepayments) or other factors that are reflective of current and expected market conditions. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

j. Sales/transfer of receivables

The Bank enters into assignment transactions, which are similar to asset-backed securitization transactions through the special purpose entities (SPEs) route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. The Bank also sells finance receivables to SPEs, formerly qualifying special purpose entities (QSPEs) in securitization transactions. Recourse is in the form of the Bank's investment in subordinated securities issued by these SPEs, cash collateral and other credit and liquidity enhancements. The receivables are derecognized in the balance sheet when they are sold and consideration has been received by the Bank. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

The Bank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets is considered a sale. Furthermore, former qualifying special purpose entities (QSPEs) are now considered VIEs and are no longer exempt from consolidation. The Bank consolidates VIEs when it has both: (1) power to direct activities of the VIE that most significantly impact the entity's economic performance and (2) an obligation to absorb losses or right to receive benefits from the entity that could potentially be significant to the VIE. The scope conditions examined include whether the entities' equity investment at risk is insufficient to finance the activities without subordinated financial support and whether the holders of equity lack the characteristics of a financial interest. A controlling financial interest includes characteristics such as ability to make decisions through voting or similar rights, unlimited obligation to absorb the entities expected losses, and unlimited rights to receive the entities expected residual returns.

Gains or losses from the sale of receivables are recognized in the income statement in the period the sale occurs based on the relative fair value of the portion sold and the portion allocated to retained interests, and are reported net of the estimated cost of servicing by the Bank.

Fair values are determined based on the present value of expected future cash flows, using best estimates for key assumptions, such as prepayment and discount rates, commensurate with the risk involved.

k. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of property and equipment on a straight-line basis at the following rates:

Type of Asset	Rate of depreciation
Premises	1.63%
Software and systems	20.00%
Equipment and furniture	10.00%-33.33%

For assets purchased and sold during the year, depreciation is provided on a pro rata basis by the Bank and capital advances are included in other assets. Improvements to leasehold premises are charged off over the remaining primary period of the lease.

l. Lease accounting

Effective April 1, 2019, the Bank adopted FASB ASU 2016-02 "Leases (Topic 842)". The Bank applied Topic 842 using the modified retrospective method. As a result, comparative information has not been adjusted and continues to be reported under ASC 840. As of April 1, 2019, the date of the Bank's initial application of ASC 842, the Bank recognized its lease liabilities measured as the present value of lease payments not yet paid, discounted using the incremental borrowing rate as at the date of initial application. The right-of-use asset as of the date of the initial application includes an initial measurement of the lease liabilities adjusted for accrued lease payments as of date of initial application.

At the inception of the contract, the Bank assesses whether the contract, is or contains, a lease. The Bank's assessment is based on whether(1) the contract involves the use of distinct identified assets, (2) the Bank has the right to substantially all the economic benefit from the use of the asset throughout the term of the contract, and (3) the Bank has the right to direct the use of the asset. Leases are examined for classification as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria is met (1) the lease transfers ownership of the asset by the end of the lease term, (2) the lease contains an option to purchase the asset that is reasonably certain to be exercised, (3) the lease term is for the major part of the remaining useful life of the asset or (4) the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of the above criteria.

The Banks's lessee arrangements consist of operating leases. The Bank records right-of-use assets and lease liabilities at the lease commencement date. Right-of-use assets are reported in other assets on the Consolidated Balance Sheets, and the related lease liabilities are reported in accrued expenses and other liabilities. The Bank has elected not to record right-of-use assets for short-term-leases that have a lease term of 12 months or less and thus, all leases with a lease term exceeding 12 months are recorded on the consolidated balance sheet.

Lease expense is recognized on a straight-line basis over the lease term and is recorded in non-interest expense- premises and equipment in the consolidated statements of income. The Bank made an accounting policy decision not to separate lease and non-lease components of a contract that is or contains a lease. At the lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate as at the date of the lease commencement. Right-of-use assets initially equal the lease liabilities, adjusted for any lease payments made prior to lease commencement and for any lease incentives.

The Bank assesses leased assets for impairment, and if the carrying amount of the leased asset exceeds the undiscounted cash flows from the lease payments and the estimated residual value upon disposition of the leased asset, an impairment loss is recognized.

m. Impairment or disposal of tangible long-lived assets

Whenever events or circumstances indicate that the carrying amount of tangible long lived assets may not be recoverable, the Bank subjects such long lived assets to a test of recoverability based on the undiscounted cash flows from use or disposition of the asset. Such events or circumstances would include changes in the market, technology obsolescence, adverse changes in profitability or regulation. If the asset is impaired, the Bank recognizes an impairment loss estimated as the difference between the carrying value and the net realizable value.

n. Income tax

Income tax expense/benefit consists of the current tax expense and the net change in deferred tax assets or liabilities during the year.

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases, and for operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance to the amount that is more likely than not to be realized based on management's judgment. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the deferred tax assets or liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is greater than 50 percent likely of being realized upon settlement. The difference between the benefit recognized for a position in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. The Bank's policy is to include interest income, interest expense and penalties on overpayments and underpayment of income taxes within income tax expense in the consolidated statement of income. Interest income on overpayments of income taxes is recognized when the related matter is resolved.

The Bank accounted for dividend distribution tax in equity in the year in which a dividend is declared. With effect from April 1, 2020, no direct tax required to be paid by the Bank since dividend distribution tax payable on dividend distributed have been abolished.

The Bank follows specific identification method for releasing income tax effects from accumulated other comprehensive income.

o. Revenue recognition

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment.

Dividends from investments are recognized when declared.

Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

p. Foreign currency transactions

The Bank's functional currency is the Indian Rupee, except for the Bank's foreign branches. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into respective functional currency using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on foreign currency transactions are included in the determination of net income under foreign exchange transactions.

For the foreign branches, the assets, liabilities and operations are translated, for consolidation purposes, from functional currency of the foreign branch to the Indian Rupee reporting currency at period-end rates for assets and liabilities and at average rates for operations. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive income (OCI).

q. Stock-based compensation

The fair value of stock-based compensation is estimated on the date of each grant based on a binomial model. For further information, see note 21.

r. Debt issuance costs

Issuance costs of long-term debt are amortized over the tenure of the debt.

s. Earnings per share

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period, using the treasury stock method, except where the result would be anti-dilutive. The Bank also reports basic and diluted earnings per ADS, where each ADS represents three equity shares. Earnings per ADS have been computed as earnings per equity share multiplied by the number of equity shares per ADS. A reconciliation of the number of shares used in computing earnings per share has been provided in note 28.

t. Segment information

The Bank operates in three reportable segments, namely retail banking, wholesale banking and treasury services. Segment-wise information has been provided in note 25.

u. Derivative financial instruments

The Bank recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the balance sheet and measures them at fair value. The Bank has not designated any derivatives as hedges. As such, all changes in fair value of derivative instruments are recognized in net income under derivative gain/(loss) in the period of change.

The Bank enters into forward exchange contracts, currency swaps and currency options with its customers and typically transfers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on market quotations or market-based inputs.

The Bank enters into interest rate swaps for its own account. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically offsets these risks in the inter-bank market. Such contracts are carried on the balance sheet at fair value, or priced using market determined yield curves.

v. Business combination

The Bank accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Bank’s future results of operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of bank’s interest and the acquiree’s net fair value of identifiable assets and liabilities is recognized as goodwill.

w. Goodwill and other intangibles

Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. Up to March 31, 2020 this analysis was a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step is to be performed. The second step involved calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. On April 1, 2020, the Bank adopted ASU 2017-04 which eliminated the requirement to calculate the implied fair value of Goodwill (the second step). Accordingly, if the fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

x. Recently adopted accounting standards

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The ASU introduces a new accounting model, the Current Expected Credit Losses model (“CECL”), which requires earlier recognition of credit losses, while also providing transparency about credit risk. The CECL model utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held to maturity securities and other receivables at the time the financial asset is originated or acquired. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). The expected credit losses are required to be adjusted each period for changes in expected lifetime credit losses. The update requires use of judgment in determining the relevant information and estimation methods that are appropriate for measurement of expected credit losses which is to be based on relevant information about past events, historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In addition, ASC 326-30 provides a new credit loss model for available-for-sale debt securities where the credit losses are required to be recorded through an allowance and the ASU limits the amount of the allowance for credit losses to the amount by which fair value is below amortized cost. While the update changes the measurement of the allowance for credit losses, it does not change the credit risk for the Bank’s loan portfolios. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, viz. ASUs 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASUs have provided for various minor technical corrections and improvements to the codification as well as other transition matters. The Bank adopted the ASU effective April 1, 2020 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after April 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 had an impact of Rs. 83,496.4 million that was offset by a corresponding decrease in retained earnings of Rs. 62,480.4 million and Rs. 21,016.0 million increase in deferred tax assets. The increase in the allowance for credit losses required under the ASC 326 generally reflected the impact of reserves calculated over the life of loan, and more specifically higher reserves required for longer duration loan portfolios, and the utilization of a longer historical look-back period in the calculation of probability of default .

The following table illustrates the impact on allowances for credit losses on adopting ASC 326.

	As of April 1, 2020		
	As reported under ASC 326	Pre-ASC 326 adoption	Impact of ASC 326 adoption
		(In millions)	
Loans:			
Auto loans	Rs. 29,099.9	Rs. 19,219.0	Rs. 9,880.9
Personal loans/Credit cards	85,188.2	47,097.1	38,091.1
Retail business banking	36,807.8	32,860.3	3,947.5
Commercial vehicle and construction equipment finance	20,788.9	20,463.4	325.5
Housing loans	3,360.2	1,700.7	1,659.5
Other retail loans	38,098.6	37,864.3	234.3
Wholesale loans	66,502.6	39,628.4	26,874.2
Allowance for Credit Losses on Loans	Rs.279,846.2	Rs.198,833.2	Rs.81,013.0
Allowance for Credit Losses on AFS debt securities	—	—	—
Accrued expenses and other liabilities:			
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures and undrawn commitments	Rs. 5,523.4	Rs. 3,226.8	Rs. 2,296.6
Allowance for Credit Losses Other	186.8	—	186.8
Total	Rs.285,556.4	Rs.202,060.0	Rs.83,496.4

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles-Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment”. The amendment in this update simplifies the subsequent measurement of goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e., the current Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. The impairment test is simply the comparison of the fair value of a reporting unit with its carrying amount (the current Step 1), with the impairment charge being the deficit in fair value but not exceeding the total amount of goodwill allocated to that reporting unit. The Bank adopted the ASU effective April 1, 2020. The ASU is to be adopted prospectively. Management had conducted its annual impairment tests for goodwill and indefinite-lived intangible assets as of March 31, 2020 using generally accepted valuation methods. No impairment of goodwill or indefinite-lived intangible assets was identified as a result of the said annual impairment analyses. Future impairment testing will be conducted each March 31, unless a triggering event occurs in the interim that would suggest possible impairment, in which case it would be tested as of the date of the triggering event. The adoption of this guidance did not have a material impact on the Bank’s consolidated financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments modify certain disclosure requirements for fair value measurements. Entities are required to disclose and describe the range and weighted average of significant observable inputs used to prospectively develop Level 3 fair value measurements. The Bank adopted the ASU effective April 1, 2020. The adoption of this guidance did not have a material impact on the Bank’s consolidated financial position or results of operations.

y. Recently issued accounting pronouncements not yet effective

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." This ASU is part of the FASB's initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The ASU removes specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2022. The Bank is currently assessing the impact of this guidance will have on its consolidated financial position or results of operations.

In January 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity with the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2022. The Bank is currently assessing the impact of this guidance will have on its consolidated financial position or results of operations.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The ASU provides for optional expedients and other guidance related to modification of contracts, hedging relationships, and other transactions affected by reference rate reform. The ASU also provides an election to account for certain contract amendments related to reference rate reform as modifications rather than extinguishments without the requirement to assess the significance of the amendments. The various practical expedients and elections allow hedge accounting to continue uninterrupted during the transition period. The amendments in the update are elective and applicable on issue. The guidance terminates in December 2022. The Bank has as of March 31, 2021 not opted for any of the various practical expedients and elections provided in the update and accordingly there has been no material impact on the Bank's consolidated financial position or results of operations.

z. Convenience translation

The accompanying financial statements have been expressed in Indian Rupees ("Rs."), the Bank's functional currency. For the convenience of the reader, the financial statements as of and for the fiscal year ended March 31, 2021 have been translated into U.S. dollars at U.S.$1.00 = Rs. 73.14 as published by the Federal Reserve Board of New York on March 31, 2021. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

3. Cash and due from banks, and restricted cash

The Bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. As prescribed by the RBI, the cash reserve ratio has to be maintained on an average basis for a two-week period. The average balance maintained for the such two-week period should not fall below the prescribed threshold limit. Non-maintenance of the requisite balance is subject to levy of penalty. The Bank has classified the cash reserve maintained with the RBI as restricted cash or restricted cash equivalents (restricted cash).

The cash and due from banks, and restricted cash consist of restricted cash of Rs. 361,409.5 million and Rs. 552,005.5 million (US$ 7,547.2 million) as at March 31, 2020 and March 31, 2021, respectively.

4. Investments, held for trading

The portfolio of trading securities as of March 31, 2020 and March 31, 2021 was as follows:

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 207,131.4	Rs. 592.9	Rs. 17.2	Rs. 207,707.1
Other corporate/financial institution securities	4,495.9	7.1	32.5	4,470.5
Total debt securities	Rs. 211,627.3	Rs. 600.0	Rs. 49.7	Rs. 212,177.6
Other securities (including mutual fund units)	92,683.9	101.4	—	92,785.3
Total	Rs. 304,311.2	Rs. 701.4	Rs. 49.7	Rs. 304,962.9

	As of March 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 15,076.0	Rs. 85.8	Rs. 2.6	Rs. 15,159.2
Other corporate/financial institution securities	34,803.9	43.3	0.4	34,846.8
Total debt securities	Rs. 49,879.9	Rs. 129.1	Rs. 3.0	Rs. 50,006.0
Other securities (including mutual fund units)	52,912.2	110.9	3,408.9	49,614.2
Total	Rs. 102,792.1	Rs. 240.0	Rs. 3,411.9	Rs. 99,620.2
Total	US$ 1,405.3	US$ 3.3	US$ 46.6	US$ 1,362.0

5. Investments, available for sale debt securities

The portfolio of available for sale debt securities as of March 31, 2020 and March 31, 2021 was as follows:

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs.2,637,464.4	Rs. 52,630.0	Rs. 1,491.6	Rs.2,688,602.8
State government securities	177,055.9	11,337.7	—	188,393.6
Government securities outside India	8,367.0	48.4	—	8,415.4
Credit substitutes (see note 7)	360,741.5	2,309.5	677.3	362,373.7
Other corporate/financial institution bonds	29,710.9	212.8	409.6	29,514.1
Debt securities, other than asset and mortgage-backed securities	3,213,339.7	66,538.4	2,578.5	3,277,299.6
Mortgage-backed securities	37.3	0.8	—	38.1
Asset-backed securities	125,931.2	1,746.0	150.0	127,527.2
Other securities (including mutual fund units)	1,424.1	0.2	—	1,424.3
Total	Rs.3,340,732.3	Rs. 68,285.4	Rs. 2,728.5	Rs.3,406,289.2
Securities with gross unrealized losses				Rs. 300,932.1
Securities with gross unrealized gains				3,105,357.1
				Rs.3,406,289.2

	As of March 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 3,159,905.2	Rs. 31,824.6	Rs. 20,225.8	Rs. 3,171,504.0
State government securities	348,067.7	7,373.7	2,669.6	352,771.8
Government securities outside India	5,932.2	3.8	—	5,936.0
Credit substitutes (see note 7)	534,227.1	13,423.1	373.3	547,276.9
Other corporate/financial institution bonds	36,419.0	352.5	12.3	36,759.2
Debt securities, other than asset and mortgage-backed securities	4,084,551.2	52,977.7	23,281.0	4,114,247.9
Mortgage-backed securities	30.5	1.8	—	32.3
Asset backed securities	157,399.9	4,081.5	311.7	161,169.7
Total	Rs. 4,241,981.6	Rs. 57,061.0	Rs. 23,592.7	Rs. 4,275,449.9
Total	US$ 57,998.1	US$ 780.2	US$ 322.6	US$ 58,455.7
Securities with gross unrealized losses				Rs. 1,162,099.9
Securities with gross unrealized gains				3,113,350.0
				Rs. 4,275,449.9
				US$ 58,455.7

AFS investments of Rs. 2,876,996.4 million and Rs. 3,524,275.8 million (US$ 48,185.3 million) as of March 31, 2020 and March 31, 2021, respectively, are eligible towards the Bank's statutory liquidity reserve requirements. These balances are subject to withdrawal and usage restrictions towards the reserve requirements, but may be freely traded by the Bank. Of these investments, Rs. 1,760,859.1 million as of March 31, 2020 and Rs. 1,694,645.4 million (US$ 23,169.9 million) as of March 31, 2021, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO) and real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 9,109.0 million as impairment for year ended March 31, 2020 because the Bank intends to sell the securities before recovery of their amortized cost. Amortized cost is net of Rs. 2,915.1 million (US$ 39.9 million) as allowance for credit losses for year ended March 31, 2021. There was no allowance recorded as at April 1, 2020 upon adoption of the CECL accounting guidance April 1, 2020.

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2020 was as follows:

	As of March 31, 2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 24,492.8	Rs. 69.8	Rs.158,735.8	Rs.1,421.8	Rs.183,228.6	Rs.1,491.6
State government securities	—	—	—	—	—	—
Government securities outside India	—	—	—	—	—	—
Credit substitutes (see note 7)	38,039.9	481.2	18,680.4	196.1	56,720.3	677.3
Other corporate/financial institution bonds	18,626.2	409.6	—	—	18,626.2	409.6
Debt securities, other than asset and mortgage-backed securities	81,158.9	960.6	177,416.2	1,617.9	258,575.1	2,578.5
Mortgage-backed securities	—	—	—	—	—	—
Asset-backed securities	41,510.7	144.7	846.3	5.3	42,357.0	150.0
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs.122,669.6	Rs.1,105.3	Rs.178,262.5	Rs.1,623.2	Rs.300,932.1	Rs.2,728.5

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2021 was as follows:

	As of March 31, 2021					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 930,710.0	Rs. 20,224.7	Rs. 98.2	Rs. 1.1	Rs. 930,808.2	Rs. 20,225.8
State government securities	133,639.8	2,669.6	—	—	133,639.8	2,669.6
Government securities outside India	—	—	—	—	—	—
Credit substitutes (see note 7)	43,455.7	373.3	—	—	43,455.7	373.3
Other corporate/financial institution bonds	4,957.2	12.3	—	—	4,957.2	12.3
Debt securities, other than asset and mortgage-backed securities	1,112,762.7	23,279.9	98.2	1.1	1,112,860.9	23,281.0
Mortgage-backed securities	—	—	—	—	—	—
Asset-backed securities	49,239.0	311.7	—	—	49,239.0	311.7
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs. 1,162,001.7	Rs. 23,591.6	Rs. 98.2	Rs. 1.1	Rs. 1,162,099.9	Rs. 23,592.7
Total	US$ 15,887.4	US$ 322.6	US$ 1.3	US$ —	US$ 15,888.7	US$ 322.6

As of March 31, 2021 there were 58 number of AFS investments in Government of India securities, State government securities and Government securities outside India with unrealized losses totaling Rs. 22,895.4 million. Upon analysing the debt security portfolios, the Bank determined that no allowance was required as at March 31, 2021 in government issued or backed securities as for these debt securities the risk of loss was deemed minimal. Additionally, none of the remaining AFS investments in debt securities held by the Bank were past due or in non-accrual status as of March 31, 2021. The declines in the market value of these securities were attributable to changes in interest rates and not credit quality, and because the Bank had the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Bank did not record any allowance for credit losses on any of these securities at March 31, 2021.

Allowances for Available for sale debt Securities as of March 31, 2021 are as follows:

	As of March 31, 2021			
	Allowance for credit losses, beginning of the period	Write-offs	Addition to allowance for credit losses	Allowance for credit losses, end of the period
	(In millions)			
Government of India securities	Rs. —	Rs. —	Rs. —	Rs. —
State government securities	—	—	—	—
Government securities outside India	—	—	—	—
Credit substitutes	—	—	2,915.1	2,915.1
Other corporate/financial institution bonds	—	—	—	—
Debt securities, other than asset and mortgage backed securities	—	—	—	—
Mortgage-backed securities	—	—	—	—
Asset-backed securities	—	—	—	—
Other securities (including mutual fund units)	—	—	—	—
Total	Rs. —	Rs. —	Rs. 2,915.1	Rs. 2,915.1
Total	US$ —	US$ —	US$ 39.9	US$ 39.9

Credit Quality Indicators

The Bank monitors the credit quality of its investment securities through various risk management procedures, including the monitoring of credit ratings. A majority of the debt securities in the Bank's investment portfolio were issued by Government of India or State government or entities or agencies that are either explicitly or implicitly guaranteed by such governments. The Bank believes the long history of no credit losses on these securities indicates that the expectation of non-payment of the amortized cost basis is zero, even if such governments were to technically default. Therefore, for the aforementioned securities, the Bank does not assess, or record expected credit losses due to the zero loss assumption. The Bank monitors the credit quality of its remaining AFS investment portfolio which are updated periodically. Such of the remaining AFS investment portfolio in an unrealized loss position are evaluated to determine if the loss is attributable to credit related factors and if an allowance for credit loss is needed. The average credit rating of the securities comprising the Mortgaged-backed securities and Asset-backed securities was AAA (based upon external ratings where available) as at March 31, 2021.

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of March 31, 2021 is set out below:

	As of March 31, 2021		
	Amortized Cost	Fair Value	Fair Value
	(In millions)		
Within one year	Rs. 847,885.7	Rs. 849,275.7	US$11,611.6
Over one year through five years	1,362,628.4	1,388,323.5	18,981.7
Over five years through ten years	1,133,763.6	1,145,349.2	15,659.7
Over ten years	740,273.5	731,299.5	9,998.6
Total	Rs.4,084,551.2	Rs.4,114,247.9	US$56,251.6

The contractual residual maturity of available for sale mortgage-backed and asset-backed debt securities as of March 31, 2021 is set out below:

	As of March 31, 2021		
	Amortized Cost	Fair Value	Fair Value
		(In millions)	
Within one year	Rs. 64,729.1	Rs. 66,238.6	US$ 905.6
Over one year through five years	89,730.9	91,976.6	1,257.5
Over five years through ten years	1,127.6	1,135.9	15.5
Over ten years	1,842.8	1,850.9	25.3
Total	Rs. 157,430.4	Rs.161,202.0	US$2,203.9

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

	Fiscal year ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Gross realized gains on sale	Rs. 3,788.1	Rs. 26,128.1	Rs. 56,439.4	US$ 771.8
Gross realized losses on sale	(1,192.1)	(301.9)	(514.2)	(7.2)
Realized gains (losses), net	2,596.0	25,826.2	55,925.2	764.6
Dividends and interest	190,992.5	198,383.2	226,690.9	3,099.4
Total	Rs.193,588.5	Rs.224,209.4	Rs.282,616.1	US$3,864.0

6. Investments, held to maturity

There were no HTM securities as of March 31, 2020 and March 31, 2021.

7. Credit substitutes

Credit substitutes consist of securities that the Bank invests in as part of an overall extension of credit to certain customers. Such securities share many of the risk and reward characteristics of loans and are managed by the Bank together with other credit facilities extended to the same customers. The fair values of credit substitutes by type of instrument as of March 31, 2020 and March 31, 2021 were as follows:

	As of March 31,			
	2020		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions)			
Available for sale credit substitute debt securities:				
Debentures	Rs.236,717.2	Rs.237,980.3	Rs. 524,448.4	Rs. 537,472.8
Commercial paper	124,024.3	124,393.4	9,778.7	9,804.1
Total	Rs.360,741.5	Rs.362,373.7	Rs. 534,227.1	Rs. 547,276.9
			US$ 7,304.2	US$ 7,482.6

The fair values of credit substitutes by the Bank's internal credit quality indicators and amounts provided for Impairment losses is as follows:

	As of March 31,		
	2020	2021	2021
	(In millions)		
Pass	Rs.362,373.7	Rs.547,276.9	US$7,482.6
Impaired—gross balance	—	—	—
Less: Impairment losses	—	—	—
Impaired credit substitutes, net	—	—	—
Total credit substitutes, net	Rs.362,373.7	Rs.547,276.9	US$7,482.6

The following table provides information on Impaired credit substitutes as at March 31, 2020 and March 31, 2021:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Gross impaired credit substitutes	Rs —	Rs —	US$—
Gross impaired credit substitutes by industry	Rs.—	Rs.—	US$—
Average impaired credit substitutes	Rs.—	Rs.—	US$—
Interest income recognized on impaired credit substitutes	Rs.—	Rs.—	US$—

As of March 31, 2021, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

8. Repurchase and resell agreements

Securities sold under agreements to repurchase (“repos”) and securities purchased under agreements to resell (“reverse repos”) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized transactions. There were no such transactions accounted for as sales during the years ended March 31, 2019, March 31, 2020 and March 31, 2021. Interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

a. Securities purchased under agreements to resell

Securities purchased under agreements to resell are classified separately from investments and generally mature within 14 days of the transaction date. Such resell transactions are recorded at the amount of cash advanced on the transaction. Resell transactions outstanding as of March 31, 2020 and March 31, 2021 were Rs. 250,000.0 million and Rs. 270,060.0 million (US$ 3,692.4 million), respectively(see note 23).

b. Securities sold under repurchase agreements

Securities sold under agreements to repurchase are classified separately under liabilities and generally mature within 14 days of the transaction date. Such repurchase transactions are recorded at the amount of cash received on the transaction. Repurchase transactions outstanding as of March 31, 2020 and March 31, 2021 were Rs. 507,982.0 and Rs. 356,059.2 million (US$ 4,868.2 million), respectively. The Government of India securities are pledged as collateral (see note 23).

9. Loans

Loan balances include Rs. 574,064.8 million and Rs. 406,381.7 million (US$ 5,556.2 million) as of March 31, 2020 and March 31, 2021, respectively, which have been provided as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2020 and March 31, 2021 were as follows:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Retail loans:			
Auto loans	Rs. 952,053.1	Rs. 964,053.2	US$ 13,180.9
Personal loans/Credit cards	1,920,601.6	2,042,727.2	27,929.0
Retail business banking	1,658,770.3	2,007,845.9	27,452.1
Commercial vehicle and construction equipment finance	747,382.4	805,329.8	11,010.8
Housing loans	634,612.4	702,235.5	9,601.3
Other retail loans	1,127,380.6	1,306,641.0	17,864.9
Subtotal	Rs. 7,040,800.4	Rs. 7,828,832.6	US$107,039.0
Wholesale loans	Rs. 3,583,055.2	Rs. 4,214,885.3	US$ 57,627.7
Gross loans	10,623,855.6	12,043,717.9	164,666.7
Less: Allowance for credit losses	198,833.2	343,528.7	4,696.9
Total	Rs.10,425,022.4	Rs.11,700,189.2	US$159,969.8

Loans, other than crop related agricultural loans, are generally placed on non-accrual status and considered non-performing if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Crop related agricultural loans are generally placed on non-accrual status and considered non-performing if principal or interest payments become 366 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current

The maturity of gross loans as of March 31, 2021 is set out below:

	As of March 31, 2021		
	Wholesale loans	Retail loans	Total
		(In millions)	
Maturity profile of loans:			
Within one year	Rs. 1,877,821.3	Rs. 2,235,330.0	Rs. 4,113,151.3
Over one year through five years	1,475,971.2	4,955,833.2	6,431,804.4
Over five years	861,092.8	637,669.4	1,498,762.2
Total	Rs. 4,214,885.3	Rs. 7,828,832.6	Rs. 12,043,717.9
Total	US$ 57,627.7	US$ 107,039.0	US$ 164,666.7

The following table provides details of age analysis of loans and finance receivable on non-accrual status as of March 31, 2020 and March 31, 2021.

	As of March 31, 2020				
	31-90 days past due	Non-accrual/ 91 days or more past due	Current [1,2] (In millions)	Total	Finance receivable on non-accrual status
Retail Loans					
Auto loans	Rs. 4,049.3	Rs. 15,279.2	Rs. 932,724.6	Rs. 952,053.1	Rs. 15,279.2
Personal loans/Credit card	16,819.3	14,481.7	1,889,300.6	1,920,601.6	14,481.7
Retail business banking	15,210.9	32,866.3	1,610,693.1	1,658,770.3	32,866.3
Commercial vehicle and construction equipment finance	17,679.2	22,992.2	706,711.0	747,382.4	22,992.2
Housing loans	3,330.9	2,921.3	628,360.2	634,612.4	2,921.3
Other retail	13,038.1	33,462.8	1,080,879.7	1,127,380.6	33,462.8
Wholesale loans	5,126.9	35,423.4	3,542,504.9	3,583,055.2	35,423.4
Total	Rs.75,254.6	Rs.157,426.9	Rs.10,391,174.1	Rs.10,623,855.6	Rs.157,426.9

1 Loans up to 30 days past due are considered current
2 Includes crop related agricultural loans with days past due less than 366 as they are not considered as non-performing Rs. 34.0 billion.

	As of March 31, 2021				
	31-90 days past due	Non-accrual/ 91 days or more past due	Current [1,2] (In millions)	Total	Finance receivable on non-accrual status
Retail Loans					
Auto loans	Rs. 8,523.6	Rs. 28,476.3	Rs. 927,053.3	Rs. 964,053.2	Rs. 28,476.3
Personal loans/Credit card	25,026.7	37,026.1	1,980,674.4	2,042,727.2	37,026.1
Retail business banking	19,239.0	31,328.9	1,957,278.0	2,007,845.9	31,328.9
Commercial vehicle and construction equipment finance	16,946.0	32,015.3	756,368.5	805,329.8	32,015.3
Housing loans	4,530.8	5,171.9	692,532.8	702,235.5	5,171.9
Other retail	18,535.0	39,584.4	1,248,521.6	1,306,641.0	39,584.4
Wholesale loans	6,277.0	40,179.5	4,168,428.8	4,214,885.3	40,179.5
Total	Rs. 99,078.1	Rs. 213,782.4	Rs. 11,730,857.4	Rs. 12,043,717.9	Rs. 213,782.4
Total	US$ 1,354.6	US$ 2,923.0	US$ 160,389.1	US$ 164,666.7	US$ 2,923.0

1 Loans up to 30 days past due are considered current
2 Includes crop related agricultural loans with days past due less than 366 as they are not considered as non-performing Rs. 33.6 billion.

During fiscal 2020 and fiscal 2021, the Bank implemented the packages announced by RBI on account of COVID-19 situation which grants temporary extensions in repayment obligations to the borrowers without any interest or financial concessions. While the moratorium allowed customers (from March to August 2020) to temporarily freeze loan repayments, the loan restructuring packages eased the burden of monthly repayments. Total balance outstanding of such restructured loans as of March 31, 2021 was Rs. 138.4 billion (US$ 1.9 billion) which includes retail loans and wholesale loans of Rs. 137.8 billion and Rs. 0.6 billion respectively. As stipulated by regulatory guidance, the Bank does not place loans with deferrals granted due to COVID-19 on nonaccrual status where such loans are not otherwise reportable as nonaccrual and thus considered in the allowance for loan losses

Retail Loans

For retail loans the policy and approval processes are designed for the fact that the Bank has high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of the Bank's experience and industry data, in combination with the judgment of the Bank's senior officers. The Bank mines data on its borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment and use these as inputs in revising the Bank's product programs, target market definitions and credit assessment criteria to meet the Bank's twin objectives of combining volume growth and maintenance of asset quality.

As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments. The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

The amount of purchased financing receivable outstanding as of March 31, 2020 and March 31, 2021 is Rs. 644,672.4 million and Rs. 710,194.7 million, respectively.

The following table provides information on primary credit quality indicator as at March 31, 2021:

Credit quality indicators-Internally assigned grade	Term Loans by origination year as at March 31, Prior	2017	2018	2019	2020	2021	Revolving Loans	Revolving loans converted to term loans	Total
				(In millions)					
Auto loans									
Performing	Rs. 4,599.0	Rs. 30,174.9	Rs. 99,159.5	Rs. 168,159.1	Rs. 266,277.0	Rs. 362,747.1	Rs. 4,460.3	Rs. —	Rs. 935,576.9
Non-performing	736.9	2,066.2	6,048.0	9,260.9	8,513.0	1,033.0	818.3	—	28,476.3
Subtotal	Rs. 5,335.9	Rs. 32,241.1	Rs. 105,207.5	Rs. 177,420.0	Rs. 274,790.0	Rs. 363,780.1	Rs. 5,278.6	Rs. —	Rs. 964,053.2
Personal loans/Credit card									
Performing	Rs. 613.8	Rs. 8,617.1	Rs. 48,658.4	Rs. 178,532.3	Rs. 483,925.8	Rs. 638,007.4	Rs. 326,118.9	Rs. 321,227.4	Rs. 2,005,701.1
Non-performing	118.6	601.7	3,144.1	8,704.2	11,381.7	1,162.5	8,259.7	3,653.6	37,026.1
Subtotal	Rs. 732.4	Rs. 9,218.8	Rs. 51,802.5	Rs. 187,236.5	Rs. 495,307.5	Rs. 639,169.9	Rs. 334,378.6	Rs. 324,881.0	Rs. 2,042,727.2
Retail business banking									
Performing	Rs. 35,189.0	Rs. 49,573.1	Rs. 121,663.7	Rs. 145,473.9	Rs. 209,578.9	Rs. 480,518.2	Rs. 934,520.2	Rs. —	Rs. 1,976,517.0
Non-performing	3,584.6	2,717.7	4,863.1	3,865.9	1,883.4	1,053.4	13,360.8	—	31,328.9
Subtotal	Rs. 38,773.6	Rs. 52,290.8	Rs. 126,526.8	Rs. 149,339.8	Rs. 211,462.3	Rs. 481,571.6	Rs. 947,881.0	Rs. —	Rs. 2,007,845.9
Commercial vehicle and construction equipment finance									
Performing	Rs. 517.8	Rs. 6,292.2	Rs. 44,766.4	Rs. 146,432.4	Rs. 214,342.4	Rs. 287,953.1	Rs. 73,010.2	Rs. —	Rs. 773,314.5
Non-performing	155.9	836.6	4,397.4	11,112.3	10,159.4	1,086.1	4,267.6	—	32,015.3
Subtotal	Rs. 673.7	Rs. 7,128.8	Rs. 49,163.8	Rs. 157,544.7	Rs. 224,501.8	Rs. 289,039.2	Rs. 77,277.8	Rs. —	Rs. 805,329.8
Housing loans									
Performing	Rs. 272,061.4	Rs. 111,758.9	Rs. 105,069.4	Rs. 152,564.7	Rs. 55,570.3	Rs. 38.9	Rs. —	Rs. —	Rs. 697,063.6
Non-performing	2,407.3	1,082.6	744.5	865.9	71.6	—	—	—	5,171.9
Subtotal	Rs. 274,468.7	Rs. 112,841.5	Rs. 105,813.9	Rs. 153,430.6	Rs. 55,641.9	Rs. 38.9	Rs. —	Rs. —	Rs. 702,235.5
Other retail loans									
Performing	Rs. 2,406.7	Rs. 8,530.0	Rs. 20,090.5	Rs. 45,854.0	Rs. 129,946.8	Rs. 483,241.9	Rs. 576,986.7	Rs. —	Rs. 1,267,056.6
Non-performing	2,626.0	1,214.6	2,082.0	4,710.1	7,442.1	1,534.0	19,975.6	—	39,584.4
Subtotal	Rs. 5,032.7	Rs 9,744.6	Rs. 22,172.5	Rs. 50,564.1	Rs. 137,388.9	Rs. 484,775.9	Rs. 596,962.3	Rs. —	Rs. 1,306,641.0
Total	Rs. 325,017.0	Rs. 223,465.6	Rs. 460,687.0	Rs. 875,535.7	Rs. 1,399,092.4	Rs. 2,258,375.6	Rs. 1,961,778.3	Rs. 324,881.0	Rs. 7,828,832.6
Total	US$ 4,443.8	US$ 3,055.3	US$ 6,298.7	US$ 11,970.7	US$ 19,129.0	US$ 30,877.4	US$ 26,822.2	US$ 4,441.9	US$ 107,039.0

Wholesale Loans

The Bank has in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/non-performing. Wholesale loans that are not non-performing are disclosed as pass or labeled and considered to be performing. Labeled loans are those with evidence of weakness where such exposures indicate deteriorating trends which if not corrected could adversely impact repayment of the obligations. The Bank's model assesses the overall risk over four major categories – industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

The following table provides information on primary credit quality indicator as at March 31, 2021

Credit quality indicators-Internally assigned grade	Term loans by origination year as at March 31, Prior	2017	2018	2019	2020	2021	Revolving Loans	Total
				(In millions)				
Wholesale loans								
Pass	Rs. 3,939.4	Rs. 3,332.3	Rs. 298,631.5	Rs. 324,816.0	Rs. 568,907.1	Rs. 2,007,206.0	Rs. 930,417.0	Rs. 4,137,249.3
Labeled	—	—	7,503.2	10,194.9	2,427.6	4,073.6	13,257.2	37,456.5
Non-performing	445.8	84.3	10,893.1	4,778.7	1,445.3	2,255.7	20,276.6	40,179.5
Total	Rs. 4,385.2	Rs. 3,416.6	Rs. 317,027.8	Rs. 339,789.6	Rs. 572,780.0	Rs. 2,013,535.3	Rs. 963,950.8	Rs. 4,214,885.3
Total	US$ 60.0	US$ 46.7	US$ 4,334.5	US$ 4,645.7	US$ 7,831.3	US$ 27,529.9	US$ 13,179.6	US$ 57,627.7

Non-performing loans by industry as of March 31, 2020 and March 31, 2021 are as follows:

	As of March 31, 2020 (In millions)
Gross non-performing loans by industry:	
—Agri Production—Food	Rs. 22,546.3
—Consumer Loans	21,718.9
—Road Transportation	13,067.6
—Retail Trade	8,823.1
—Food and Beverage	8,137.5
—Others (none greater than 5% of non-performing loans)	83,133.5
Total	Rs. 157,426.9

	As of March 31, 2021 (In millions)	
Gross non-performing loans by industry:		
—Consumer Loans	Rs. 47,028.8	US$ 643.0
—Agri Production—Food	21,028.5	287.5
—Road Transportation	18,344.8	250.8
—Retail Trade	17,242.9	235.8
—Agri Allied	10,829.6	148.1
—Others (none greater than 5% of non-performing loans)	99,307.8	1,357.8
Total	Rs.213,782.4	US$2,923.0

Summary information relating to non-performing loans during the fiscal year ended March 31, 2019, March 31, 2020 and March 31, 2021 is as follows:

	Fiscal year ended March 31, 2019	2020	2021	2021
		(In millions)		
Average non-performing loans, net of allowance	Rs.50,378.2	Rs.55,232.3	Rs.73,435.6	US$1,004.0
Interest income recognized on non-performing loans	Rs. 6,994.7	Rs.10,160.5	Rs. 7,025.3	US$ 96.1

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is dependent on the sale or operation of the underlying collateral. Such loans are carried at fair value based on current values determined by either independent appraisals or internal evaluations, adjusted for selling costs or other amounts to be deducted when estimating expected net sales proceeds. For the period ended March 31, 2021, the Bank did not have collateral dependent loans wherein the borrower is experiencing financial difficulty and the repayment of the loan is dependent on the sale of the underlying collateral

Allowance for credit losses as of March 31, 2019 are as follows:

	As of March 31, 2019									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 3,682.2	Rs. 6,182.6	Rs.18,709.4	Rs. 4,806.1	Rs. 974.4	Rs.12,922.8	Rs.15,323.0	Rs. 42,147.4	Rs. 7,759.3	Rs. 112,507.2
Write-offs	(9,155.3)	(25,197.0)	(6,665.5)	(4,812.8)	(93.3)	(5,652.0)	(1,755.7)	—	—	(53,331.6)
Net allowance for credit losses*	11,642.1	28,708.4	9,551.4	6,551.5	224.1	13,170.7	6,665.9	10,793.7	1,748.6	89,056.4
Allowance for credit losses, end of the period	Rs. 6,169.0	Rs. 9,694.0	Rs.21,595.3	Rs. 6,544.8	Rs.1,105.2	Rs.20,441.5	Rs.20,233.2	Rs. 52,941.1	Rs. 9,507.9	Rs. 148,232.0
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs.20,233.2	Rs. —	Rs. —	Rs. 20,233.2
Allowance collectively evaluated for impairment	6,169.0	9,694.0	21,595.3	6,544.8	1,105.2	20,441.5	—	52,941.1	9,507.9	127,998.8
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	38,153.7	—	—	38,153.7
Loans collectively evaluated for impairment	13,606.7	15,781.5	29,945.0	11,254.9	2,157.1	29,523.6	—	6,135,634.8	2,835,407.3	9,073,310.9

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 16,777.1 million . Recoveries from retail loans is Rs. 16,590.9 million and from wholesale loans is Rs. 186.2 million.

Allowance for credit losses as of March 31, 2020 are as follows:

	As of March 31, 2020									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 6,169.0	Rs. 9,694.0	Rs.21,595.3	Rs. 6,544.8	Rs.1,105.2	Rs. 20,441.5	Rs.20,233.2	Rs. 52,941.1	Rs. 9,507.9	Rs. 148,232.0
Write-offs	(11,524.3)	(41,646.3)	(9,379.0)	(10,838.5)	(130.3)	(12,833.1)	(6,328.1)	—	—	(92,679.6)
Net allowance for credit losses*	13,169.8	40,487.4	9,471.1	15,901.0	439.8	16,508.1	12,521.3	31,088.3	3,694.0	143,280.8
Allowance for credit losses, end of the period	Rs. 7,814.5	Rs. 8,535.1	Rs.21,687.4	Rs. 11,607.3	Rs.1,414.7	Rs. 24,116.5	Rs.26,426.4	Rs. 84,029.4	Rs. 13,201.9	Rs. 198,833.2
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs.26,426.4	Rs.—	Rs.—	Rs. 26,426.4
Allowance collectively evaluated for impairment	7,814.5	8,535.1	21,687.4	11,607.3	1,414.7	24,116.5	—	84,029.4	13,201.9	172,406.8
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	35,423.4	—	—	35,423.4
Loans collectively evaluated for impairment	15,279.2	14,481.7	32,866.3	22,992.2	2,921.3	33,462.8	—	6,918,796.9	3,547,631.8	10,588,432.2

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 25,658.9 million. Recoveries from retail loans is Rs. 22,548.7 million and from wholesale loans is Rs. 3,110.2 million.

The Bank adopted the CECL accounting guidance on April 1, 2020. Allowances for credit losses as of March 31, 2021 are as follows:

	As at March 31, 2021								
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans (In millions)	Other retail	Wholesale	Total	Total
Allowance for credit losses, beginning of the period	Rs. 19,219.0	Rs. 47,097.1	Rs. 32,860.3	Rs. 20,463.4	Rs. 1,700.7	Rs. 37,864.3	Rs. 39,628.4	Rs. 198,833.2	US$ 2,718.7
Impact of Adopting ASC 326	9,880.9	38,091.1	3,947.5	325.5	1,659.5	234.3	26,874.2	81,013.0	1,107.6
Write-offs	(13,263.5)	(61,571.8)	(14,951.6)	(15,921.5)	(190.8)	(9,942.8)	(3,628.7)	(119,470.7)	(1,633.5)
Net allowance for credit losses*	23,559.7	86,464.6	20,432.2	21,489.3	1,408.6	21,073.4	8,725.4	183,153.2	2,504.1
Allowance for credit losses, end of the period	Rs. 39,396.1	Rs. 110,081.0	Rs. 42,288.4	Rs. 26,356.7	Rs. 4,578.0	Rs. 49,229.2	Rs. 71,599.3	Rs. 343,528.7	US$ 4,696.9
Allowance for credit losses:									
Individually evaluated Allowance	Rs. 34.7	Rs. 4.0	Rs. 3,540.7	Rs. 59.6	Rs. —	Rs. 72.1	Rs. 33,222.5	Rs. 36,933.6	US$ 505.0
Collectively evaluated Allowance	39,361.4	110,077.0	38,747.7	26,297.1	4,578.0	49,157.1	38,376.8	306,595.1	4,191.9
Loans:	—	—	—	—	—	—	—		—
Individually evaluated Loans	49.5	4.2	3,560.8	59.7	—	92.7	42,786.8	46,553.7	636.5
Collectively evaluated Loans	964,003.7	2,042,723.0	2,004,285.1	805,270.1	702,235.5	1,306,548.3	4,172,098.5	11,997,164.2	164,030.2

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 28,919.8 million (US$ 395.4 million). Recoveries from retail loans is Rs. 28,605.8 million and from wholesale loans is Rs. 314.0 million.

The allowance for credit losses is assessed at each period end and the increase/(decrease), as the case may be is recorded in the income statement under provision for credit losses net of recoveries against write-offs.

Troubled debt restructuring (TDR)

When the Bank grants a concession, for economic or legal reasons related to a borrower's financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. On restructuring, the loans are re-measured to reflect the impact, if any, on projected cash flows resulting from the modified terms. The impact of the TDR modifications and defaults are factored into the allowance for credit losses on a loan-by-loan basis. Modification may have little or no impact on the allowance established for the loan if there was no forgiveness of the principal and the interest was not decreased. A charge off may be recorded at the time of restructuring if a portion of the loan is deemed to be uncollectible. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan. The following table summarizes the Bank's TDR modifications during the fiscal year ended March 31, 2020. There was no TDR modification during fiscal year ended March 31, 2021

	Fiscal year ended March 31, 2020					
	Carrying value	TDRs involving changes in the amount of principal payments (1)	TDRs involving changes in the amount of interest payments (2)	TDRs involving changes in the amount of both principal and interest payments	Balance of principal forgiven	Net P&L impact (3)
	(In millions)					
Retail Loans:						
Retail business banking	Rs.964.1	Rs. —	Rs. 964.1	Rs. —	Rs. —	Rs. 43.1
Commercial vehicle and construction equipment finance	—	—	—	—	—	—
Wholesale loans	—	—	—	—	—	—
Total (4)	Rs.964.1	Rs. —	Rs. 964.1	Rs. —	Rs. —	Rs. 43.1

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred.
(4) TDR modification during the year ended March 31, 2020 comprised of 13 cases.

There were nil TDRs that have defaulted in the current period within 12 months of their modification date. The defaulted TDRs are based on a payment default definition of 90 days past due.

Interest on loans by facility are as follows:

	Fiscal year ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Wholesale loans	Rs.199,928.0	Rs.245,504.7	Rs. 263,190.7	US$ 3,598.5
Retail loans	627,755.0	736,290.1	753,857.1	10,307.0
Total	Rs.827,683.0	Rs.981,794.8	Rs.1,017,047.8	US$13,905.5

10. Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank manages its credit risk collectively for its loan portfolio and credit substitute securities as these instruments are invested in as part of an overall lending program for corporate customers; accordingly, information on concentrations of credit risk has been provided for these exposures together.

In the case of wholesale loans, while the Bank generally lends on a cash-flow basis, it also requires collateral which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities) from a large number of the Bank's borrowers. The Bank's retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities). Retail business banking loans are secured with current assets as well as immovable property and fixed assets in some cases. However, collateral securing each individual loan may not be adequate in relation to the value of the loan. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts. The maximum estimated loss that would be incurred under severe, hypothetical circumstances, for which the Bank believes the possibility is extremely remote, such as where the value of the Bank's interests and any associated collateral declines to zero, without any consideration of recovery or offset is determined as the carrying values of the instruments as given in the below table.

The Bank's portfolio of loans, credit substitute securities and non-funded exposure (including derivatives) is broadly diversified along industry and product lines, and as of March 31, 2020 and March 31, 2021 the exposures are as set forth below.

	As of March 31, 2020				
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	%
	(In millions, except percentages)				
Consumer Loans	Rs.2,958,437.7	Rs.2,756.6	Rs.446.4	Rs.2,961,640.7	24.3
Retail Trade	533,155.3	343.7	22,820.3	556,319.3	4.6
Power	458,628.1	48,997.7	41,445.6	549,071.4	4.5
Consumer Services	399,046.4	2,015.1	19,135.9	420,197.4	3.4
Engineering	240,196.0	12,255.3	144,296.9	396,748.2	3.2
NBFC	317,450.0	76,860.2	1,659.1	395,969.3	3.2
Road Transportation	376,334.2	495.3	10,849.7	387,679.2	3.2
Automobile & Auto Ancillary	330,632.5	18,397.9	33,037.0	382,067.4	3.1
Real Estate & Property Services	280,870.4	4,309.5	36,335.2	321,515.1	2.6
Agri Production — Food	313,143.6	—	833.3	313,976.9	2.6
Coal & Petroleum Products	136,531.9	33,834.9	115,440.2	285,807.0	2.3
Food and Beverage	260,907.9	1,391.3	21,853.6	284,152.8	2.3
Financial Institutions	219,417.5	59,118.8	2,058.7	280,595.0	2.3
Iron and Steel	231,524.9	1,144.7	45,235.4	277,905.0	2.3
Telecom	232,932.0	10,412.6	29,949.6	273,294.2	2.2
Infrastructure Development	165,578.8	2,457.1	104,731.8	272,767.7	2.2
Business Services	244,028.7	2,278.5	15,953.3	262,260.5	2.1
Wholesale Trade — Non Industrial	238,436.5	—	18,766.1	257,202.6	2.1
Wholesale Trade — Industrial	211,849.6	34.2	34,840.2	246,724.0	2.0
Others (none greater than 2%)	2,474,753.6	85,270.3	525,004.6	3,085,028.5	25.5
Total	Rs.10,623,855.6	Rs.362,373.7	Rs.1,224,692.9	Rs.12,210,922.2	100.0

	As of March 31, 2021					
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	Total	%
	(In millions, except percentages)					
Consumer Loans	Rs.3,241,292.9	Rs.—	Rs.2,578.6	Rs.3,243,871.5	US$ 44,351.5	23.5
Power	630,189.4	76,449.1	30,299.7	736,938.2	10,075.7	5.3
Retail Trade	540,350.3	—	21,747.7	562,098.0	7,685.2	4.1
NBFC	415,787.6	83,596.5	2,789.6	502,173.7	6,865.9	3.6
Financial Institutions	443,257.3	21,147.1	3.7	464,408.1	6,349.6	3.4
Consumer Services	424,765.4	2,048.0	17,743.6	444,557.0	6,078.2	3.2
Automobile & Auto Ancillary	381,562.7	18,556.9	35,757.0	435,876.6	5,959.5	3.2
Coal & Petroleum Products	172,989.4	190,457.8	59,803.5	423,250.7	5,786.9	3.1
Road Transportation	368,388.5	—	8,572.3	376,960.8	5,154.0	2.7
Infrastructure Development	167,416.1	15,879.7	190,154.9	373,450.7	5,106.0	2.7
Food and Beverage	342,573.5	240.4	29,321.5	372,135.4	5,088.0	2.7
Real Estate & Property Services	298,277.1	4,872.2	35,737.9	338,887.2	4,633.4	2.5
Agri Production — Food	337,904.8	—	998.1	338,902.9	4,633.6	2.5
Wholesale Trade — Non Industrial	301,508.2	2,065.6	17,816.8	321,390.6	4,394.2	2.3
Iron and Steel	248,140.2	13,116.6	53,192.5	314,449.3	4,299.3	2.3
Wholesale Trade — Industrial	258,854.1	—	51,891.6	310,745.7	4,248.6	2.3
Textiles & Garments	257,577.9	6,882.2	27,498.8	291,958.9	3,991.8	2.1
Engineering	189,952.7	6,448.4	92,218.6	288,619.7	3,946.1	2.1
Others (none greater than 2%)	3,022,929.8	105,516.4	538,019.5	3,666,465.7	50,129.4	26.4
Total	Rs.12,043,717.9	Rs.547,276.9	Rs.1,216,145.9	Rs.13,807,140.7	US$ 188,776.9	100.0

The Bank's ten largest exposures as of March 31, 2020 and March 31, 2021, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures (including derivatives), are as follows:

	As of March 31, 2020		
	Funded Exposure	Non-Funded Exposure	Total Exposure
		(In millions)	
Borrower 1	Rs.243,382.8	Rs.1,200.0	Rs.244,582.8
Borrower 2	180,100.0	305.1	180,405.1
Borrower 3	163,738.7	610.9	164,349.6
Borrower 4	74,421.4	75,432.2	149,853.6
Borrower 5	135,455.0	—	135,455.0
Borrower 6	31,934.6	55,651.4	87,586.0
Borrower 7	63,228.0	15,355.2	78,583.2
Borrower 8	75,035.9	221.6	75,257.5
Borrower 9	75,027.7	182.8	75,210.5
Borrower 10	51,361.3	22,128.1	73,489.4

	As of March 31, 2021			
	Funded Exposure	Non-Funded Exposure	Total Exposure	Total Exposure
		(In millions)		
Borrower 1	Rs. 302,918.5	Rs. 500.0	Rs. 303,418.5	US$ 4,148.5
Borrower 2	192,080.2	61,446.2	253,526.4	3,466.3
Borrower 3	195,480.0	—	195,480.0	2,672.7
Borrower 4	154,997.8	548.1	155,545.9	2,126.7
Borrower 5	150,000.0	489.2	150,489.2	2,057.5
Borrower 6	148,107.3	—	148,107.3	2,025.0
Borrower 7	3,830.9	100,477.6	104,308.5	1,426.1
Borrower 8	98,919.7	2,000.0	100,919.7	1,379.8
Borrower 9	75,437.8	22,268.4	97,706.2	1,335.9
Borrower 10	90,108.0	—	90,108.0	1,232.0

11. Property and equipment

Property and equipment by asset category is as follows:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Land and premises	Rs.19,567.6	Rs.21,205.2	US$ 289.9
Software and systems	33,433.9	37,134.2	507.7
Equipment and furniture	82,179.1	92,610.9	1,266.2
Property and equipment, at cost	135,180.6	150,950.3	2,063.8
Less: Accumulated depreciation	86,852.9	97,855.9	1,337.9
Property and equipment, net	Rs.48,327.7	Rs.53,094.4	US$ 725.9

Depreciation and amortization charged for the years ended March 31, 2019, March 31, 2020 and March 31, 2021 was Rs. 12,247.8 million, Rs. 12,800.3 million and Rs. 13,860.2 million (US$ 189.5 million), respectively.

12. Goodwill and other intangible assets

Goodwill arising from a business combination is tested at least on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million (US$ 1,024.6 million) for the fiscal year ended March 31, 2020 and the year ended March 31, 2021. The entire amount of goodwill was allocated to the retail business.

The net carrying amount, in total and by class of intangible assets as of March 31, 2020 and March 31, 2021 was nil. The aggregate amortization charged for the years ended March 31, 2019, March 31, 2020 and March 31, 2021 was Rs. 1.0 million, nil and nil, respectively.

13. Other assets

Other assets include the following:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Security deposits for leased property	Rs. 5,410.3	Rs. 5,483.3	US$ 75.0
Sundry accounts receivable	55,379.5	46,755.4	639.3
Advance income tax (net of current tax expense)	25,140.7	33,915.5	463.7
Advances	7,639.3	7,790.4	106.5
Prepaid expenses	1,374.6	1,963.8	26.8
Deposits/Margins paid	15,226.9	12,125.1	165.8
Derivatives (refer to note 23)	190,537.6	84,406.7	1,154.0
Term placements	109,372.8	105,204.8	1,438.4
Receivable on account of trade date	221,960.9	4,928.5	67.4
Right-of-use assets	60,756.9	64,548.8	882.5
Others*	44,552.6	89,850.5	1,228.5
Total	Rs.737,352.1	Rs.456,972.8	US$ 6,247.9

* Others include equity securities with carrying value amounting to Rs. 11,611.2 million and Rs. 20,600.1 million as at March 31, 2020 and March 31, 2021, respectively. Equity securities include non-marketable equity securities carried at cost Rs. 696.9 million and Rs. 999.2 million as at March 31, 2020 and March 31, 2021, respectively. Unrealized gain \ (loss) recognized in non-interest revenue–other, net Rs. (131.1) million and Rs. 7,618.1 million for the fiscal year ended March 31, 2020 and March 31, 2021, respectively.

14. Deposits

Deposits include demand deposits, which are non-interest-bearing, and savings and time deposits, which are interest-bearing. Deposits as of March 31, 2020 and March 31, 2021 were as follows:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Interest-bearing:			
Savings deposits	Rs.3,103,769.5	Rs.4,034,924.8	US$ 55,167.1
Time deposits	6,626,711.8	7,191,543.0	98,325.8
Total interest-bearing deposits	9,730,481.3	11,226,467.8	153,492.9
Non-interest-bearing deposits	1,731,590.0	2,110,762.4	28,859.2
Total	Rs.11,462,071.3	Rs.13,337,230.2	US$182,352.1

As of March 31, 2020 and March 31, 2021, time deposits of Rs. 5,233,225.0 million and Rs. 5,901,654.6 million, respectively, had a residual maturity of one year or less. The remaining deposits mature between one and ten years.

As of March 31, 2020 and March 31, 2021, time deposits in excess of Rs. 0.1 million aggregated Rs. 6,397,698.1 million and Rs. 6,969,220.2 million, respectively.

As of March 31, 2021, the scheduled maturities for total time deposits were as follows:

	As of March 31, 2021	
	(In millions)	
Due to mature in the fiscal year ending March 31:		
2022	Rs.5,901,654.6	US$80,689.8
2023	739,927.7	10,116.6
2024	227,574.0	3,111.5
2025	62,326.9	852.2
2026	205,134.6	2,804.7
Thereafter	54,925.2	751.0
Total	Rs.7,191,543.0	US$98,325.8

15. Short-term borrowings

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2020 and March 31, 2021 comprised of the following:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Borrowed in the call market	Rs. 11,339.8	Rs. 8,860.5	US$ 121.1
Term borrowings from institutions/banks	73,737.9	27,411.6	374.8
Foreign currency borrowings	292,339.9	202,992.0	2,775.4
Total	Rs.377,417.6	Rs.239,264.1	US$3,271.3
Total borrowings outstanding:			
Maximum amount outstanding	Rs.971,364.0	Rs.384,035.9	US$5,250.7
Average amount outstanding	Rs.493,786.9	Rs.223,582.3	US$3,056.9
Weighted average interest rate	3.2%	1.4%	1.4%

16. Long-term debt

Long-term debt as of March 31, 2020 and March 31, 2021 comprised of the following:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Subordinated debt	Rs. 218,755.0	Rs. 211,270.0	US$ 2,888.6
Others*	808,222.0	964,014.9	13,180.4
Less: Debt issuance cost	(458.7)	(526.7)	(7.2)
Total	Rs.1,026,518.3	Rs.1,174,758.2	US$16,061.8

* Includes securities sold under repurchase agreements amounting to Rs. 17,260.0 million with stated interest rate of 5.15% per annum and Rs. 90,200.0 (US$ 1,233.3 million) with stated interest rate of 4.0% per annum for the year ended March 31, 2020 and March 31, 2021, respectively, under RBI long-term repo operation with a three- year maturity period.

The below table presents the balance of long-term debt as of March 31, 2020 and March 31, 2021 and the related contractual rates and maturity dates:

	As of,						
	March 31, 2020			March 31, 2021			
	Maturity / Call dates	Stated interest rates	Total	Maturity / Call dates	Stated interest rates	Total	Total
				(In millions)			
Subordinated debt							
Subordinated debt (other than perpetual debt)	2021-2030	7.56% to 10.20%	Rs. 133,730.8	2022-2031	7.35% to 10.20%	Rs. 126,240.0	US$ 1,726.0
Perpetual debt	2023-2030	8.84% to 9.70%	84,972.7	2023-2030	8.84% to 9.70%	84,976.1	1,161.8
Others*							
Variable rate—(1)	2021-2023	0.80% to 2.87%	59,018.7	2022-2024	0.11% to 1.33%	50,935.8	696.4
Variable rate—(2)	2021-2024	7.50% to 8.95%	118,083.8	2022-2025	5.90% to 7.75%	97,418.0	1,331.9
Fixed rate—(1)	2021-2030	4.15% to 9.56%	630,712.3	2022-2032	2.80% to 9.56%	815,188.3	11,145.7
Total			Rs.1,026,518.3			Rs.1,174,758.2	US$16,061.8

* Variable rate (1) represent foreign currency debt. Variable rate debt is typically indexed to LIBOR, T-bill rates, Marginal cost of funds based lending rates (MCLR), among others.

The scheduled maturities of long-term debt are set out below:

	As of March 31, 2021	
	(In millions)	
Due in the twelve months ending March 31:		
2022	Rs. 98,617.5	US$ 1,348.3
2023	336,114.4	4,595.5
2024	210,475.8	2,877.7
2025	133,798.1	1,829.3
2026	29,748.7	406.7
Thereafter	281,027.6	3,842.3
Total (1)	Rs.1,089,782.1	US$14,899.8

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 84,976.1 million (net of debt issuance cost).

During the fiscal year ended March 31, 2021 the Bank issued subordinated debt amounting to Rs. 3,565.0 million (previous period Rs. 5,435.0 million) and perpetual debt amounting to nil (previous period Rs. 2,000.0 million). During the fiscal year ended March 31, 2021 the Bank also raised other long-term debt amounting to Rs. 478,424.2 million (previous period Rs. 264,669.7 million).

As of March 31, 2020 and March 31, 2021, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 59,392.3 million and Rs. 51,188.9 million, respectively, and functional currency borrowings aggregating to Rs. 748,829.7 million and Rs. 912,826.0 million, respectively.

17. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the amounts set forth below:

	As of March 31, 2020	2021	2021
	(In millions)		
Bills payable	Rs. 75,837.2	Rs.124,241.9	US$1,698.7
Remittances in transit	35,507.3	54,657.2	747.3
Accrued expenses	54,898.3	69,103.2	944.8
Accounts payable	103,386.2	143,827.0	1,966.5
Derivatives (refer to note 23)	184,783.0	81,880.0	1,119.5
Lease liabilities	65,615.1	70,422.0	962.8
Others	91,300.1	86,965.1	1,189.0
Total	Rs.611,327.2	Rs.631,096.4	US$8,628.6

The Bank amortizes annual fees on credit cards over the contractual period of the fees. The unamortized annual fees as of March 31, 2020 and March 31, 2021 was Rs. 786.8 million and Rs. 1,097.4 million (US$ 15.0 million), respectively.

18. Accumulated other comprehensive income

The below table presents the changes in accumulated other comprehensive income (OCI) after income tax for the years ended March 31, 2020 and March 31, 2021.

	Available for sale securities	Foreign currency translation reserve	Total
		(In millions)	
Balance, March 31, 2019	Rs. 10,474.3	Rs. 1,334.5	Rs. 11,808.8
Net unrealized gain/(loss) arising during the period	47,574.2	1,771.7	49,345.9
Amounts reclassified to income	(8,823.1)	—	(8,823.1)
Balance, March 31, 2020	Rs. 49,225.4	Rs. 3,106.2	Rs. 52,331.6
Balance, March 31, 2020	Rs. 49,225.4	Rs. 3,106.2	Rs. 52,331.6
Net unrealized gain/(loss) arising during the period	(740.6)	(1,132.8)	(1,873.4)
Amounts reclassified to income	(23,271.9)	—	(23,271.9)
Balance, March 31, 2021	Rs. 25,212.9	Rs. 1,973.4	Rs. 27,186.3
Balance, March 31, 2021	US$ 344.7	US$ 27.0	US$ 371.7

The below table presents the reclassification out of accumulated other comprehensive income (OCI) by income line item and the related income tax effect for periods ended March 31, 2020 and March 31, 2021.

	As of March 31,		
	2020	2021	2021
		(In millions)	
Available for sale debt securities:			
Realized (gain)/loss on sales of available for sale debt securities, net	Rs.(22,671.3)	Rs.(34,014.8)	US$(465.1)
Allowance on available for sale debt securities	9,109.0	2,915.1	39.9
Total before income tax	Rs.(13,562.3)	Rs.(31,099.7)	US$(425.2)
Income tax	4,739.2	7,827.8	107.0
Net of income tax	Rs. (8,823.1)	Rs.(23,271.9)	US$(318.2)

19. Non-interest revenue

Revenue Recognition

Deposit related fees

Deposit-related fees consist of fees earned on consumer deposit activities and are generally recognized when the transaction occurs or as the service is performed. Consumer fees are earned on consumer deposit accounts for account maintenance and various transaction-based services, such as ATM transactions, wire transfer activities, check and money order processing, standing instruction processing, cash management services, etc.

Lending related fees

Lending-related fees generally represent transactional fees earned from certain loan related services, guarantees and letters of credit (LCs).

Third-party products related fees

Third-party products related fees consist of fees earned from distribution of third party products such as insurance and mutual funds.

Payments and cards business fees

Payments and cards business fees include fees earned from merchant acquiring business and on Credit, Debit, Prepaid or Forex cards, among others. Cards business income includes annual and renewal fees, late and over-limit fees, currency conversion fees, as well as fees earned from interchange, cash advances and other miscellaneous transactions fees. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit and debit cards based on the corresponding payment network’s rates. Substantially all cards business related fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over 12 months. Payments business fees includes fees earned from merchants net of interchange expenses paid to issuing banks, rentals from point of sale machines and merchant service charges.

The table below presents the fees and commissions disaggregated by revenue source for the fiscal years ended March 31, 2019, March 31, 2020 and March 31, 2021.

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Deposit related fees	Rs. 25,383.0	Rs. 29,031.9	Rs. 28,150.4	US$ 384.9
Lending related fees	30,176.2	30,699.9	30,973.1	423.5
Third-party products related fees	22,000.4	28,169.6	35,733.0	488.6
Payments and cards business fees	47,012.4	58,899.3	50,758.2	694.0
Others	9,583.2	13,298.8	19,795.7	270.6
Fees and commissions	Rs.134,155.2	Rs.160,099.5	Rs.165,410.4	US$2,261.6

The table below presents the fees and commission disaggregated by segment for the fiscal years ended March 31, 2019, March 31, 2020 and March 31, 2021.

	Fiscal year ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Retail Banking	Rs.123,070.6	Rs.146,855.7	Rs.153,018.2	US$2,092.1
Wholesale Banking	10,839.6	13,041.6	11,712.7	160.1
Treasury Services	245.0	202.2	679.5	9.4
Fees and commissions	Rs.134,155.2	Rs.160,099.5	Rs.165,410.4	US$2,261.6

20. Income taxes

Income tax expense is comprised of the following:

	Fiscal year ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Current tax expense	Rs.128,050.2	Rs.105,587.8	Rs.122,087.4	US$1,669.1
Deferred tax (benefit) expense	(8,129.4)	(101.2)	(8,267.3)	(112.9)
Interest on income tax refund	(527.3)	(6.6)	—	—
Income tax expense	Rs.119,393.5	Rs.105,480.0	Rs.113,820.1	US$1,556.2

Income tax expense (benefit) as at March 31, 2021 was recorded (i) in retained earnings for the tax effect of ASU 2016-13 for current expected credit losses (CECL) Rs. (21,016.0) million, (ii) in other comprehensive income Rs. (8,457.8) million.

Income before income tax expense and income tax expense are substantially all from India.

On December 12, 2019, the India Taxation Laws (Amendment) Act, 2019, was promulgated, which provided domestic companies with an option to pay income tax at the rate of 22 percent (previously 30 percent), provided they do not claim certain deductions under the Income Tax Act with effect from the financial year 2019-20. The bank elected to be subject to the 22 percent rate (25.17% including surcharge and education cess).The Bank has accounted for the effect of this change in the income tax rate during the year ended March 31, 2020 using reasonable estimates based on information available at the time and its interpretations of the law thereof, effective from financial year 2019-20.

The following is a reconciliation of income taxes at the Indian statutory income tax rate to income tax expense as reported:

	Fiscal year ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Income before income tax expense	Rs.339,959.0	Rs.365,844.0	Rs.439,826.5	US$6,013.6
Statutory income tax rate	34.94%	25.17%	25.17%	25.17%
Expected income tax expense	118,795.3	92,075.6	110,695.5	1,513.5
Adjustments to reconcile expected income tax to actual tax expense				
Interest on income tax refund	(343.0)	(4.9)	—	—
Stock based compensation	1,867.2	1,881.6	2,668.7	36.5
Income exempt from taxes	(1,422.8)	(744.2)	(62.3)	(0.9)
Effect of change in statutory income tax rate	—	11,213.2	—	—
Others, net	496.8	1,058.7	518.2	7.1
Income tax expense	Rs.119,393.5	Rs.105,480.0	Rs.113,820.1	US$1,556.2

The tax effects of significant temporary differences are as follows:

	As of March 31,		
	2020	2021	2021
	(In millions)		
Tax effect of:			
Deductible temporary differences:			
Allowance for loan losses	Rs.37,561.2	Rs.67,584.1	US$ 924.0
Lease liabilities	16,514.0	17,723.8	242.3
Employee benefits	1,415.0	752.3	10.3
Accrued expenses and other liabilities	3,381.2	4,997.1	68.3
Others	1,769.4	1,904.4	26.1
Deferred tax asset	60,640.8	92,961.7	1,271.0
Taxable temporary differences:			
Right-of-use assets	16,514.0	17,723.8	242.3
Investments available for sale debt securities	16,644.6	8,567.9	117.1
Loan origination cost and fees	3,373.3	3,456.0	47.3
Investments, others	1,510.2	2,874.2	39.3
Deferred tax liability	38,042.1	32,621.9	446.0
Net deferred tax asset (liability)	Rs.22,598.7	Rs.60,339.8	US$ 825.0

Management believes that the realization of the recognized deferred tax assets is more likely than not and the realization is based on a combination of reversing taxable temporary differences and expectations as to future pretax income.

The total unrecognized tax benefit as of March 31, 2020 and March 31, 2021 is Rs. 37,103.2 million and Rs. 43,048.0 million, respectively. The major income tax jurisdiction for the Bank is India. The open tax years (first assessment by the tax authorities) is pending from fiscal 2019 onwards. However, appeals filed by the Bank are pending with various local tax authorities in India for earlier tax years.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	Fiscal year ended March 31,		
	2020	2021	2021
		(In millions)	
Opening balance	Rs.14,448.1	Rs.37,103.2	US$507.3
Decrease related to prior year tax positions	—	(221.5)	(3.0)
Increase related to prior year tax positions	16,274.4	892.8	12.2
Increase related to current year tax positions	Rs. 6,380.7	Rs. 5,273.5	US$ 72.1
Closing balance	Rs.37,103.2	Rs.43,048.0	US$588.6

The Bank's total unrecognized tax benefits, if recognized, would reduce the income tax expense by Rs. 37,103.2 million and Rs. 43,048.0 million as of March 31, 2020 and March 31, 2021, respectively, and thereby would affect the Bank's effective tax rate. Unrecognized tax benefits are unrecognized refund claims.

Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax examinations with various tax authorities.

21. Stock-based compensation

By way of an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of the Bank's equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

The stock-based compensation plans of the Bank are as follows:

Employees Stock Option Scheme(ESOP):

The shareholders of the Bank approved in January 2000 Plan "A", in June 2003 Plan "B", in June 2005 Plan "C", in June 2007 Plan "D", in June 2010 Plan "E", in June 2013 Plan "F", in July 2016 Plan "G" of the Employees' Stock Option Scheme (the "Plan"). The Bank reserved 100.0 million equity shares, with an aggregate nominal value of Rs.100.0 million, for issuance under each Plan "A", "B" and "C". Under Plan "D" the Bank reserved 150.0 million equity shares with an aggregate nominal value of Rs.150.0 million. The Bank reserved 200.0 million equity shares with an aggregate nominal value of Rs. 200.0 million, for issuance under each Plan "E", "F" and "G". Under the terms of each of these Plans, the Bank may issue stock options to employees and whole time directors of the Bank, each of which is convertible into one equity share.

Plan A provides for the issuance of options at the recommendation of the Nomination and Remuneration Committee of the Board (the "NRC") at an average of the daily closing prices on the BSE Limited during the 60 days preceding the date of grant of options, which was the minimum prescribed option price under regulations then issued by the Securities and Exchange Board of India ("SEBI"). Presently, there are no stock options issued and outstanding under Plan A.

Plan B, Plan C, Plan D, Plan E, Plan F and Plan G provide for the issuance of options at the recommendation of the NRC 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, Plan E, Plan F and Plan G, the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant. Presently, there are no stock options issued and outstanding under Plan B.

Such options vest at the discretion of the NRC. These options are exercisable for a period following vesting at the discretion of the NRC, subject to a maximum of five years, as set forth at the time of the grant.

On August 3, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 578,000 options (Scheme XXXII) to the employees of the Bank. On October 19, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 46,175,200 options (Scheme XXXIII) to the employees of the Bank. On March 21, 2020 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 1,020,400 options (Scheme XXXIV) to the employees of the Bank. On October 20, 2020 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 57,466,600 options (Scheme XXXV) to the employees of the Bank.

Modification of employee stock option schemes

During the periods ended March 31, 2019, March 31, 2020 and March 31, 2021, there were no modifications to employee stock option schemes.

Assumptions used

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	Years ended March 31,		
	2019	2020	2021
Dividend yield	0.62%-0.65%	0.61%-0.85%	0.61%
Expected volatility	14.53%-18.68%	15.30%-20.13%	20.13%-28.93%
Risk-free interest rate	7.23%-8.31%	5.81%-6.70%	4.63%-5.75%
Expected term (in years)	2.78-5.16	2.82-5.42	2.65-5.43

The Bank recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instruments' grant-date fair value, reduced by expected forfeitures. Ultimately, the compensation cost for all awards that vest is recognized.

Activity and other details

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	Number of options available to be granted year ending March 31,		
	2019	2020	2021
Options available to be granted, beginning of period	235,683,200	202,413,370	159,487,350
Equity shares allocated for grant under the plan	—	—	—
Options granted	(39,790,000)	(47,773,600)	(57,466,600)
Forfeited/lapsed	6,520,170	4,847,580	2,673,420
Options available to be granted, end of period	202,413,370	159,487,350	104,694,170

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	Years ended March 31,					
	2019		2020		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Options outstanding, beginning of period	150,887,600	Rs. 525.11	136,612,822	Rs. 682.99	142,865,602	Rs. 899.03
Granted	39,790,000	1,030.24	47,773,600	1,220.13	57,466,600	1,235.80
Exercised	(47,544,608)	462.89	(36,673,240)	504.10	(29,490,022)	596.85
Forfeited	(6,410,770)	759.21	(4,813,580)	965.64	(2,032,110)	1,163.29
Lapsed	(109,400)	418.55	(34,000)	568.10	(641,310)	929.57
Options outstanding, end of period	136,612,822	Rs. 682.99	142,865,602	Rs. 899.03	168,168,760	Rs.1,063.79
Options exercisable, end of period	80,609,722	Rs. 508.89	64,464,392	Rs. 638.18	64,453,260	Rs. 834.48
Weighted average fair value of options granted during the year		Rs. 262.79		Rs. 305.78		Rs. 320.42

The following summarizes information about stock options outstanding as of March 31, 2021:

		As of March 31, 2021		
Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life (years)	Weighted average exercise price
Plan C	Rs.417.75 (or US$ 5.71)	9,700	0.32	417.75
Plan F	Rs.417.75 to Rs. 731.08 (or US$ 5.71 to US$ 10.00)	34,974,270	1.48	610.67
Plan G	Rs.882.85 to Rs. 1,235.80 (or US$ 12.07 to US$ 16.90)	133,184,790	3.18	1,182.83

The intrinsic value, of options exercised during the years ended March 31, 2019, March 31, 2020 and March 31, 2021 at grant date was nil, nil and nil, respectively, and at exercise date was Rs. 33,117.4 million, Rs. 13,339.6 million and Rs. 26,446.8 million, respectively. The aggregate intrinsic value as of grant date and as at March 31, 2021 attributable to options which are outstanding as on March 31, 2021 was Rs. 0.5 million (previous year Rs. 0.5 million) and Rs. 72,288.5 million (previous year Rs. 17,418.0 million), respectively. The aggregate intrinsic value as at grant date and as at March 31, 2021 attributable to options exercisable as on March 31, 2021 was Rs. 0.5 million (previous year 0.4 million) and was Rs. 42,485.6 million (previous year Rs. 16,291.8 million), respectively. Total stock compensation cost recognized under these plans was Rs. 5,343.3 million, Rs. 7,476.1 million and Rs. 10,603.5 million during the years ended March 31, 2019, March 31, 2020 and March 31, 2021, respectively. However, no income tax benefit is recognized with respect to the said stock compensation costs. As of March 31, 2021, there were 103,715,500 (previous year 78,401,210) unvested options with weighted average exercise price of Rs. 1,206.3 (previous year Rs. 1,113.5) and aggregate intrinsic value at grant date and as at March 31, 2021 was nil (previous year Rs. 0.2 million) and Rs. 29,802.9 million (previous year Rs. 1,126.2 million), respectively. As at March 31, 2021, the total estimated compensation cost to be recognized in future periods was Rs. 19,066.4 million. This is expected to be recognized over a weighted average period of 1.21 years.

22. Retirement benefits

Gratuity

In accordance with Indian law, the Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement, resignation, death while in employment or on termination of employment in an amount equivalent to 15 days' eligible salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by said insurance companies, and in respect of certain employees, the Bank makes contributions to a fund set up for the purpose and administered by the board of trustees. The contributions are invested in specific designated instruments as permitted by Indian law. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on an actuarial valuation done on March 31 of every year.

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Bank's financial statements as of March 31, 2020 and March 31, 2021:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 6,653.5	Rs. 7,883.0	US$ 107.8
Service cost	965.4	1,107.0	15.1
Interest cost	483.3	561.6	7.7
Actuarial(gains)/ losses	368.9	759.4	10.4
Benefits paid	(588.1)	(491.4)	(6.7)
Projected benefit obligation, end of the period	7,883.0	9,819.6	134.3
Change in plan assets:			
Fair value of plan assets, beginning of the period	5,501.8	5,779.8	79.1
Expected return on plan assets	389.9	448.4	6.1
Actuarial gains/(losses)	(620.5)	1,223.0	16.7
Actual return on plan assets	(230.6)	1671.4	22.80
Employer contributions	1,096.7	1384.8	18.9
Benefits paid	(588.1)	(491.4)	(6.7)
Fair value of plan assets, end of the period	5,779.8	8,344.6	114.10
Funded Status	Rs. (2,103.2)	Rs. (1,475.0)	US$ (20.2)

The Bank's expected contribution to the gratuity fund for the next fiscal year is estimated at Rs. 1,925.6 million. The accumulated benefit obligation as of March 31, 2020 and March 31, 2021 was Rs. 5,005.9 million and Rs. 5,455.6 million, respectively. The vested accumulated benefit obligation as on March 31, 2020 and March 31, 2021 was Rs. 4,381.2 million and Rs. 4,727.7 million, respectively.

Net gratuity cost for the years ended March 31, 2019, March 31, 2020 and March 31, 2021 was comprised of the following components:

	Fiscal years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Service cost	Rs. 820.6	Rs. 965.4	Rs. 1,107.0	US$ 15.1
Interest cost	476.7	483.3	561.6	7.7
Expected return on plan assets	(347.4)	(389.9)	(448.4)	(6.1)
Actuarial (gains)/losses	(176.6)	989.4	(463.6)	(6.3)
Net gratuity cost	Rs. 773.3	Rs. 2,048.2	Rs. 756.6	US$ 10.4

The assumptions used in accounting for the gratuity plan are set out below:

	Fiscal years ended March 31,		
	2019	2020	2021
	(% per annum)		
Discount rate*	7.2-8.4	6.0-7.5	4.4-7.0
Rate of increase in compensation levels of covered employees	5.0-9.0	7.0-8.0	5.0-9.0
Rate of return on plan assets	7.0-7.2	6.0-7.0	4.4-7.0
Mortality rates used are based on the published "Indian Assured Lives Mortality (2012-2014) Ultimate" table			

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The rate of return on plan assets is based on historical returns, the current market conditions, anticipated future assets allocation and expected future returns. The rate of return on plan assets represents a long-term average view of the expected return.

The following benefit payments, which includes benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2022	Rs. 1,271.4
2023	1,058.3
2024	927.5
2025	837.2
2026	746.1
2027 - 2031	3,017.0

The expected benefit payments are based on the same assumptions used to measure the Bank's benefit obligations as of March 31, 2021.

The gratuity contributions of the Bank which are administered by a trust set up for the purpose are managed by two insurance companies and in respect of certain employees the funds are invested by the trust set up for the said purpose. The overall asset allocation of the gratuity fund by the two insurance companies is structured so as to provide stable earnings while still allowing for potentially higher returns through an investment in equity securities. As at March 31, 2021, the plan assets as a percentage of the total funds were as follows:

	As of March 31, 2021		
	Funds managed by insurance company (1)*	Funds managed by insurance company (2)*	Funds managed by trust
Government securities	79.5%	22.7%	36.5%
Debenture and bonds	14.0%	26.2%	51.9%
Equity securities	5.7%	46.1%	—
Other	0.8%	5.0%	11.6%
Total	100.0%	100.0%	100.0%

* *The data pertaining to plan investment assets measured at fair value by level and total at March 31, 2021 are provided separately.*

Pension

In respect of pensions payable to certain erstwhile CBoP employees, which are payable pursuant to a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on an actuarial valuation at the balance sheet date conducted by an independent actuary. In respect of employees who have moved to a cost to company (CTC) driven compensation structure and have completed services up to 15 years as on the date of movement to a CTC driven compensation structure, any contribution made until such date, and any additional one-time contribution made for employees (who have completed more than 10 years but less than 15 years) stand frozen and will be converted into an annuity on separation after a lock-in-period of two years. Hence for this category of employees, liability stands frozen and no additional provision is required except for interest, if any. In respect of employees who accepted the offer and have completed services for more than 15 years, the pension would be paid based on the employee’s salary as of the date of movement to a CTC driven compensation structure and a provision is made based on an actuarial valuation at the balance sheet date conducted by an independent actuary.

The following table sets out the funded status of the pension plan and the amounts recognized in the Bank's financial statements as of March 31, 2020 and March 31, 2021:

	As of March 31,		
	2020	2021	2021
	(In millions)		
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 677.6	Rs. 598.2	US$ 8.2
Service cost	6.5	14.6	0.2
Interest cost	45.3	37.7	0.5
Actuarial (gains)/losses	15.3	327.9	4.5
Benefits paid	(146.5)	(116.4)	(1.6)
Projected benefit obligation, end of the period	598.2	862.0	11.8
Change in plan assets:			
Fair value of plan assets, beginning of the period	219.5	95.2	1.3
Expected return on plan assets	11.0	3.2	—
Actuarial gains/(losses)	2.9	(1.7)	—
Actual return on plan assets	13.9	1.5	—
Employer contributions	8.3	23.0	0.3
Benefits paid	(146.5)	(116.4)	(1.6)
Fair value of plan assets, end of the period	95.2	3.3	—
Funded Status	Rs.(503.0)	Rs.(858.7)	US$ (11.8)

The Bank's expected contribution to the pension fund for the next fiscal year is estimated at Rs. 227.2 million. The accumulated benefit obligation as of March 31, 2020 and March 31, 2021 was Rs. 387.0 million and Rs. 364.2 million, respectively. The vested accumulated benefit obligation as of March 31, 2020 and March 31, 2021 was Rs. 241.3 million and Rs. 362.9 million, respectively.

Net pension cost for the years ended March 31, 2018, March 31, 2019 and March 31, 2020 was comprised of the following components:

	As of March 31,			
	2019	2020	2021	2021
	(In millions)			
Service cost	Rs. 7.7	Rs. 6.5	Rs. 14.6	US$ 0.20
Interest cost	66.3	45.3	37.7	0.50
Expected return on plan assets	(18.6)	(11.0)	(3.2)	—
Actuarial (gains)/losses	1.7	12.4	329.6	4.50
Net pension cost	Rs. 57.1	Rs. 53.2	Rs. 378.7	US$ 5.2

The assumptions used in accounting for the pension plan are set out below:

	Fiscal years ended March 31,		
	2019	2020	2021
		(% per annum)	
Discount rate*	8.4	7.5	7.0
Rate of increase in compensation levels of covered employees	8.0	7.0	7.0
Rate of return on plan assets	7.0	7.0	6.5
Mortality rates used are based on the published “Indian Assured Lives Mortality (2012-2014) Ultimate” table			

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The following benefit payments, which include benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2022	Rs. 227.7
2023	94.1
2024	147.8
2025	126.6
2026	42.4
2027-2031	625.6

The expected benefits are based on the same assumptions used to measure the Bank’s benefit obligations as of March 31, 2021.

The retirement funds of a section of the employees are managed by a trust set up for the purpose. The trust essentially manages the defined retirement benefit plans belonging to certain employees. The funds are mainly invested in government securities and other corporate bonds. The weighted-average asset allocation of the said plan assets for the pension benefits as at March 31, 2021 is as follows:

Asset category	Funds managed by trust
Government securities	54.5%
Debenture and bonds	45.5%
Other	— %
Total	100.0%

For information on fair value measurements, including descriptions of Levels 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by the Bank, see note 30 – Fair value measurements.

Plan investment assets for gratuity funds and the pension fund measured at fair value by level and in total as of March 31, 2020 and March 31, 2021 are summarized in the table below.

	As of March 31, 2020			As of March 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
			(In millions)			
Funds managed by insurance company (1)	Rs. —	Rs. —	Rs. 600.2	Rs. —	Rs. —	Rs. 664.1
Funds managed by insurance company (2)	—	4,937.3	—	—	7,445.5	—
Funds managed by trust						
— Government securities	—	110.8	—	—	87.6	—
— Debenture and bonds	—	108.7	—	—	123.5	—
— Others	118.0	—	—	27.2	—	—
Total	Rs. 118.0	Rs. 5,156.8	Rs. 600.2	Rs. 27.2	Rs. 7,656.6	Rs. 664.1
				US$ 0.4	US$ 104.7	US$ 9.1

The table below presents a reconciliation of all Plan investment assets measured at fair value using significant unobservable inputs (Level 3) during fiscal 2020 and 2021.

	Funds managed by Insurance companies as of March 31,		
	2020	2021	2021
		(In millions)	
Particulars			
Opening balance	Rs. 625.0	Rs. 600.2	US$ 8.2
Realized interest credited to fund	48.0	60.5	0.9
Contribution during the period	89.5	104.5	1.4
Amount paid towards claim	(162.3)	(101.1)	(1.4)
Closing balance	Rs. 600.2	Rs. 664.1	US$ 9.1

Superannuation

Eligible employees of the Bank are entitled to receive retirement benefits under the Bank's superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee's eligible annual salary (15% for the Managing Director, Executive Directors and for certain employees of CBoP) to the insurance companies in India, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred. The Bank incurred Rs. 1,034.1 million, Rs. 1,269.9 million and Rs. 1,513.7 million towards superannuation expense for the years ended March 31, 2019, March 31, 2020 and March 31, 2021, respectively.

Provident fund

In accordance with Indian law, eligible employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of an employee's eligible salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that out of the employer's contribution, an amount equal to 8.33% of the lower of employee's monthly eligible salary or Rs. 0.015 million, is contributed by the Bank to the Pension Scheme administered by the Regional Provident Fund Commissioner. Employees are credited with interest, which is subject to a government specified minimum rate. The Bank has no liability for future provident fund benefits other than its annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund's assets, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 3,312.1 million, Rs. 4,901.4 million and Rs. 5,429.6 million to the Provident Fund Trust and Regional Provident Fund Commissioner for the years ended March 31, 2019, March 31, 2020 and March 31, 2021, respectively. The Hon'ble Supreme Court of India issued an order dated February 28, 2019 relating to employer's contribution to the provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Based on external legal opinion, the Bank has concluded the abovementioned order is applicable prospectively and hence it is not probable that there will be an outflow of resources in relation to past periods. From April 1, 2019, the employer's contribution by the Bank to the provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952was made in accordance with the terms of the said order.

National Pension Scheme

In respect of employees who opt for contribution to the National Pension Scheme, the Bank contributes a certain percentage of the basic salary of employees to the aforesaid scheme, a defined contribution plan, which is managed and administered by pension fund management companies. The Bank has no liability other than its contribution, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 37.9 million and Rs. 46.3 million to the National Pension Scheme for the fiscal years ended March 31, 2020 and March 31, 2021, respectively.

Compensated absences

The Bank has provided for unutilized leave balances as on March 31, 2021 standing to the credit of each employee on an actuarial valuation conducted by an independent actuary.

23. Financial instruments

Foreign exchange and derivative contracts

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating rate interest cash flows. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

The Bank uses its pricing models to determine fair values of its derivative financial instruments. The Bank records credit risk valuation adjustments on derivative financial instruments in order to reflect the credit quality of the counterparties and its own credit quality. The Bank calculates valuation adjustments on derivatives based on observable market credit risk spreads.

The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and other derivative contracts as of March 31, 2020 and March 31, 2021, together with the fair values on each reporting date.

	As of March 31, 2020			
	Notional	Gross Assets	Gross Liabilities	Net Fair Value
Interest rate derivatives	Rs. 3,644,495.8	Rs. 49,876.8	Rs. 51,976.9	Rs. (2,100.1)
Forward rate agreements	—	—	—	—
Currency options	304,252.4	3,034.4	4,342.0	(1,307.6)
Currency swaps	202,725.6	12,396.0	6,592.1	5,803.9
Forward exchange contracts	6,079,195.0	125,230.4	121,872.0	3,358.4
Total	Rs. 10,230,668.8	Rs. 190,537.6	Rs. 184,783.0	Rs. 5,754.6

	As of March 31, 2021					
	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
	(In millions)					
Interest rate derivatives	Rs. 3,155,410.2	Rs. 32,217.2	Rs. 33,894.0	Rs. (1,676.8)	US$ 43,142.1	US$ (22.9)
Forward rate agreements	20,887.8	270.0	64.1	205.9	285.6	2.8
Currency options	202,402.7	1,078.7	1,510.7	(432.0)	2,767.3	(5.9)
Currency swaps	237,081.5	8,126.4	4,940.8	3,185.6	3,241.5	43.6
Forward exchange contracts	4,964,726.6	42,714.4	41,470.4	1,244.0	67,879.8	16.9
Total	Rs. 8,580,508.8	Rs. 84,406.7	Rs. 81,880.0	Rs. 2,526.7	US$ 117,316.3	US$ 34.5

The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in net income. The gross assets and the gross liabilities are recorded in 'other assets' and 'accrued expenses and other liabilities', respectively.

The following table summarizes certain information related to derivative amounts recognized in income:

	Non-interest revenue, net – Derivatives for the years ended March 31,			
	2019	2020	2021	2021
	(In millions)			
Interest rate derivatives	Rs. 736.4	Rs. (2,572.2)	Rs. 773.9	US$ 10.6
Forward rate agreements	0.1	—	205.9	2.8
Currency options	(262.5)	585.5	1,191.1	16.2
Currency swaps	1,045.0	3,465.5	(3,309.2)	(45.2)
Forward exchange contracts	10,890.1	2,071.2	(2,114.7)	(28.9)
Total gains/(losses)	Rs. 12,409.1	Rs. 3,550.0	Rs. (3,253.0)	US$ (44.5)

Offsetting

The following table shows the impact of netting arrangements on derivative financial instruments, repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements, but are not offset in accordance with ASC 210-20-45 and ASC 815-10-45.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements or similar agreements with substantially all of the Bank's foreign exchange and derivative contract counterparties. These master netting agreements, give the Bank, in the event of default by the counterparty, the right to liquidate collaterals held or placed and to offset receivables and payables with the same counterparty. In the table below the Bank has presented the gross derivative assets and liabilities adjusted for the effects of master netting agreements and collaterals received or pledged.

Transactions with counterparties for Securities sold under agreements to repurchase ("repos") and securities purchased under agreements to resell ("reverse repos") are settled through the Clearing Corporation of India Limited ("CCIL"), a centralized clearing house. Collaterals received or pledged comprise of highly liquid investments. For undertaking the above transactions, power of attorney is executed by the Bank and the counterparties in favor of CCIL to liquidate the securities pledged in the event of default.

	As of March 31, 2020					
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount
	(In millions)					
Financial assets						
Derivative assets	Rs. 190,537.6	Rs. —	Rs. 190,537.6	Rs. 147,844.5	Rs. 8,326.7	Rs. 34,366.4
Securities purchased under agreements to resell	250,000.0	—	250,000.0	—	250,000.0	—
Financial liabilities						
Derivative liabilities	Rs. 184,783.0	Rs. —	Rs. 184,783.0	Rs. 147,844.5	Rs. 6,706.7	Rs. 30,231.8
Securities sold under repurchase agreements	507,982.0	—	507,982.0	—	507,982.0	—
Long Term debt	17,260.0	—	17,260.0	—	17,260.0	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

	As of March 31, 2021						
	Amounts subject to enforceable netting arrangements						
	Effects of offsetting on balance sheet			Related amounts not offset			
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount	
	(In millions)						
Financial assets							
Derivative assets	Rs. 84,406.7	Rs. —	Rs. 84,406.7	Rs. 55,002.7	Rs. 4,065.5	Rs. 25,338.5	US$ 346.4
Securities purchased under agreements to resell	270,060.0	—	270,060.0	—	270,060.0	—	—
Financial liabilities							
Derivative liabilities	Rs. 81,880.0	Rs. —	Rs. 81,880.0	Rs. 55,002.7	Rs. 4,816.3	Rs. 22,061.0	US$ 301.6
Securities sold under repurchase agreements	356,059.2	—	356,059.2	—	356,059.2	—	—
Long Term debt	90,200.0	—	90,200.0	—	90200.0	—	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

Guarantees

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third-party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third-party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the Bank is normally in line with requirements on case-by-case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and currently outstanding ranges from 1 day to 24.6 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

In accordance with FASB ASC 460-10 the Bank has recognized a liability of Rs. 4,191.9 million as of March 31, 2020 and of Rs. 5,500.7 million as at March 31, 2021, in respect of guarantees issued or modified.

Details of guarantees and documentary credits outstanding are set out below:

	As of March 31,		
	2020	2021	2021
		(In millions)	
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs. 263,758.0	Rs. 334,040.8	US$ 4,567.1
Performance guarantees	330,164.6	421,162.2	5,758.3
Documentary credits	440,232.7	376,536.2	5,148.2
Total	Rs. 1,034,155.3	Rs. 1,131,739.2	US$ 15,473.6
Estimated fair values:			
Guarantees	Rs. (4,191.9)	Rs. (5,500.7)	US$ (75.2)
Documentary credits	(488.8)	(543.4)	(7.4)
Total	Rs. (4,680.7)	Rs. (6,044.1)	US$ (82.6)

As part of its risk management activities, the Bank continuously monitors the creditworthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss. Margins in the form of cash and fixed deposit available to the Bank to reimburse losses realized under guarantees amounted to Rs. 130.5 billion and Rs. 121.2 billion as of March 31, 2020 and March 31, 2021, respectively. Other property or security may also be available to the Bank to cover losses under these guarantees.

Undrawn commitments

The Bank has outstanding undrawn commitments to provide loans and financing to customers. These commitments aggregated to Rs. 539.8 billion and Rs. 628.3 billion (US$ 8.6 billion) as of March 31, 2020 and March 31, 2021, respectively. Among other things, the making of a loan is subject to a review of the creditworthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. Further, the Bank has unconditional cancellable commitments aggregating to Rs. 3,806.2 billion and Rs. 4,826.7 billion (US$ 66.0 billion) as of March 31, 2020 and March 31, 2021, respectively.

The allowance for Credit Losses included in accrued expenses and other liabilities on Off-Balance sheet credit exposures and undrawn commitments is as follows:

	As of March 31, 2021
	(In millions)
Allowance for credit losses, beginning of the period	Rs. 3,226.8
Impact of Adoption of ASC 326	2,296.6
Provision for credit exposures	58.1
Allowance for credit losses, end of the period	Rs. 5,581.5

24. Estimated fair value of financial instruments

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2020 and March 31, 2021. The estimated fair value amounts as of March 31, 2020 and March 31, 2021 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

A comparison of the fair values and carrying values of financial instruments is set out below:

	As of											
	March 31, 2020					March 31, 2021						
		Estimated Fair Value					Estimated Fair Value					
	Carrying Value	Level 1	Level 2	Level 3	Total	Carrying Value (In millions)	Level 1	Level 2	Level 3	Total	Carrying Value	Estimated Fair Value
Financial Assets:												
Cash and due from banks, and restricted cash	Rs. 611,961.0	Rs. 611,961.0	Rs. —	Rs. —	Rs. 611,961.0	Rs. 930,694.7	Rs. 930,694.7	Rs. —	Rs. —	Rs. 930,694.7	US$ 12,724.8	US$ 12,724.8
Investments held for trading	304,962.9	6,291.0	298,671.9	—	304,962.9	99,620.2	—	99,620.2	—	99,620.2	1,362.0	1,362.0
Investments available for sale debt securities	3,406,289.2	371,450.5	2,907,384.4	127,454.3	3,406,289.2	4,275,449.9	176,015.8	3,938,270.2	161,163.9	4,275,449.9	58,455.7	58,455.7
Securities purchased under agreements to resell	250,000.0	—	250,000.0	—	250,000.0	270,060.0	—	270,060.0	—	270,060.0	3,692.4	3,692.4
Loans	10,425,022.4	—	2,593,022.1	7,936,633.4	10,529,655.5	11,700,189.2	—	2,807,875.9	9,066,940.1	11,874,816.0	159,969.8	162,357.3
Accrued interest receivable	103,035.9	—	103,035.9	—	103,035.9	118,762.9	—	118,762.9	—	118,762.9	1,623.8	1,623.8
Other assets	641,605.5	2,282.4	637,594.1	—	639,876.5	320,187.5	11,869.8	306,640.9	—	318,510.7	4,377.7	4,354.8
Financial Liabilities:				—					—			
Interest-bearing deposits	9,730,481.3	—	9,786,793.2	—	9,786,793.2	11,226,467.8	—	11,282,540.2	—	11,282,540.2	153,492.9	154,259.5
Non-interest-bearing deposits	1,731,590.0	—	1,731,590.0	—	1,731,590.0	2,110,762.4	—	2,110,762.4	—	2,110,762.4	28,859.2	28,859.2
Securities sold under repurchase agreements	507,982.0	—	507,982.0	—	507,982.0	356,059.2	—	356,059.2	—	356,059.2	4,868.2	4,868.2
Short-term borrowings	377,417.6	—	378,027.9	—	378,027.9	239,264.1	—	238,700.3	—	238,700.3	3,271.3	3,263.6
Accrued interest payable	80,078.9	—	80,078.9	—	80,078.9	77,969.1	—	77,969.1	—	77,969.1	1,066.0	1,066.0
Long-term debt	1,026,518.3	—	1,074,826.3	—	1,074,826.3	1,174,758.2	—	1,200,953.4	—	1,200,953.4	16,061.8	16,419.9
Accrued expenses and other liabilities	460,931.4	—	460,931.4	—	460,931.4	445,135.7	—	445,135.7	—	445,135.7	6,086.1	6,086.1

25. Segment information

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in note 2. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and grant loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank’s retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans given to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions. Wholesale banking segment includes unallocated tax balances and other items.

Summarized segment information for the years ended March 31, 2019, March 31, 2020 and March 31, 2021:

	Fiscal year ended March 31,							
	2019				2020			
	Retail Banking	Wholesale Banking	Treasury Services	Total	Retail Banking	Wholesale Banking	Treasury Services	Total
				(In millions)				
Net interest income/(expense) (External)	Rs. 336,677.1	Rs. 140,085.0	Rs. 30,743.5	Rs. 507,505.6	Rs. 356,017.3	Rs. 204,725.8	Rs. 32,784.3	Rs. 593,527.4
Net interest income/(expense) (Internal)	62,339.1	(43,842.8)	(18,496.3)	—	127,065.9	(101,002.5)	(26,063.4)	—
Net interest revenue	399,016.2	96,242.2	12,247.2	507,505.6	483,083.2	103,723.3	6,720.9	593,527.4
Less: Provision for credit losses	64,051.0	8,228.3	—	72,279.3	104,516.8	13,105.1	—	117,621.9
Net interest revenue, after provision for credit losses	334,965.2	88,013.9	12,247.2	435,226.3	378,566.4	90,618.2	6,720.9	475,905.5
Non-interest revenue	138,783.0	23,789.6	(2,450.4)	160,122.2	161,890.1	36,059.1	269.8)	198,219.0
Non-interest expense	(230,726.5)	(22,744.8)	(1,918.2)	(255,389.5)	(278,605.8)	(27,774.0)	(1,900.7)	(308,280.5)
Income before income tax	Rs. 243,021.7	Rs. 89,058.7	Rs. 7,878.6	Rs. 339,959.0	Rs. 261,850.7	Rs. 98,903.3	Rs. 5,090.0	Rs. 365,844.0
Income tax expense				Rs. 119,393.5				Rs. 105,480.0
Segment assets:								
Segment total assets	Rs. 7,432,733.8	Rs. 4,732,290.7	Rs. 1,115,049.1	Rs. 13,280,073.6	Rs. 8,353,762.3	Rs. 5,933,391.4	Rs. 1,674,735.4	Rs. 15,961,889.1

	Fiscal year ended March 31,				
	2021				
	Retail Banking	Wholesale Banking	Treasury Services	Total	Total
			(In millions)		
Net interest income/(expense) (External)	Rs. 361,343.5	Rs. 278,431.0	Rs. 43,912.0	Rs. 683,686.5	US$ 9,347.8
Net interest income/(expense) (Internal)	176,420.0	(143,863.7)	(32,556.3)	—	—
Net interest revenue	537,763.5	134,567.3	11,355.7	683,686.5	9,347.8
Less: Provision for credit losses	145,822.0	8,411.4	—	154,233.4	2,108.7
Net interest revenue, after provision for credit losses	391,941.5	126,155.9	11,355.7	529,453.1	7,239.1
Non-interest revenue	175,447.7	72,420.1	5,107.9	252,975.7	3,458.7
Non-interest expense	(306,461.1)	(34,238.4)	(1,902.8)	(342,602.3)	(4,684.2)
Income before income tax	Rs. 260,928.1	Rs. 164,337.6	Rs. 14,560.8	Rs. 439,826.5	US$ 6,013.6
Income tax expense				Rs. 113,820.1	US$ 1,556.2
Segment assets:					
Segment total assets	Rs. 9,356,987.2	Rs. 7,011,959.9	Rs. 1,610,834.9	Rs. 17,979,782.0	US$ 245,826.9

26. Commitments and contingencies

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 23) are as follows:

Capital commitments

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2020 and March 31, 2021 aggregated Rs. 12,756.9 million and Rs. 12,895.7 million, respectively.

Contingencies

The Bank is party to various legal proceedings in the normal course of business. The Bank estimates the provision for contingencies which majorly include indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank towards indirect taxes and other claims which are not acknowledged as debts as of March 31, 2021 aggregated to Rs. 10,203.1 million (previous year Rs. 8,437.8 million). The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank’s results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of other legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank’s business, financial condition or results of operations.

Lease commitments

The Bank is party to operating leases for certain of its office premises and employee residences, with a renewal at the option of the Bank. Operating lease right-of-use assets and lease liabilities were as follows:

	As of March 31,		
	2020	2021	2021
	(In millions)		
Right-of-use assets	Rs. 60,756.9	Rs. 64,548.8	US$ 882.5
Lease liabilities	65,615.1	70,422.0	962.8

The total lease expenses are as follows:

	As of March 31,			
	2019	2020	2021	2021
	(In millions)			
The total minimum lease expense during the year recognized in the consolidated statement of income	Rs. 12,700.8	Rs. 13,698.7	Rs. 14,244.4	US$ 194.8

The total operating cash flow for operating lease expenses during the year ended March 31, 2020 and March 31, 2021 was Rs. 11,692.3 million and Rs. 12,820.3 million (US$ 175.3 million), respectively.

The future minimum lease payments as of March 31, 2021 were as follows:

Due in fiscal year ending March 31:	Operating leases (In millions, except for weighted averages)			
2022	Rs.	11,783.1	US$	161.1
2023		10,951.6		149.7
2024		10,125.8		138.4
2025		9,553.1		130.6
2026		9,201.9		125.8
Thereafter		50,337.5		688.2
Total lease payments	Rs.	101,953.0	US$	1,393.8
Less: imputed interest		31,531.0		431.0
Total operating lease liabilities	Rs.	70,422.0	US$	962.8
Weighted average remaining lease term (in years)		9.8		9.8
Weighted average discount rate		7.0%		7.0%

The Bank adopted ASU 2016-02 “Leases (Topic842)” and subsequent related updates on April 1, 2019. The Bank enters into lease agreements to obtain the right-of-use assets for its business operations, substantially all of which are premises Lease liabilities and right-of-use assets are recognized when the Bank enters into operating leases and represent obligations and rights to use these assets over the period of the leases and are re-measured for modifications. Operating lease liabilities include fixed payments for the contractual duration of the lease, adjusted for renewals or terminations. The lease agreements entered into by the Bank do not include any material residual value guarantees and material restrictive covenants. The lease payments are discounted using a rate determined when the lease is recognized. In general, the Bank does not know the discount rate implicit in the lease, and so the Bank estimates a discount rate that the Bank believes approximates a collateralized borrowing rate for the estimated duration of the lease term. The rate is determined at the date of commencement of the lease and for leases existing as at April 1, 2019, the incremental borrowing rate is determined as at that date. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate. Right-of-use assets are reported in other assets on the consolidated balance sheet and related lease liabilities are reported in accrued expenses and other liabilities. The amortization of operating lease right-of-use assets and the accretion of operating lease liabilities are reported together as fixed lease expenses and are included in non-interest expense- premises and equipment. The lease expense is recognized on a straight-line basis over the life of the lease. The lease agreements entered into by the Bank generally have renewal and escalation clauses. These agreements also in general permit the Bank to terminate the lease arrangement within a certain period of notice of termination. The Bank does not include renewal or termination options in the establishment of the lease term when it is not reasonably certain that it will exercise them. The Bank has elected to exclude leases with terms of less than one year from the operating lease right-of-use assets and lease liabilities. The related short-term lease expense is included in non-interest expense- premises and equipment. The Bank accounted for Lease-related concessions obtained consequent to Covid-19 situation in accordance with guidance in Topic 842. As of March 31, 2021, the Bank had additional undiscounted operating lease commitments of Rs. 187.8 million, predominantly for premises, with leases which have not yet commenced. These leases will commence by April 2021 and have lease terms ranging from 9 to 15 years.

Reward points

The movement in provision for credit card and debit card reward points as of March 31, 2020 and March 31, 2021 is as follows:

	As of March 31, 2020	2021	2021
	(In millions)		
Opening provision of reward points	Rs. 6,030.9	Rs. 7,341.5	US$ 100.4
Provision made during the year	5,356.0	3,752.1	51.3
Utilization/write back of provision	(3,868.8)	(4,026.7)	(55.1)
Effect of change in rate of accrual of reward points	(176.6)	(679.0)	(9.3)
Closing provision of reward points	Rs. 7,341.5	Rs. 6,387.9	US$ 87.3

27. Related party transactions

The Bank's principal related parties consist of HDFC Limited, its principal owner, subsidiaries of HDFC Limited and affiliates of the Bank. Transactions disclosed under "others" primarily consist of transactions with subsidiaries of HDFC Limited and affiliates of the Bank. The Bank enters into transactions with its related parties, such as providing banking services, sharing costs and service providers, purchasing services, making joint investments, and borrowing from related parties and subletting premises. The Bank is prohibited from making loans to companies with which it has directors in common. The Bank, being an authorized dealer, deals in foreign exchange and derivative transactions with certain parties which include the principal owner and related companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The Bank's related party balances and transactions are in the normal course of business and are summarized as follows:

Balances payable to related parties are as follows:

	As of March 31, 2020			2021			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
				(In millions)			
Balances in non-interest-bearing deposits	Rs. 35,128.7	Rs. 8,258.8	Rs. 43,387.5	Rs. 31,834.6	Rs. 9,732.0	Rs. 41,566.6	US$ 568.3
Balances in interest-bearing deposits	1,662.0	5,954.8	7,616.8	3,772.1	1,830.5	5,602.6	76.6
Accrued expenses and other liabilities	1,002.8	—	1,002.8	1,110.5	—	1,110.5	15.2
Total	Rs. 37,793.5	Rs. 14,213.6	Rs. 52,007.1	Rs. 36,717.2	Rs. 11,562.5	Rs. 48,279.7	US$ 660.1

Balances receivable from related parties are as follows:

	As of March 31,						
	2020			2021			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
				(In millions)			
Loans	Rs. —	Rs. 26.5	Rs. 26.5	Rs. —	Rs. 10.6	Rs. 10.6	US$ 0.1
Other assets	449.5	1,266.9	1,716.4	1,390.9	1,627.7	3,018.6	41.3
Total	Rs. 449.5	Rs. 1,293.4	Rs. 1,742.9	Rs. 1,390.9	Rs. 1,638.3	Rs. 3,029.2	US$41.4

Purchase of property and equipment from related parties for the years ended March 31, 2020 and 2021 were nil. Purchase and sale of investments from Others for the year ended March 31, 2021 were Rs.114.3 million (previous year Rs. 4,872.8 million) and Rs. 29,451.1 million (previous year Rs. 28,016.8 million), respectively. Investments of Others in the Bank's subordinated debt for the fiscal year ended March 31, 2021 were Rs. 400.0 million (previous year Rs. 200.0 million).

Included in the determination of net income are the following significant transactions with related parties:

	Fiscal year ended March 31,									
	2019			2020			2021			
	Principal owner	Others	Total	Principal owner	Others	Total	Principal owner	Others	Total	Total
					(In millions)					
Non-interest revenue-Fees and commissions	Rs. 2,829.7	Rs. 14,558.3	Rs. 17,388.0	Rs. 3,089.4	Rs. 17,001.7	Rs. 20,091.1	Rs 3,246.5	Rs. 19,801.6	Rs. 23,048.1	US$ 315.1
Interest and Dividend revenue	352.0	1,549.7	1,901.7	—	1,194.2	1,194.2	—	552.5	552.5	7.6
Interest expense-Deposits	(54.9)	(138.0)	(192.9)	(85.3)	(84.2)	(169.5)	(108.0)	(171.3)	(279.3)	(3.8)
Non-interest expense-Administrative and other	(4,838.3)	(2,841.7)	(7,680.0)	(5,840.8)	(3,119.6)	(8,960.4)	(5,874.4)	(2,856.3)	(8,730.7)	(119.4)
Non-interest expense-Premises and equipment	(31.2)	(6.1)	(37.3)	(25.8)	(9.7)	(35.5)	(24.3)	(5.2)	(29.5)	(0.4)

Other transactions with the Bank's principal owner are as follows:

During the years ended March 31, 2020 and March 31, 2021, the Bank purchased loans from the principal owner aggregating Rs. 241,272.5 million and Rs. 189,797.8 million, respectively. Dividends paid to the principal owner during the years ended March 31, 2020 and March 31, 2021 were Rs. 8,646.2 million and nil, respectively. The Bank also enters into foreign exchange and derivative transactions with its principal owner. The notional principal amount and the mark-to-market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2021 was Rs. 77,574.9 million (previous year Rs. 120,099.5 million) and Rs. 833.0 million (previous year Rs. 53.5 million), respectively. During the fiscal year ended March 31, 2021, the Bank issued Guarantees on behalf of its Principal owner and Others for Rs. 4.0 million (previous year Rs. 3.9 million) and for Rs. 44.3 million (previous year Rs. 29.9 million), respectively.

For contributions made to provident funds and pension funds set up by the Bank, see note 22 – Retirement benefits.

28. Earnings per equity share

By way of an ordinary resolution passed on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of 24,224,032 and 73,917,840 were excluded from the calculation of diluted earnings per share for the years ended March 31, 2020 and March 31, 2021, respectively, as these were anti-dilutive.

	As of March 31,		
	2019	2020	2021
Weighted average number of equity shares used in computing basic earnings per equity share	5,360,068,058	5,468,802,148	5,499,587,357
Effect of potential equity shares for stock options outstanding	53,585,896	36,990,405	23,890,989
Weighted average number of equity shares used in computing diluted earnings per equity share	5,413,653,954	5,505,792,553	5,523,478,346

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

	Fiscal years ended March 31,			
	2019	2020	2021	2021
Basic earnings per share	Rs. 41.07	Rs. 47.59	Rs. 59.27	US$ 0.81
Effect of potential equity shares for stock options outstanding	0.41	0.32	0.25	0.01
Diluted earnings per share	Rs. 40.66	Rs. 47.27	Rs. 59.02	US$ 0.80
Basic earnings per ADS	Rs. 123.21	Rs. 142.77	Rs. 177.81	US$ 2.43
Effect of potential equity shares for stock options outstanding	1.23	0.96	0.75	0.03
Diluted earnings per ADS	Rs. 121.98	Rs. 141.81	Rs. 177.06	US$ 2.40

Dividends

Any dividends declared by the Bank are based on the profit available for distribution as reported in the statutory financial statements of the Bank prepared in accordance with Indian GAAP. Additionally, the Banking Regulation Act and related regulations require the Bank to transfer 25% of its Indian GAAP profit after-tax to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval. As per the RBI guidelines, the dividend payout (excluding dividend tax) for March 31, 2021 cannot exceed 35% of net income of Rs. 311,165.3 million as calculated under Indian GAAP. Accordingly, the net income reported in these financial statements may not be fully distributable in that year. Dividends declared for the years ended March 31, 2019, March 31, 2020 and March 31, 2021 were Rs. 7.5, Rs. 2.5 per equity share (viz. special interim dividend) and nil, respectively. A special interim dividend of Rs. 2.5 per share to commemorate 25 years of HDFC Bank's operations was paid on August 2, 2019. The RBI vide notification dated December 4, 2020, stated that in view of the ongoing stress and heightened uncertainty on account of COVID-19, banks should continue to conserve capital to support the economy and absorb losses. The notification also stated that in order to further strengthen the banks' balance sheets, while at the same time support lending to the real economy, banks shall not make any dividend payment on equity shares from the profits pertaining to the financial year ended March 31, 2020. On April 22, 2021, the RBI, in a notification, directed the banks to restrict dividend payouts for Fiscal 2021 to 50% determined in terms of RBI regulations to conserve capital and stay resilient amid the COVID-19 crisis. The Board of Directors of the Bank at its meeting on June 18, 2021, inter alia, recommended dividend of Rs. 6.5 per equity share of the Bank for the financial year ended March 31, 2021. This was approved by the members at the Annual General Meeting held on July 17, 2021.

29. Subsidiaries

HDB Financial Services Limited (“HDBFSL”) is a non-deposit taking non-banking finance company and a subsidiary of the Bank. As at March 31, 2021, HDFC Bank Ltd. and its subsidiaries effectively hold 95.7% (previous year 95.9%). The financial statements of HDBFSL are consolidated.

HDFC Securities Ltd. (“HSL”) offers trading facilities in a range of equity, fixed income and derivative products to its clients. As at March 31, 2021 the Bank holds a 96.8% (previous year 96.8%) effective equity interest. The financial statements of HSL are consolidated.

30. Fair value measurement

FASB Accounting Standards Codification "ASC" 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level of input	
Level 1	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the positions that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for sale debt securities: Available for sale debt securities are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. A reduction in the estimated cash flows of these instruments will adversely impact the value of these securities. A change in the timing of these estimated cash flows will also impact the value of these securities.

Trading securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2020 and March 31, 2021.

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Trading account securities	Rs. 304,962.9	Rs. 6,291.0	Rs. 298,671.9	Rs. —
Securities Available-for-Sale	3,406,289.2	371,450.5	2,907,384.4	127,454.3
Equity securities *	10,937.5	2,282.4	8,655.1	—
Total	Rs. 3,722,189.6	Rs. 380,023.9	Rs. 3,214,711.4	Rs. 127,454.3

* Equity securities classified within other assets.

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Trading account securities	Rs. 99,620.2	Rs. —	Rs. 99,620.2	Rs. —
Securities Available-for-Sale	4,275,449.9	176,015.8	3,938,270.2	161,163.9
Equity securities *	19,577.8	11,869.8	7,708.0	—
Total	Rs. 4,394,647.9	Rs. 187,885.6	Rs. 4,045,598.4	Rs. 161,163.9
Total	US$ 60,085.4	US$ 2,568.8	US$ 55,313.1	US$ 2,203.5

* Equity securities classified within other assets.

The following table summarizes, certain additional information about changes in the fair value of Level 3 assets pertaining to instruments carried at fair value for the years ended March 31, 2020 and March 31, 2021:

Particulars	As of March 31, 2020 (in millions)
Beginning balance at April 1, 2019	Rs. 38,812.9
Total gains or losses (realized/unrealized)	
-Included in net income	—
-Included in other comprehensive income	1,535.5
Purchases/additions	126,891.3
Sales	—
Issuances	—
Settlements	(39,785.4)
Transfers in Level 3	—
Transfers out of Level 3	—
Foreign currency translation adjustment	—
Ending balance at March 31, 2020	Rs. 127,454.3
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs —

Particulars		As of March 31, 2021 (In millions)
Beginning balance at April 1, 2020	Rs.	127,454.3
Total gains or losses (realized/unrealized)		
-Included in net income		—
-Included in other comprehensive income		2,236.4
Purchases/additions		80,406.3
Sales		—
Issuances		—
Settlements		(48,933.1)
Transfers in Level 3		—
Transfers out of Level 3		—
Foreign currency translation adjustment		—
Ending balance at March 31, 2021	Rs.	161,163.9
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs	—
Change in unrealized gains or losses for the period included in other comprehensive income for assets held at the end of the reporting period	Rs	2,236.4

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurements Using		
Particulars	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Derivative assets	Rs. 190,537.6	Rs. —	Rs. 190,537.6	Rs. —
Derivative liabilities	Rs. 184,783.0	Rs. —	Rs. 184,783.0	Rs. —

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurements Using		
Particulars	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Derivative assets	Rs. 84,406.7	Rs. —	Rs. 84,406.7	Rs. —
Derivative liabilities	Rs. 81,880.0	Rs. —	Rs. 81,880.0	Rs. —

31. Risk and uncertainties

At the date of approval of the condensed consolidated financial statements, the SARS-CoV-2 virus responsible for COVID-19 remains unabated and continues to impact the globe and India. Since March 2021, India has experienced a "second wave" of COVID-19, including a significant surge of COVID-19 cases following the discovery of a mutant coronavirus variant in the country. While the initial lockdown imposed in March 2020 in response to the first outbreak of COVID-19 in India has been lifted, regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. The impact of COVID-19, including changes in customer behavior and pandemic-related concerns, as well as restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activity. The slowdown during the year led to a decrease in loan originations, third party products sales, credit and debit card use by customers and collection effort efficiency. This may lead to a rise in the number of customer defaults and consequently an increase in provisions. The extent to which the COVID-19 pandemic, will continue to impact the Bank's results will depend on ongoing as well as future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated or elected by us.

On September 3, 2020, a securities class action lawsuit was filed against the Bank and certain of its current and former directors in the United States District Court for the Eastern District of New York. The complaint was amended on February 8, 2021. The amended complaint alleges that the Bank, its former managing director, Mr. Aditya Puri, and the present managing director and CEO, Mr. Sashidhar Jagdishan made materially false and misleading statements regarding certain aspects of the Bank's business and compliance policies, which the complaint alleges resulted in the Bank's ADS price declining on July 13, 2020, thereby allegedly causing damage to the Bank's investors. The Bank's motion to dismiss the suit was filed on April 9, 2021, to which the lead plaintiff served its brief in opposition on June 8, 2021. The Bank, on July 23, 2021, through its legal counsel, has filed the reply memorandum of law in further support of the motion to dismiss the securities class action suit. Given the uncertainty inherent in these matters, and based on an assessment made after taking appropriate legal advice, at this point in time, the Bank does not believe that the ultimate outcome of this matter will be materially unfavorable to the Bank. Accordingly, no liability has been recorded in the Bank's consolidated financial statements. The Bank intends to continue to vigorously defend against the allegations.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of **HDFC Bank Limited** (the "Bank") is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control system was designed to provide reasonable assurance to the Bank's management, its Audit Committee and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any internal control or system of control, however well-designed, including the possibility of human error and the possible circumvention or overriding of such controls or systems. Moreover, because of changing conditions, the reliability of internal controls may vary over time. As a result, even effective internal controls can provide no more than reasonable assurance with respect to the accuracy and completeness of financial statements and their process of preparation.

The Bank management assessed the effectiveness of the Bank's internal control over financial reporting as of March 31, 2020. In making this assessment, it has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on those criteria and our assessment we believe that, as of March 31, 2020, the Bank's internal control over financial reporting was effective.

The Bank's independent registered public accounting firm, KPMG Assurance and Consulting Services LLP, has issued an audit report on the Bank's internal control over financial reporting.

HDFC BANK LIMITED
HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013, India

July 31, 2020

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on Internal Control Over Financial Reporting

We have audited HDFC Bank Limited and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated July 31, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Assurance and Consulting Services LLP

Mumbai, India
July 31, 2020

KPMG (Registered) (a partnership firm with Registration No. BA-62445) converted into KPMG Assurance and Consulting Services LLP (a Limited Liability Partnership with LLP Registration No. AAT-0367), with effect from July 23, 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of HDFC Bank Limited and subsidiaries (the Company) as of March 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 31, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements as of and for the year ended March 31, 2020 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such financial statements expressed in Indian rupee have been translated into United States dollars on the basis set forth in Note 2(y) to the consolidated financial statements.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Assessment of the allowances for credit losses collectively evaluated for impairment

As discussed in Notes 2(i) and 9 to the consolidated financial statements, the Company's allowance for credit losses related to loans collectively evaluated for impairment (the unallocated allowance) as at March 31 2020 was Rs. 97,231.3 million. For wholesale loans, the Company estimates the unallocated allowance by segmenting the borrowers into internal rating grades, where the internal rating grades reflect the economic conditions of the borrower. The estimated probability of default for each internal rating grade pool and the loss given default estimate is then applied to the total loan balance of each internal rating grade pool to compute the unallocated allowance. The Company estimates probability of default for each internal rating grade pool based on the default experience of individual borrowers, including other qualitative factors. For retail loans, the Company estimates the unallocated allowance based on historic credit loss experience, computed based on credit risk parameters of probability of default and loss given default including other qualitative factors. These loss estimates are computed by segmenting the retail loan portfolio into homogenous pools based on shared risk characteristics and their respective loss experience.

We identified the assessment of the unallocated allowance as a critical audit matter because it involved significant measurement uncertainty requiring complex auditor judgment, and knowledge and experience in the industry. This assessment encompassed the evaluation of various components of the unallocated allowance methodology, including the methodologies and models used to estimate the probability of default and loss given default and their key factors and assumptions, including the internal rating grades for wholesale loans and how retail loans with shared risk characteristics are pooled, and other qualitative factors. Further, the assessment of internal rating grades for wholesale loans based on Company's internal rating models required the use of significant judgment as well as industry knowledge and experience to evaluate individual borrower's economic condition.

The following are the primary procedures we performed to address this critical audit matter. We tested certain internal controls over (1) the approval of the unallocated allowance methodology, (2) the determination of the key assumptions and inputs used to estimate the probability of default and loss given default, (3) development and validation of the probability of default and loss given default models and (4) analysis of the unallocated allowance results, trends, and ratios. We evaluated the Company's process to develop the unallocated allowance estimate by testing certain sources of data, factors and assumptions used, and considered the relevance and reliability of such data, factors, and assumptions. We involved credit risk professionals with specialized industry knowledge and experience, who assisted in:

- evaluating the Company's unallocated allowance methodology, including significant unallocated allowance models,
- evaluating the Company's determination of probability of default and loss given default supported with appropriate observable data, considering the portfolio characteristics,
- determining whether retail loans are pooled by shared risk characteristics and wholesale loans are pooled by internal credit ratings,
- evaluating the methodology used to develop the resulting qualitative factors and the effect of those factors on the unallocated allowance compared with relevant credit risk factors and consistency with credit trends, and
- evaluating the Company's methodology to assign an internal rating grade to the wholesale loan borrower.

/s/ KPMG Assurance and Consulting Services LLP

We have served as the Company's auditor since 2015.

Mumbai, India
July 31, 2020

KPMG (Registered) (a partnership firm with Registration No. BA-62445) converted into KPMG Assurance and Consulting Services LLP (a Limited Liability Partnership with LLP Registration No. AAT-0367), with effect from July 23, 2020.

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of		
	March 31, 2019	March 31, 2020	March 31, 2020
	(In millions, except number of shares)		
ASSETS:			
Cash and due from banks, and restricted cash	Rs. 734,872.6	Rs. 611,961.0	US$ 8,117.3
Investments held for trading, at fair value	265,516.1	304,962.9	4,045.1
Investments available for sale debt securities, at fair value [includes restricted investments of Rs. 1,634,673.3 and Rs. 1,760,859.1 (US$ 23,356.7), as of March 31, 2019 and March 31, 2020, respectively]million	2,633,348.4	3,406,289.2	45,182.2
Securities purchased under agreements to resell	76,213.5	250,000.0	3,316.1
Loans [net of allowance of Rs. 148,232.0 and Rs. 198,833.2 (US$ 2,637.4), as of March 31, 2019 and March 31, 2020, respectively]	8,963,232.6	10,425,022.4	138,281.2
Accrued interest receivable	93,031.7	103,035.9	1,366.7
Property and equipment, net	43,187.8	48,327.7	641.0
Goodwill	74,937.9	74,937.9	994.0
Other assets	395,733.0	737,352.1	9,780.5
Total assets	Rs. 13,280,073.6	Rs. 15,961,889.1	US$ 211,724.1
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Interest-bearing deposits	Rs. 7,804,717.5	Rs. 9,730,481.3	US$ 129,068.6
Non-interest-bearing deposits	1,420,309.4	1,731,590.0	22,968.4
Total deposits	9,225,026.9	11,462,071.3	152,037.0
Securities sold under repurchase agreements	174,000.0	507,982.0	6,738.1
Short-term borrowings	654,058.0	377,417.6	5,006.2
Accrued interest payable	79,372.5	80,078.9	1,062.2
Long-term debt	1,044,553.0	1,026,518.3	13,616.1
Accrued expenses and other liabilities	467,438.6	611,327.2	8,108.8
Total liabilities	Rs. 11,644,449.0	Rs. 14,065,395.3	US$ 186,568.4
Commitments and contingencies (see note 27)			
Shareholders' equity:			
Equity shares: par value—Rs. 1.0 each; authorized 6,500,000,000 shares and 6,500,000,000 shares; issued and outstanding 5,446,613,220 shares and 5,483,286,460 shares, as of March 31, 2019 and March 31, 2020, respectively	Rs. 5,446.6	Rs. 5,483.3	US$ 72.7
Additional paid-in capital	739,763.6	765,888.6	10,159.0
Retained earnings	587,235.2	713,340.6	9,462.0
Statutory reserve	288,321.1	356,038.3	4,722.6
Accumulated other comprehensive income (loss)	11,808.8	52,331.6	694.1
Total HDFC Bank Limited shareholders' equity	1,632,575.3	1,893,082.4	25,110.4
Noncontrolling interest in subsidiaries	3,049.3	3,411.4	45.3
Total shareholders' equity	1,635,624.6	1,896,493.8	25,155.7
Total liabilities and shareholders' equity	Rs. 13,280,073.6	Rs. 15,961,889.1	US$ 211,724.1

See accompanying notes to consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal years ended March 31, 2018	2019	2020	2020
	(In millions, except share and per share amounts)			
Interest and dividend revenue:				
Loans	Rs.667,458.7	Rs. 827,683.0	Rs. 981,794.8	US$ 13,022.9
Trading securities	4,049.1	8,892.9	7,392.1	98.1
Available for sale debt securities	158,209.2	190,992.5	198,383.2	2,631.4
Other	13,748.3	14,146.5	24,412.8	323.8
Total interest and dividend revenue	843,465.3	1,041,714.9	1,211,982.9	16,076.2
Interest expense:				
Deposits	326,717.8	410,026.4	507,888.8	6,736.8
Short-term borrowings	26,004.4	39,054.3	27,216.8	361.0
Long-term debt	67,297.5	85,081.1	83,200.5	1,103.6
Other	295.0	47.5	149.4	2.0
Total interest expense	420,314.7	534,209.3	618,455.5	8,203.4
Net interest revenue	423,150.6	507,505.6	593,527.4	7,872.8
Provision for credit losses	59,397.8	72,279.3	117,621.9	1,560.2
Net interest revenue after provision for credit losses	363,752.8	435,226.3	475,905.5	6,312.6
Non-interest revenue, net:				
Fees and commissions	120,060.9	134,155.2	160,099.5	2,123.6
Trading securities gain/(loss), net	(63.4)	1,028.4	1,323.4	17.6
Realized gain/(loss) on sales of available for sale debt securities, net	10,853.2	2,596.0	25,826.2	342.6
Other than temporary impairment losses on available for sale debt securities	(149.1)	(1,081.0)	(9,109.0)	(120.8)
Foreign exchange transactions	6,209.5	1,917.8	15,265.6	202.5
Derivatives gain/(loss), net	6,742.6	12,409.1	3,550.0	47.1
Other, net	953.3	9,096.7	1,263.3	16.8
Total non-interest revenue, net	144,607.0	160,122.2	198,219.0	2,629.4
Total revenue, net	508,359.8	595,348.5	674,124.5	8,942.0
Non-interest expense:				
Salaries and staff benefits	98,483.7	104,652.6	130,506.9	1,731.1
Premises and equipment	29,816.9	29,527.7	31,533.9	418.3
Depreciation and amortization	9,678.9	12,247.8	12,800.3	169.8
Administrative and other	93,272.9	108,960.4	133,439.4	1,770.0
Amortization of intangible assets	1.0	1.0	—	—
Total non-interest expense	231,253.4	255,389.5	308,280.5	4,089.2
Income before income tax expense	277,106.4	339,959.0	365,844.0	4,852.8
Income tax expense	98,272.5	119,393.5	105,480.0	1,399.1
Net income before noncontrolling interest	Rs.178,833.9	Rs. 220,565.5	Rs. 260,364.0	US$ 3,453.7
Less: Net income attributable to shareholders of noncontrolling interest	319.0	461.7	94.1	1.2
Net income attributable to HDFC Bank Limited	Rs. 178,514.9	Rs. 220,103.8	Rs. 260,269.9	US$ 3,452.5
Per share information: (see note: 29)				
Earnings per equity share—basic	Rs. 34.59	Rs. 41.07	Rs. 47.59	US$ 0.63
Earnings per equity share—diluted	Rs. 34.15	Rs. 40.66	Rs. 47.27	US$ 0.62
Per ADS information (where 1 ADS represents 3 shares): (see note: 29)				
Earnings per ADS—basic	Rs. 103.77	Rs. 123.21	Rs. 142.77	US$ 1.89
Earnings per ADS—diluted	Rs. 102.45	Rs. 121.98	Rs. 141.81	US$ 1.86
Dividends declared per equity share	Rs. 6.5	Rs 7.5	Rs 2.5	US$ 0.03

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Net income before noncontrolling interest	Rs. 178,833.9	Rs. 220,565.5	Rs.260,364.0	US$ 3,453.7
Other comprehensive income, net of tax:				
Foreign currency translation adjustment:				
Net unrealized gain (loss) arising during the period [net of tax Rs. (39.6), Rs. (356.6) and Rs. (426.7), as of March 31, 2018, March 31, 2019 and March 31, 2020, respectively]	72.1	663.9	1,771.7	23.5
Available for sale debt securities:				
Net unrealized gain (loss) arising during the period [net of tax Rs. 11,319.5, Rs. (9,187.8) and Rs. (15,704.2), as of March 31, 2018, March 31, 2019 and March 31, 2020, respectively]	(21,445.3)	17,105.1	47,574.2	631.0
Reclassification adjustment for net (gain) loss included in net income [net of tax Rs. 4,541.5, Rs. 1,018.1 and Rs. 4,739.2, as of March 31, 2018, March 31, 2019 and March 31, 2020, respectively]	(8,455.1)	(1,895.5)	(8,823.1)	(117.0)
Other comprehensive income, net of tax	(29,828.3)	15,873.5	40,522.8	537.5
Total comprehensive income	149,005.6	236,439.0	300,886.8	3,991.2
Less: Comprehensive income attributable to shareholders of noncontrolling interest	319.0	461.7	94.1	1.2
Comprehensive income attributable to HDFC Bank Limited	Rs. 148,686.6	Rs. 235,977.3	Rs. 300,792.7	US$ 3,990.0

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Cash flows from operating activities:				
Net income before noncontrolling interest	Rs.178,833.9	Rs.220,565.5	Rs.260,364.0	US$ 3,453.7
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	59,397.8	72,279.3	117,621.9	1,560.2
Depreciation and amortization	9,678.9	12,247.8	12,800.3	169.8
Amortization of intangible assets	1.0	1.0	—	—
Amortization of deferred customer acquisition costs and fees	9,246.2	10,423.1	11,673.2	154.8
Amortization of premium (discount) on investments	3,599.4	4,532.1	5,196.8	68.9
Other than temporary impairment losses on available for sale debt securities	149.1	1,081.0	9,109.0	120.8
Deferred tax expense/ (benefit)	(10,403.5)	(8,129.4)	(101.2)	(1.3)
Other gains, net	—	(6,717.5)	133.7	1.8
Share-based compensation expense	6,594.6	5,343.3	7,476.1	99.2
Net realized (gain) loss on sale of available for sale debt securities	(10,853.2)	(2,596.0)	(25,826.2)	(342.6)
(Gain) loss on disposal of property and equipment, net	(64.5)	(64.8)	81.9	1.1
Unrealized exchange (gain) loss	1,719.5	574.6	3,312.5	43.9
Net change in:				
Investments held for trading	(131,816.3)	(96,555.7)	(227,480.4)	(3,017.4)
Accrued interest receivable	(10,527.8)	(15,060.3)	(9,752.6)	(129.4)
Other assets	90,525.6	(112,726.3)	(140,959.9)	(1,869.7)
Accrued interest payable	20,997.1	13,775.0	563.7	7.5
Accrued expense and other liabilities	(122,803.6)	84,299.5	146,966.9	1,949.4
Net cash provided by operating activities	94,274.2	183,272.2	171,179.7	2,270.7
Cash flows from investing activities:				
Term placements , net	(8,806.4)	24,447.4	6,055.7	80.3
Activity in available for sale debt securities:				
Purchases	(1,518,100.1)	(1,781,754.9)	(2,608,516.6)	(34,600.3)
Proceeds from sales	197,206.3	453,778.9	1,214,082.0	16,104.0
Maturities, prepayments and calls	1,171,299.5	937,072.0	653,889.0	8,673.4
Net change in repurchase agreements and reverse repurchase agreements	(462,018.6)	609,805.1	160,195.5	2,124.9
Loans purchased	(55,216.0)	(240,356.2)	(252,738.1)	(3,352.3)
Repayments on loans purchased	76,993.2	89,713.3	122,821.6	1,629.1
Increase in loans originated, net of principal collections	(1,440,601.9)	(1,610,724.3)	(1,428,007.7)	(18,941.6)
Additions to property and equipment	(9,181.5)	(16,355.0)	(18,294.3)	(242.7)
Proceeds from sale or disposal of property and equipment	95.1	212.3	182.4	2.4
Activity in equity securities , net	4.7	(2,821.4)	(157.9)	(2.1)
Net cash used in investing activities	(2,048,325.7)	(1,536,982.8)	(2,150,488.4)	(28,524.9)

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Fiscal years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Cash flows from financing activities:				
Net increase in deposits	1,447,097.0	1,331,850.9	2,213,972.5	29,366.9
Net increase (decrease) in short-term borrowings	456,558.6	(127,707.1)	(277,587.3)	(3,682.0)
Purchase of subsidiary shares from noncontrolling interest	(143.3)	—	—	—
Proceeds from issue of shares by a subsidiary to noncontrolling interests	366.5	459.8	466.8	6.2
Proceeds from issuance of long-term debt	425,517.1	320,093.6	272,104.7	3,609.3
Repayment of long-term debt	(225,150.2)	(224,084.5)	(315,209.6)	(4,181.1)
Proceeds from issuance of equity shares for options exercised	27,259.1	22,008.2	18,486.8	245.2
Proceeds from issuance of equity shares (net of issuance cost)	—	235,896.2	—	—
Payment of dividends and dividend tax	(34,490.3)	(41,015.2)	(66,447.3)	(881.4)
Net cash provided by financing activities	2,097,014.5	1,517,501.9	1,845,786.6	24,483.1
Effect of exchange rate changes on cash and due from banks, and restricted cash	479.4	(3,069.7)	10,610.5	140.8
Net change in cash and due from banks, and restricted cash	143,442.4	160,721.6	(122,911.6)	(1,630.3)
Cash and due from banks, and restricted cash, beginning of year	430,708.6	574,151.0	734,872.6	9,747.6
Cash and due from banks, and restricted cash, end of year	Rs. 574,151.0	Rs. 734,872.6	Rs. 611,961.0	US$ 8,117.3
Supplementary cash flow information:				
Interest paid	Rs. 399,287.9	Rs. 520,351.2	Rs. 617,749.1	US$ 8,194.0
Income taxes paid, net of refunds	Rs. 100,089.3	Rs. 119,365.0	Rs. 104,013.4	US$ 1,379.7
Non-cash investment activities				
i) Payable for purchase of property and equipment	Rs. 1,064.5	Rs. 1,323.7	Rs. 1,232.7	US$ 16.4
ii) Trade date sale receivable of available for sale debt securities	Rs. —	Rs. —	Rs. 32,730.8	US$ 434.2

i i i) Operating lease right-of-use assets represent non-cash investing activities. Refer note 27- lease commitments for more information and balances as at March 31, 2020.

See accompanying notes to consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
				(In millions, except for equity shares)					
Balance at March 31, 2017	**5,125,091,434**	**Rs.5,125.1**	**Rs.442,721.8**	**Rs. 364,471.9**	**Rs.187,703.2**	**Rs. 26,031.6**	**Rs. 1,026,053.6**	**Rs. 1,847.5**	**Rs. 1,027,901.1**
Shares issued upon exercise of options	65,089,100	65.1	27,194.0				27,259.1		27,259.1
Share-based compensation			6,594.6				6,594.6		6,594.6
Dividends, including dividend tax				(34,490.3)			(34,490.3)		(34,490.3)
Change in ownership interest in subsidiary			60.0				60.0	(203.3)	(143.3)
Shares issued to noncontrolling interest							—	366.5	366.5
Transfer to statutory reserve				(45,620.3)	45,620.3		—		—
Net income				178,514.9			178,514.9	319.0	178,833.9
Net change in accumulated other comprehensive income						(29,828.3)	(29,828.3)		(29,828.3)
Balance at March 31, 2018	**5,190,180,534**	**Rs. 5,190.2**	**Rs. 476,570.4**	**Rs. 462,876.2**	**Rs. 233,323.5**	**Rs. (3,796.7)**	**Rs. 1,174,163.6**	**Rs. 2,329.7**	**Rs. 1,176,493.3**

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
				(In millions, except for equity shares)					
Balance at March 31, 2018	**5,190,180,534**	**Rs.5,190.2**	**Rs.476,570.4**	**Rs.462,876.2**	**Rs.233,323.5**	**Rs. (3,796.7)**	**Rs. 1,174,163.6**	**Rs. 2,329.7**	**Rs. 1,176,493.3**
Adoption of accounting standard (1)				268.0		(268.0)	—		—
Shares issued in public offering (net of issuance cost of Rs. 1,262.9 million)	208,888,078	208.9	235,687.3				235,896.2		235,896.2
Shares issued upon exercise of options	47,544,608	47.5	21,960.7				22,008.2		22,008.2
Share-based compensation			5,343.3				5,343.3		5,343.3
Dividends, including dividend tax				(41,015.2)			(41,015.2)		(41,015.2)
Change in ownership interest in subsidiary			201.9				201.9	(201.9)	—
Shares issued to noncontrolling interest							—	459.8	459.8
Transfer to statutory reserve				(54,997.6)	54,997.6		—		—
Net income				220,103.8			220,103.8	461.7	220,565.5
Net change in accumulated other comprehensive income						15,873.5	15,873.5		15,873.5
Balance at March 31, 2019	**5,446,613,220**	**Rs. 5,446.6**	**Rs. 739,763.6**	**Rs. 587,235.2**	**Rs. 288,321.1**	**Rs. 11,808.8**	**Rs. 1,632,575.3**	**Rs. 3,049.3**	**Rs. 1,635,624.6**

(1) Effective April 1, 2018, the Bank adopted ASU 2016-01 "Financial Instruments—Overall (Subtopic 825-10)(see note 19)

See accompanying notes to consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—(Continued)

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
	(In millions, except for equity shares)								
Balance at March 31, 2019	**5,446,613,220**	**Rs. 5,446.6**	**Rs. 739,763.6**	**Rs. 587,235.2**	**Rs. 288,321.1**	**Rs. 11,808.8**	**Rs. 1,632,575.3**	**Rs. 3,049.3**	**Rs. 1,635,624.6**
Shares issued upon exercise of options	36,673,240	36.7	18,450.1				18,486.8		18,486.8
Share-based compensation			7,476.1				7,476.1		7,476.1
Dividends, including dividend tax				(66,447.3)			(66,447.3)		(66,447.3)
Change in ownership interest in subsidiary			198.8				198.8	(198.8)	—
Shares issued to noncontrolling interest							—	466.8	466.8
Transfer to statutory reserve				(67,717.2)	67,717.2		—		—
Net income				260,269.9			260,269.9	94.1	260,364.0
Net change in accumulated other comprehensive income						40,522.8	40,522.8		40,522.8
Balance at March 31, 2020	**5,483,286,460**	**Rs. 5,483.3**	**Rs. 765,888.6**	**Rs. 713,340.6**	**Rs. 356,038.3**	**Rs. 52,331.6**	**Rs. 1,893,082.4**	**Rs. 3,411.4**	**Rs. 1,896,493.8**
Balance at March 31, 2020	**5,483,286,460**	**US$ 72.7**	**US$ 10,159.0**	**US$ 9,462.0**	**US$ 4,722.6**	**US$ 694.1**	**US$ 25,110.4**	**US$ 45.3**	**US$ 25,155.7**

* *Under local regulations, the Bank is required to transfer 25% of its profit after tax (per Indian GAAP) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval.*

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Bank overview

HDFC Bank Limited (the "Bank") was incorporated in August 1994 with its registered office in Mumbai, India. The Bank is a banking company governed by India's Banking Regulation Act, 1949. The Bank's shares are listed on the BSE Limited (formerly known as Bombay Stock Exchange Limited) and The National Stock Exchange of India Ltd. Its American Depositary Shares (ADS) are listed on the New York Stock Exchange. Global Depositary Receipts (GDR) which were listed on the Luxembourg Stock Exchange have since been delisted effective July 15, 2019.

The Bank's largest shareholder is Housing Development Finance Corporation Limited ("HDFC Limited"), which, along with its subsidiaries, owns 21.4% and 21.2% of the Bank's equity as of March 31, 2019 and March 31, 2020, respectively. The remainder of the Bank's equity is widely held by the public and by foreign and Indian institutional investors.

By way of an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of the Bank's equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

On July 17, 2018, the Bank made a preferential allotment of 78,193,634 equity shares to Housing Development Finance Corporation Limited at an issue price of Rs. 1,087.05 per equity share. On August 2, 2018, the Bank issued 35,000,000 American Depositary Shares (ADSs) representing 105,000,000 equity shares at a price of US$ 52.00 per ADS. The Bank also allotted 25,694,444 equity shares pursuant to a qualified institutional placement (QIP) offering at a price of Rs. 1,080.0 per equity shares. The total number of shares issued pursuant to exercise of stock options during the period is 47,544,608 shares .

The Bank's principal business activities are retail banking, wholesale banking and treasury services. The Bank's retail banking division provides a variety of deposit products as well as loans, credit cards, debit cards, third-party mutual funds and insurance, depositary services, trade finance, foreign exchange and derivative services and sale of gold bars. Through its wholesale banking operations, the Bank provides loans, deposit products, documentary credits, guarantees, bullion trading, foreign exchange, and derivative products. It also provides cash management services, clearing and settlement services for stock exchanges, tax and other collections for the government, custody services for mutual funds and correspondent banking services. The Bank's treasury group manages its debt securities and money market operations and its foreign exchange and derivative products.

2. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights and/or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary (see note 2j). All significant inter-company balances and transactions are eliminated on consolidation.

b. Basis of presentation

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulation Act 1949 and related regulations issued by the Reserve Bank of India ("RBI") (collectively "Indian GAAP"), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences, insofar as they relate to the Bank, include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred taxes, stock-based compensation, loan origination fees, derivative financial instruments, business combination, lease accounting and the presentation format and disclosures of the financial statements and related notes.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

c. Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, other than temporary impairment, valuation of derivatives, stock-based compensation, unrecognized tax benefits, valuation of lease liabilities and impairment assessment of goodwill.

d. Cash and due from banks, and restricted cash

Cash and due from banks comprise of cash and deposit with banks that have original maturities of 90 days or less. The Bank has captioned cash and cash equivalent as “cash and due from banks, and restricted cash” on the consolidated balance sheets. Cash and due from banks includes restricted cash (see note 3).

e. Customer acquisition costs

Customer acquisition costs principally consist of commissions paid to third party referral agents who source retail loans and such costs are deferred and amortized as a yield adjustment over the life of the loans. Advertising and marketing expenses incurred to solicit new business are expensed as incurred.

f. Investments in securities

Investments consist of securities purchased as part of the Bank’s treasury operations, such as government securities and other debt securities, and investments purchased as part of the Bank’s wholesale banking operations, such as credit substitute securities issued by the Bank’s wholesale banking customers.

Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom the Bank has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and the Bank bears the same customer credit risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Bank with the issuer. As the Bank’s exposures to such securities are similar to its exposures on its loan portfolio, additional disclosures have been provided on impairment status in note 7 and on concentrations of credit risk in note 11.

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

Securities that are held principally for resale in the near term are classified as held for trading (“HFT”) and are carried at fair value, with changes in fair value recorded in net income.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity (“HTM”) and are carried at amortized cost.

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

Up to March 31, 2018, equity securities with readily determinable fair values that were not classified as HFT were classified as available for sale and were carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, were reported in accumulated other comprehensive income (loss), a separate component of shareholders’ equity. Dividend income on such securities was included in Interest and dividend revenue- available for sale debt securities. Non-marketable equity securities were carried at cost.

The Bank adopted ASU 2016-01 and ASU 2018-03 with effect from April 1, 2018. The available-for-sale category was eliminated for equity securities which were reclassified to other assets. This resulted in a cumulative catch-up reclassification from AOCI to retained earnings (see note 14). Marketable securities are measured at fair value, change in fair value recorded in earnings. Non- marketable equity securities under the measurement alternative are carried at cost plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and impairment, if any. The Bank's review for impairment for equity method, cost method and measurement alternative securities typically includes an analysis of the facts and circumstances of each security, the intent or requirement to sell the security, and the expectations of cash flows.

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

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

g. Impairment of debt securities

Declines in the fair values of held to maturity and available for sale debt securities below their carrying value that are other than temporary are reflected in net income as other than temporary impairment losses, based on management's best estimate of the fair value of the investment. The Bank conducts a review each year to identify other than temporary declines based on an evaluation of all significant factors. The Bank's review of impairment generally entails identification and evaluation of investments that have indications of possible impairment, analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment and documentation of the results of these analysis, as required under business policies. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. The Bank does not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increase and the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis

h. Loans

The Bank grants retail and wholesale loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for an allowance for credit losses. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to net income over the lives of the related loans.

Interest is accrued on the unpaid principal balance and is included in interest income. Loans are generally placed on "non-accrual" status when interest or principal payments are past due for a specified period, at which time no further interest is accrued and overdue interest is written off against interest income. Interest income and principal payments on loans placed on non-accrual status is recognized when received. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are generally placed on "non-accrual" status when interest or principal payments are three months past due or if they are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

i. Allowance for credit losses

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

Retail

The Bank's retail loan loss allowance consists of specific allowance and allowance for loans collectively evaluated for impairment (termed as "unallocated allowance").

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

The Bank also records unallocated allowances for its retail loans by product type. The Bank's retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its unallocated allowance for retail loans based on its probability of default and loss given default, determined for the respective risk pools.

Wholesale

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

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

The Bank establishes specific allowances for each impaired wholesale loan customer, in the aggregate, for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent. Collateral values are generally based on appraisals from internal and external valuation sources.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank has also established an unallocated allowance for wholesale standard loans based on the internal rating grades assigned, and the probability of default associated with internal rating grade pools and the loss given default.

j. Sales/transfer of receivables

The Bank enters into assignment transactions, which are similar to asset-backed securitization transactions through the special purpose entities (SPEs) route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. The Bank also sells finance receivables to SPEs, formerly qualifying special purpose entities (QSPEs) in securitization transactions. Recourse is in the form of the Bank's investment in subordinated securities issued by these SPEs, cash collateral and other credit and liquidity enhancements. The receivables are derecognized in the balance sheet when they are sold and consideration has been received by the Bank. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

The Bank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets is considered a sale. Furthermore, former qualifying special purpose entities (QSPEs) are now considered VIEs and are no longer exempt from consolidation. The Bank consolidates VIEs when it has both: (1) power to direct activities of the VIE that most significantly impact the entity's economic performance and (2) an obligation to absorb losses or right to receive benefits from the entity that could potentially be significant to the VIE. The scope conditions examined include whether the entities' equity investment at risk is insufficient to finance the activities without subordinated financial support and whether the holders of equity lack the characteristics of a financial interest. A controlling financial interest includes characteristics such as ability to make decisions through voting or similar rights, unlimited obligation to absorb the entities expected losses, and unlimited rights to receive the entities expected residual returns.

Gains or losses from the sale of receivables are recognized in the income statement in the period the sale occurs based on the relative fair value of the portion sold and the portion allocated to retained interests, and are reported net of the estimated cost of servicing by the Bank.

Fair values are determined based on the present value of expected future cash flows, using best estimates for key assumptions, such as prepayment and discount rates, commensurate with the risk involved.

k. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of property and equipment on a straight-line basis at the following rates:

Type of Asset	Rate of depreciation
Premises	1.63%
Software and systems	20.00%
Equipment and furniture	10.00%-33.33%

For assets purchased and sold during the year, depreciation is provided on a pro rata basis by the Bank and capital advances are included in other assets. Improvements to leasehold premises are charged off over the remaining primary period of the lease.

l. Lease accounting

Effective April 1, 2019, the Bank adopted FASB ASU 2016-02 "Leases (Topic 842)". The Bank applied Topic 842 using the modified retrospective method. As a result, comparative information has not been adjusted and continues to be reported under ASC 840. As of April 1, 2019, the date of the Bank's initial application of ASC 842, the Bank recognized its lease liabilities measured as the present value of lease payments not yet paid, discounted using the incremental borrowing rate as at the date of initial application. The right-of-use asset as of the date of the initial application includes an initial measurement of the lease liabilities adjusted for accrued lease payments as of date of initial application.

At the inception of the contract, the Bank assesses whether the contract, is or contains, a lease. The Bank's assessment is based on whether(1) the contract involves the use of distinct identified assets, (2) the Bank has the right to substantially all the economic benefit from the use of the asset throughout the term of the contract, and (3) the Bank has the right to direct the use of the asset. Leases are examined for classification as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria is met (1) the lease transfers ownership of the asset by the end of the lease term, (2) the lease contains an option to purchase the asset that is reasonably certain to be exercised, (3) the lease term is for the major part of the remaining useful life of the asset or (4) the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of the above criteria.

The Banks's lessee arrangements consist of operating leases. The Bank records right-of-use assets and lease liabilities at the lease commencement date. Right-of-use assets are reported in other assets on the Consolidated Balance Sheets, and the related lease liabilities are reported in accrued expenses and other liabilities. The Bank has elected not to record right-of-use assets for short-term-leases that have a lease term of 12 months or less and thus, all leases with a lease term exceeding 12 months are recorded on the consolidated balance sheet.

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Lease expense is recognized on a straight-line basis over the lease term and is recorded in non-interest expense- premises and equipment in the consolidated statements of income. The Bank made an accounting policy decision not to separate lease and non-lease components of a contract that is or contains a lease. At the lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate as at the date of the lease commencement. Right-of-use assets initially equal the lease liabilities, adjusted for any lease payments made prior to lease commencement and for any lease incentives.

The Bank assesses leased assets for impairment, and if the carrying amount of the leased asset exceeds the undiscounted cash flows from the lease payments and the estimated residual value upon disposition of the leased asset, an impairment loss is recognized.

m. Impairment or disposal of tangible long-lived assets

Whenever events or circumstances indicate that the carrying amount of tangible long lived assets may not be recoverable, the Bank subjects such long lived assets to a test of recoverability based on the undiscounted cash flows from use or disposition of the asset. Such events or circumstances would include changes in the market, technology obsolescence, adverse changes in profitability or regulation. If the asset is impaired, the Bank recognizes an impairment loss estimated as the difference between the carrying value and the net realizable value.

n. Income tax

Income tax expense/benefit consists of the current tax expense and the net change in deferred tax assets or liabilities during the year.

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases, and for operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance to the amount that is more likely than not to be realized based on management’s judgment. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the deferred tax assets or liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is greater than 50 percent likely of being realized upon settlement. The difference between the benefit recognized for a position in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. The Bank’s policy is to include interest income, interest expense and penalties on overpayments and underpayment of income taxes within income tax expense in the consolidated statement of income. Interest income on overpayments of income taxes is recognized when the related matter is resolved.

The Bank accounted for dividend distribution tax in equity in the year in which a dividend is declared. With effect from April 1, 2020, no direct tax required to be paid by the Bank since dividend distribution tax payable on dividend distributed have been abolished.

The Bank follows specific identification method for releasing income tax effects from accumulated other comprehensive income.

o. Revenue recognition

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment.

Dividends from investments are recognized when declared.

Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

p. Foreign currency transactions

The Bank’s functional currency is the Indian Rupee, except for the Bank’s foreign branches. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into respective functional currency using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on foreign currency transactions are included in the determination of net income under foreign exchange transactions.

For the foreign branches, the assets, liabilities and operations are translated, for consolidation purposes, from functional currency of the foreign branch to the Indian Rupee reporting currency at period-end rates for assets and liabilities and at average rates for operations. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive income (OCI).

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q. Stock-based compensation

The fair value of stock-based compensation is estimated on the date of each grant based on a binomial model. For further information, see note 22.

r. Debt issuance costs

Issuance costs of long-term debt are amortized over the tenure of the debt.

s. Earnings per share

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period, using the treasury stock method, except where the result would be anti-dilutive. The Bank also reports basic and diluted earnings per ADS, where each ADS represents three equity shares. Earnings per ADS have been computed as earnings per equity share multiplied by the number of equity shares per ADS. A reconciliation of the number of shares used in computing earnings per share has been provided in note 29.

t. Segment information

The Bank operates in three reportable segments, namely retail banking, wholesale banking and treasury services. Segment-wise information has been provided in note 26.

u. Derivative financial instruments

The Bank recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the balance sheet and measures them at fair value. The Bank has not designated any derivatives as hedges. As such, all changes in fair value of derivative instruments are recognized in net income under derivative gain/(loss) in the period of change.

The Bank enters into forward exchange contracts, currency swaps and currency options with its customers and typically transfers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on market quotations or market-based inputs.

The Bank enters into interest rate swaps for its own account. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically offsets these risks in the inter-bank market. Such contracts are carried on the balance sheet at fair value, or priced using market determined yield curves.

v. Business combination

The Bank accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Bank's future results of operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of bank's interest and the acquiree's net fair value of identifiable assets and liabilities is recognized as goodwill.

w. Goodwill and other intangibles

Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step is to be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

x. Recently adopted accounting standards

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)”. The update generally requires recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. In particular, the guidance requires a lessee, of operating or finance leases, to recognize on the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. However, for leases with lease term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. Previously, a lessee was not required to recognize lease assets and lease liabilities arising from operating leases. Lessor accounting is largely unchanged. The Bank adopted the FASB guidance effective April 1, 2019. To transition to the new guidance, the Bank elected several available practical expedients, including not to reassess the classification of its existing leases, any initial direct costs associated with the leases, or whether any existing contracts are or contain leases. In addition, the Bank elected not to provide a comparative presentation for fiscal 2019 and 2018. At adoption, the Bank recognized a lease liability of Rs. 56.9 billion and a corresponding right-of-use asset of approximately Rs. 53.0 billion on the consolidated balance sheet related to its future lease payments as a lessee under operating leases. Adoption of the ASU did not have a material impact on the consolidated statement of income and cash flows. See note 27 for additional details.

x. Recently issued accounting pronouncements not yet effective

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The ASU introduces a new accounting model, the Current Expected Credit Losses model ("CECL"), which requires earlier recognition of credit losses, while also providing transparency about credit risk. The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held to maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are required to be adjusted each period for changes in expected lifetime credit losses. The update requires use of judgment in determining the relevant information and estimation methods that are appropriate for measurement of expected credit losses which is to be based on relevant information about past events, historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In regard to Available-for-Sale Debt Securities, the credit losses are required to be recorded through an allowance and the ASU limits the amount of the allowance for credit losses to the amount by which fair value is below amortized cost. While the update changes the measurement of the allowance for credit losses, it does not change the credit risk for the Bank's loan portfolios. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, viz. ASUs 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASUs have provided for various minor technical corrections and improvements to the codification as well as other transition matters. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank will adopt the guidance in fiscal 2021. Key implementation initiatives have included model development and validation, data acquisition for model estimation and new disclosures, and the establishment of policies encompassing aspects of the standard including internal controls. The allowance methodologies and model duly validated and tested, will be implemented for fiscal 2021. At the date of adoption, the ASU will result in a negative adjustment to retained earnings. The ultimate impact is dependent on the finalization of the assessment of the characteristics of the Bank's portfolio, macroeconomic conditions and related forecasts at date of adoption and the potential impact of COVID-19. On adoption, the CECL transitional amount (being a cumulative effect adjustment) will be included in shareholders' equity. This will have no impact on the Bank's regulatory capital requirements which is based on Indian GAAP.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles-Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment". The amendment in this update simplifies the subsequent measurement of goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e., the current Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. The impairment test is simply the comparison of the fair value of a reporting unit with its carrying amount (the current Step 1), with the impairment charge being the deficit in fair value but not exceeding the total amount of goodwill allocated to that reporting unit. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank expects to adopt the guidance in fiscal 2021. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

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In August 2018, the FASB issued ASU No. 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments modify certain disclosure requirements for fair value measurements. Entities are required to disclose and describe the range and weighted-average of significant observable inputs used to prospectively develop Level 3 fair value measurements. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2021. The adoption of this guidance is not expected to have a material impact on the Bank’s consolidated financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s A ccounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”. The update aligns the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, regardless of whether they convey a license to the hosted software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by this ASU. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. An entity has the option to apply amendments in the ASU either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2021. The adoption of this guidance is not expected to have a material impact on the Bank’s consolidated financial position or results of operations.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes.” This ASU is part of the FASB’s initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The ASU removes specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers’ application of certain income tax-related guidance. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2022. The Bank is currently assessing the impact of this guidance will have on its consolidated financial position or results of operations.

In January 2020, the FASB issued ASU 2020-01, “Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.” ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity with the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2022. The Bank is currently assessing the impact of this guidance will have on its consolidated financial position or results of operations.

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting”. The ASU provides for optional expedients and other guidance related to modification of contracts , hedging relationships, and other transactions affected by reference rate reform. The ASU also provides an election to account for certain contract amendments related to reference rate reform as modifications rather than extinguishments without the requirement to assess the significance of the amendments. The various practical expedients and elections allow hedge accounting to continue uninterrupted during the transition period. The amendments in the update are elective and applicable on issue . The Bank is currently assessing the various practical expedients and elections provided in the update and its suitability and impact on the Bank’s transition away from LIBOR for its financial instrument.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

y. Convenience translation

The accompanying financial statements have been expressed in Indian Rupees ("Rs."), the Bank's functional currency. For the convenience of the reader, the financial statements as of and for the fiscal year ended March 31, 2020 have been translated into U.S. dollars at U.S.$1.00 = Rs. 75.39 as published by the Federal Reserve Board of New York on March 31, 2020. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Cash and due from banks, and restricted cash

The Bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. As prescribed by the RBI, the cash reserve ratio has to be maintained on an average basis for a two-week period. The average balance maintained for the such two-week period should not fall below the prescribed threshold limit. Non-maintenance of the requisite balance is subject to levy of penalty. The Bank has classified the cash reserve maintained with the RBI as restricted cash or restricted cash equivalents (restricted cash).

The cash and due from banks, and restricted cash consist of restricted cash of Rs. 383,503.0 million and Rs. 361,409.5 million (US$ 4,793.9 million) as at March 31, 2019 and March 31, 2020, respectively.

4. Investments, held for trading

The portfolio of trading securities as of March 31, 2019 and March 31, 2020 was as follows:

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 134,084.9	Rs. 163.2	Rs. 0.1	Rs. 134,248.0
Other corporate/financial institution securities	33,990.6	15.8	1.1	34,005.3
Total debt securities	Rs. 168,075.5	Rs. 179.0	Rs. 1.2	Rs. 168,253.3
Other securities (including mutual fund units)	96,935.6	327.2	—	97,262.8
Total	Rs. 265,011.1	Rs. 506.2	Rs. 1.2	Rs. 265,516.1

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 207,131.4	Rs. 592.9	Rs. 17.2	Rs. 207,707.1
Other corporate/financial institution securities	4,495.9	7.1	32.5	4,470.5
Total debt securities	Rs. 211,627.3	Rs. 600.0	Rs. 49.7	Rs. 212,177.6
Other securities (including mutual fund units)	92,683.9	101.4	—	92,785.3
Total	Rs. 304,311.2	Rs. 701.4	Rs. 49.7	Rs. 304,962.9
Total	US$ 4,036.5	US$ 9.3	US$ 0.7	US$ 4,045.1

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5. Investments, available for sale debt securities

The portfolio of available for sale debt securities as of March 31, 2019 and March 31, 2020 was as follows:

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs.2,147,934.6	Rs. 21,881.4	Rs. 9,834.9	Rs.2,159,981.1
State government securities	144,633.7	4,864.6	475.7	149,022.6
Government securities outside India	7,201.6	3.3	—	7,204.9
Credit substitutes (see note 7)	273,550.7	899.9	1,563.8	272,886.8
Other corporate/financial institution bonds	3,925.0	30.9	6.3	3,949.6
Debt securities, other than asset and mortgage-backed securities	2,577,245.6	27,680.1	11,880.7	2,593,045.0
Mortgage-backed securities	56.3	1.0	0.4	56.9
Asset-backed securities	38,827.1	165.0	122.2	38,869.9
Other securities (including mutual fund units) (1)	1,376.3	0.3	—	1,376.6
Total	Rs.2,617,505.3	Rs. 27,846.4	Rs. 12,003.3	Rs.2,633,348.4
Securities with gross unrealized losses				Rs. 799,718.5
Securities with gross unrealized gains				1,833,629.9
				Rs.2,633,348.4

(1) *The Bank adopted ASU 2016-01 and ASU 2018-03 as of April 1, 2018, resulting in a cumulative effect adjustment from AOCI to retained earnings for net unrealized gains on marketable equity securities AFS. The available-for sale category was eliminated for equity securities amortized cost Rs. 855.6 million and carrying value Rs. 1,267.7 million effective April 1, 2018.*

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 2,637,464.4	Rs. 52,630.0	Rs. 1,491.6	Rs. 2,688,602.8
State government securities	177,055.9	11,337.7	—	188,393.6
Government securities outside India	8,367.0	48.4	—	8,415.4
Credit substitutes (see note 7)	360,741.5	2,309.5	677.3	362,373.7
Other corporate/financial institution bonds	29,710.9	212.8	409.6	29,514.1
Debt securities, other than asset and mortgage-backed securities	3,213,339.7	66,538.4	2,578.5	3,277,299.6
Mortgage-backed securities	37.3	0.8	—	38.1
Asset-backed securities	125,931.2	1,746.0	150.0	127,527.2
Other securities (including mutual fund units)	1,424.1	0.2	—	1,424.3
Total	Rs. 3,340,732.3	Rs. 68,285.4	Rs. 2,728.5	Rs. 3,406,289.2
Total	US$ 44,312.6	US$ 905.8	US$ 36.2	US$ 45,182.2
Securities with gross unrealized losses				Rs. 300,932.1
Securities with gross unrealized gains				3,105,357.1
				Rs. 3,406,289.2
				US$ 45,182.2

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

AFS investments of Rs. 2,309,003.7 million and Rs. 2,876,996.4 million (US$ 38,161.5 million) as of March 31, 2019 and March 31, 2020, respectively, are eligible towards the Bank's statutory liquidity reserve requirements. These balances are subject to withdrawal and usage restrictions towards the reserve requirements, but may be freely traded by the Bank. Of these investments, Rs. 1,634,673.3 million as of March 31, 2019 and Rs. 1,760,859.1 million (US$ 23,356.7 million) as of March 31, 2020, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO) and real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 149.1 million, Rs. 1,081.0 million and Rs. 9,109.0 million (USD 120.8 million) as other than temporary impairment in fiscal year 2018, 2019 and 2020, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank is of the opinion that the other unrealized losses on its investments in debt securities as of March 31, 2020 are temporary in nature. As of March 31, 2019 and March 31, 2020, the Bank did not hold any debt securities with credit losses for which a portion of other-than-temporary impairment was recognized in other comprehensive income.

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2019 was as follows:

	As of March 31, 2019					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. —	Rs. —	Rs.568,759.0	Rs. 9,834.9	Rs.568,759.0	Rs. 9,834.9
State government securities	—	—	27,415.5	475.7	27,415.5	475.7
Government securities outside India	—	—	—	—	—	—
Credit substitutes (see note 7)	17,996.3	88.1	165,700.5	1,475.7	183,696.8	1,563.8
Other corporate/financial institution bonds	—	—	2,117.6	6.3	2,117.6	6.3
Debt securities, other than asset and mortgage-backed securities	17,996.3	88.1	763,992.6	11,792.6	781,988.9	11,880.7
Mortgage-backed securities	—	—	45.7	0.4	45.7	0.4
Asset-backed securities	14,191.2	48.9	3,492.7	73.3	17,683.9	122.2
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs.32,187.5	Rs. 137.0	Rs.767,531.0	Rs.11,866.3	Rs.799,718.5	Rs.12,003.3

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2020 was as follows:

	As of March 31, 2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 24,492.8	Rs. 69.8	Rs. 158,735.8	Rs. 1,421.8	Rs. 183,228.6	Rs. 1,491.6
State government securities	—	—	—	—	—	—
Government securities outside India	—	—	—	—	—	—
Credit substitutes (see note 7)	38,039.9	481.2	18,680.4	196.1	56,720.3	677.3
Other corporate/financial institution bonds	18,626.2	409.6	—	—	18,626.2	409.6
Debt securities, other than asset and mortgage-backed securities	81,158.9	960.6	177,416.2	1,617.9	258,575.1	2,578.5
Mortgage-backed securities	—	—	—	—	—	—
Asset-backed securities	41,510.7	144.7	846.3	5.3	42,357.0	150.0
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs. 122,669.6	Rs. 1,105.3	Rs. 178,262.5	Rs. 1,623.2	Rs. 300,932.1	Rs. 2,728.5
Total	US$ 1,627.1	US$ 14.7	US$ 2,364.5	US$ 21.5	US$ 3,991.6	US$ 36.2

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of March 31, 2020 is set out below:

	As of March 31, 2020		
	Amortized Cost	Fair Value	Fair Value
		(In millions)	
Within one year	Rs.1,112,389.9	Rs.1,115,946.4	US$14,802.3
Over one year through five years	838,625.0	861,818.8	11,431.5
Over five years through ten years	916,798.3	946,302.3	12,552.1
Over ten years	345,526.5	353,232.1	4,685.4
Total	Rs.3,213,339.7	Rs.3,277,299.6	US$43,471.3

The contractual residual maturity of available for sale mortgage-backed and asset-backed debt securities as of March 31, 2020 is set out below:

	As of March 31, 2020		
	Amortized Cost	Fair Value	Fair Value
		(In millions)	
Within one year	Rs. 47,973.3	Rs. 48,473.5	US$ 643.0
Over one year through five years	75,458.2	76,412.3	1,013.6
Over five years through ten years	1,576.5	1,621.6	21.5
Over ten years	960.5	1,057.9	14.0
Total	Rs. 125,968.5	Rs.127,565.3	US$1,692.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Gross realized gains on sale	Rs. 11,433.8	Rs. 3,788.1	Rs. 26,128.1	US$ 346.6
Gross realized losses on sale	(580.6)	(1,192.1)	(301.9)	(4.0)
Realized gains (losses), net	10,853.2	2,596.0	25,826.2	342.6
Dividends and interest	158,209.2	190,992.5	198,383.2	2,631.4
Total	Rs.169,062.4	Rs.193,588.5	Rs.224,209.4	US$2,974.0

6. Investments, held to maturity

There were no HTM securities as of March 31, 2019 and March 31, 2020.

7. Credit substitutes

Credit substitutes consist of securities that the Bank invests in as part of an overall extension of credit to certain customers. Such securities share many of the risk and reward characteristics of loans and are managed by the Bank together with other credit facilities extended to the same customers. The fair values of credit substitutes by type of instrument as of March 31, 2019 and March 31, 2020 were as follows:

	As of March 31,			
	2019		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions)			
Available for sale credit substitute debt securities:				
Debentures	Rs. 247,869.1	Rs.247,152.5	Rs. 236,717.2	Rs. 237,980.3
Commercial paper	25,681.6	25,734.3	124,024.3	124,393.4
Total	Rs. 273,550.7	Rs.272,886.8	Rs. 360,741.5	Rs. 362,373.7
			US$ 4,785.0	US$ 4,806.7

The fair values of credit substitutes by the Bank's internal credit quality indicators and amounts provided for other than temporary impairments is as follows:

	As of March 31,		
	2019	2020	2020
	(In millions)		
Pass	Rs.272,886.8	Rs.362,373.7	US$4,806.7
Impaired—gross balance	—	—	—
Less: amounts provided for other than temporary impairments	—	—	—
Impaired credit substitutes, net	—	—	—
Total credit substitutes, net	Rs.272,886.8	Rs.362,373.7	US$4,806.7

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impaired credit substitutes:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Gross impaired credit substitutes	Rs —	Rs —	US$—
Gross impaired credit substitutes by industry	Rs. —	Rs.—	US$—
Average impaired credit substitutes	Rs. —	Rs.—	US$—
Interest income recognized on impaired credit substitutes	Rs. —	Rs. —	US$ —

As of March 31, 2020, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

8. Repurchase and resell agreements

Securities sold under agreements to repurchase (“repos”) and securities purchased under agreements to resell (“reverse repos”) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized transactions. There were no such transactions accounted for as sales during the years ended March 31, 2018, March 31, 2019 and March 31, 2020. Interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

a. Securities purchased under agreements to resell

Securities purchased under agreements to resell are classified separately from investments and generally mature within 14 days of the transaction date. Such resell transactions are recorded at the amount of cash advanced on the transaction. Resell transactions outstanding as of March 31, 2019 and March 31, 2020 were Rs. 76,213.5 million and Rs. 250,000.0 million (US$ 3,316.1 million), respectively (see note 24).

b. Securities sold under repurchase agreements

Securities sold under agreements to repurchase are classified separately under liabilities and generally mature within 14 days of the transaction date. Such repurchase transactions are recorded at the amount of cash received on the transaction. Repurchase transactions outstanding as of March 31, 2019 and March 31, 2020 were Rs. 174,000.0 and Rs. 507,982.0 million (US$ 6,738.1 million), respectively. The Government of India securities are pledged as collateral (see note 24).

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Loans

Loan balances include Rs. 780,869.5 million and Rs. 574,064.8 million (US$ 7,614.6 million) as of March 31, 2019 and March 31, 2020, respectively, which have been provided as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2019 and March 31, 2020 were as follows:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Retail loans:			
Auto loans	Rs. 951,744.2	Rs. 952,053.1	US$ 12,628.4
Personal loans/Credit cards	1,538,107.4	1,920,601.6	25,475.5
Retail business banking	1,478,317.8	1,658,770.3	22,002.5
Commercial vehicle and construction equipment finance	746,288.0	747,382.4	9,913.5
Housing loans	513,771.6	634,612.4	8,417.7
Other retail loans	1,009,674.6	1,127,380.6	14,954.0
Subtotal	Rs.6,237,903.6	Rs. 7,040,800.4	US$ 93,391.6
Wholesale loans	Rs.2,873,561.0	Rs. 3,583,055.2	US$ 47,527.0
Gross loans	9,111,464.6	10,623,855.6	140,918.6
Less: Allowance for credit losses	148,232.0	198,833.2	2,637.4
Total	Rs.8,963,232.6	Rs.10,425,022.4	US$138,281.2

The maturity of gross loans as of March 31, 2020 is set out below:

	As of March 31, 2020		
	Wholesale loans	Retail loans	Total
		(In millions)	
Maturity profile of loans:			
Within one year	Rs. 1,718,893.5	Rs. 2,140,034.9	Rs. 3,858,928.4
Over one year through five years	1,191,304.1	4,290,512.7	5,481,816.8
Over five years	672,857.6	610,252.8	1,283,110.4
Total gross loans	Rs. 3,583,055.2	Rs. 7,040,800.4	Rs. 10,623,855.6
Total gross loans	US$ 47,527.0	US$ 93,391.6	US$ 140,918.6

Gross loans analyzed by performance are as follows:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Performing	Rs.8,971,042.1	Rs.10,466,428.7	US$138,830.5
Impaired	140,422.5	157,426.9	2,088.1
Total gross loans	Rs.9,111,464.6	Rs.10,623,855.6	US$140,918.6

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table provides details of age analysis of loans as of March 31, 2019 and March 31, 2020.

	As of March 31, 2019			
	31-90 days past due	Impaired / 91 days or more past due	Current [1,2]	Total
	(In millions)			
Retail Loans				
Auto loans	Rs. 4,807.0	Rs. 13,606.7	Rs. 933,330.5	Rs. 951,744.2
Personal loans/Credit card	11,520.2	15,781.5	1,510,805.7	1,538,107.4
Retail business banking	9,087.9	29,945.0	1,439,284.9	1,478,317.8
Commercial vehicle and construction equipment finance	9,225.0	11,254.9	725,808.1	746,288.0
Housing loans	784.9	2,157.1	510,829.6	513,771.6
Other retail	9,480.1	29,523.6	970,670.9	1,009,674.6
Wholesale loans	202.9	38,153.7	2,835,204.4	2,873,561.0
Total	Rs. 45,108.0	Rs. 140,422.5	Rs. 8,925,934.1	Rs. 9,111,464.6

1) Loans up to 30 days past due are considered current
2) Includes crop related agricultural loans with days past due less than 366 as they are not considered as impaired Rs. 34.0 billion.

	As of March 31, 2020			
	31-90 days past due	Impaired / 91 days or more past due	Current [1,2]	Total
	(In millions)			
Retail Loans				
Auto loans	Rs. 4,049.3	Rs. 15,279.2	Rs. 932,724.6	Rs. 952,053.1
Personal loans/Credit card	16,819.3	14,481.7	1,889,300.6	1,920,601.6
Retail business banking	15,210.9	32,866.3	1,610,693.1	1,658,770.3
Commercial vehicle and construction equipment finance	17,679.2	22,992.2	706,711.0	747,382.4
Housing loans	3,330.9	2,921.3	628,360.2	634,612.4
Other retail	13,038.1	33,462.8	1,080,879.7	1,127,380.6
Wholesale loans	5,126.9	35,423.4	3,542,504.9	3,583,055.2
Total	Rs. 75,254.6	Rs. 157,426.9	Rs. 10,391,174.1	Rs. 10,623,855.6
Total	US$ 998.1	US$ 2,088.1	US$ 137,832.4	US$ 140,918.6

1) Loans up to 30 days past due are considered current
2) Includes crop related agricultural loans with days past due less than 366 as they are not considered as impaired Rs. 39.0 billion.

The Bank has a credit risk mitigating/monitoring mechanism which is comprised of target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

For wholesale credit risk in addition to the credit approval process the Bank has an approved framework for the review and approval of credit ratings. Credit Policies and Procedures articulate credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. These are reviewed in detail at annual or more frequent intervals. To ensure adequate diversification of risk, concentration limits have been set up in terms of borrower/business group, industry and risk grading.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For retail credit, the policy and approval processes are designed for the fact that the Bank has high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of the Bank's experience and industry data, in combination with the judgment of the Bank's senior officers. The Bank mines data on its borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment and use these as inputs in revising the Bank's product programs, target market definitions and credit assessment criteria to meet the Bank's twin objectives of combining volume growth and maintenance of asset quality.

As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments. The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

The amount of purchased financing receivable outstanding as of March 31, 2019 and March 31, 2020 is Rs. 514,756.0 and Rs. 644,672.4, respectively.

Retail Loans

Credit quality indicator based on payment activity as of March 31, 2019 and as of March 31, 2020 is given below:

	As of March 31, 2019						
	Auto loans	Personal loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Total
	(In millions)						
Performing	Rs. 938,137.5	Rs. 1,522,325.9	Rs. 1,448,372.8	Rs. 735,033.1	Rs. 511,614.5	Rs. 980,151.0	Rs. 6,135,634.8
Impaired	13,606.7	15,781.5	29,945.0	11,254.9	2,157.1	29,523.6	102,268.8
Total	Rs. 951,744.2	Rs. 1,538,107.4	Rs. 1,478,317.8	Rs. 746,288.0	Rs. 513,771.6	Rs. 1,009,674.6	Rs. 6,237,903.6

	As of March 31, 2020						
	Auto loans	Personal loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Total
	(In millions)						
Performing	Rs. 936,773.9	Rs. 1,906,119.9	Rs. 1,625,904.0	Rs. 724,390.2	Rs. 631,691.1	Rs. 1,093,917.8	Rs. 6,918,796.9
Impaired	15,279.2	14,481.7	32,866.3	22,992.2	2,921.3	33,462.8	122,003.5
Total	Rs. 952,053.1	Rs. 1,920,601.6	Rs. 1,658,770.3	Rs. 747,382.4	Rs. 634,612.4	Rs. 1,127,380.6	Rs. 7,040,800.4
Total	US$ 12,628.4	US$ 25,475.5	US$ 22,002.5	US$ 9,913.5	US$ 8,417.7	US$ 14,954.0	US$ 93,391.6

Wholesale Loans

The Bank has in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/impaired. Wholesale loans that are not impaired are disclosed as pass or labeled and considered to be performing. Labeled loans are those with evidence of weakness where such exposures indicate deteriorating trends which if not corrected could adversely impact repayment of the obligations. The Bank's model assesses the overall risk over four major categories – industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of March 31,		
	2019	2020	2020
		(In millions)	
Credit quality indicators-Internally assigned grade and payment activity			
Pass	Rs. 2,834,466.7	Rs. 3,524,290.5	US$ 46,747.5
Labeled	940.6	23,341.3	309.6
Impaired	38,153.7	35,423.4	469.9
Total	Rs. 2,873,561.0	Rs. 3,583,055.2	US$ 47,527.0

Impaired loans are those for which the Bank believes that it is probable that it will not collect all amounts due according to the original contractual terms of the loans and includes troubled debt restructuring. The following table provides details of impaired loans as of March 31, 2019 and March 31, 2020.

	As of March 31, 2019				
	Recorded investments	Unpaid principal balance	Related specific allowance	Average recorded investments	Finance receivable on non-accrual status
			(In millions)		
Retail Loans					
Auto loans	Rs. 13,606.7	Rs. 13,606.7	Rs. 6,169.0	Rs. 11,120.6	Rs. 13,606.7
Personal loans/Credit card	15,781.5	15,781.5	9,694.0	12,966.2	15,781.5
Retail business banking	29,945.0	29,945.0	21,595.3	27,746.1	29,945.0
Commercial vehicle and construction equipment finance	11,254.9	11,254.9	6,544.8	9,111.5	11,254.9
Housing loans	2,157.1	2,157.1	1,105.2	2,028.3	2,157.1
Other retail	29,523.6	29,523.6	20,441.5	26,114.0	29,523.6
Wholesale loans	38,153.7	38,153.7	20,233.2	35,483.3	38,153.7
Total	Rs. 140,422.5	Rs. 140,422.5	Rs. 85,783.0	Rs. 124,570.0	Rs. 140,422.5

	As of March 31, 2020				
	Recorded investments	Unpaid principal balance	Related specific allowance	Average recorded investments	Finance receivable on non-accrual status
			(In millions)		
Retail Loans					
Auto loans	Rs. 15,279.2	Rs. 15,279.2	Rs. 7,814.5	Rs. 14,443.0	Rs. 15,279.2
Personal loans/Credit card	14,481.7	14,481.7	8,535.1	15,131.6	14,481.7
Retail business banking	32,866.3	32,866.3	21,687.4	31,405.7	32,866.3
Commercial vehicle and construction equipment finance	22,992.2	22,992.2	11,607.3	17,123.6	22,992.2
Housing loans	2,921.3	2,921.3	1,414.7	2,539.2	2,921.3
Other retail	33,462.8	33,462.8	24,116.5	31,493.2	33,462.8
Wholesale loans	35,423.4	35,423.4	26,426.4	36,788.6	35,423.4
Total	Rs. 157,426.9	Rs. 157,426.9	Rs. 101,601.9	Rs. 148,924.9	Rs. 157,426.9
Total	US$ 2,088.1	US$ 2,088.1	US$ 1,347.7	US$ 1,975.4	US$ 2,088.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impaired loans by industry as of March 31, 2019 and March 31, 2020 are as follows:

	As of March 31, 2019 (In millions)	
Gross impaired loans by industry:		
—Consumer Loans	Rs.	22,513.7
—Agriculture Production—Food		18,915.0
—Wholesale Trade- Non Industrial		15,856.7
—Food and Beverage		8,577.3
—Retail Trade		7,767.0
—Others (none greater than 5% of impaired loans)		66,792.8
Total	Rs.	140,422.5

	As of March 31, 2020 (In millions)	
Gross impaired loans by industry:		
—Agri Production—Food	Rs. 22,546.3	US$ 299.1
—Consumer Loans	21,718.9	288.1
—Road Transportation	13,067.6	173.3
—Retail Trade	8,823.1	117.0
—Food and Beverage	8,137.5	107.9
—Others (none greater than 5% of impaired loans)	83,133.5	1,102.7
Total	Rs. 157,426.9	US$2,088.1

Summary information relating to impaired loans during the fiscal year ended March 31, 2018, March 31, 2019 and March 31, 2020 is as follows:

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Average impaired loans, net of allowance	Rs. 41,683.2	Rs. 50,378.2	Rs. 55,232.3	US$ 732.6
Interest income recognized on impaired loans	Rs. 7,433.7	Rs. 6,994.7	Rs. 10,160.5	US$ 134.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowance for credit losses as of March 31, 2018 are as follows:

	As of March 31, 2018									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 2,792.9	Rs. 4,040.0	Rs. 15,278.4	Rs. 4,398.5	Rs. 739.3	Rs. 6,767.5	Rs. 11,713.5	Rs. 28,110.6	Rs. 4,656.2	Rs. 78,496.9
Write-offs	(6,826.4)	(16,714.3)	(5,730.0)	(3,644.0)	(61.5)	(4,557.4)	(444.7)	—	—	(37,978.3)
Net allowance for credit losses*	7,715.7	18,856.9	9,161.0	4,051.6	296.6	10,712.7	4,054.2	14,036.8	3,103.1	71,988.6
Allowance for credit losses, end of the period	Rs. 3,682.2	Rs. 6,182.6	Rs. 18,709.4	Rs. 4,806.1	Rs. 974.4	Rs. 12,922.8	Rs. 15,323.0	Rs. 42,147.4	Rs. 7,759.3	Rs. 112,507.2
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 15,323.0	Rs. —	Rs. —	Rs. 15,323.0
Allowance collectively evaluated for impairment	3,682.2	6,182.6	18,709.4	4,806.1	974.4	12,922.8	—	42,147.4	7,759.3	97,184.2
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	32,812.8	—	—	32,812.8
Loans collectively evaluated for impairment	8,634.5	10,150.9	25,547.2	6,968.1	1,899.5	22,704.3	—	5,137,460.1	2,130,001.6	7,343,366.2

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 12,590.8 million. Recoveries from r etail loans is Rs. 12,254.3 million and from w holesale loans is Rs. 336.5 million.

Allowances for credit losses as of March 31, 2019 are as follows:

	As of March 31, 2019									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 3,682.2	Rs. 6,182.6	Rs. 18,709.4	Rs. 4,806.1	Rs. 974.4	Rs. 12,922.8	Rs. 15,323.0	Rs. 42,147.4	Rs. 7,759.3	Rs. 112,507.2
Write-offs	(9,155.3)	(25,197.0)	(6,665.5)	(4,812.8)	(93.3)	(5,652.0)	(1,755.7)	—	—	(53,331.6)
Net allowance for credit losses*	11,642.1	28,708.4	9,551.4	6,551.5	224.1	13,170.7	6,665.9	10,793.7	1,748.6	89,056.4
Allowance for credit losses, end of the period	Rs. 6,169.0	Rs. 9,694.0	Rs. 21,595.3	Rs. 6,544.8	Rs. 1,105.2	Rs. 20,441.5	Rs. 20,233.2	Rs. 52,941.1	Rs. 9,507.9	Rs. 148,232.0
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 20,233.2	Rs. —	Rs. —	Rs. 20,233.2
Allowance collectively evaluated for impairment	6,169.0	9,694.0	21,595.3	6,544.8	1,105.2	20,441.5	—	52,941.1	9,507.9	127,998.8
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	38,153.7	—	—	38,153.7
Loans collectively evaluated for impairment	13,606.7	15,781.5	29,945.0	11,254.9	2,157.1	29,523.6	—	6,135,634.8	2,835,407.3	9,073,310.9

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 16,777.1 million. Recoveries from r etail loans is Rs. 16,590.9 million and from wholesale loans is Rs. 186.2 million.

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowances for credit losses as of March 31, 2020 are as follows:

	As of March 31, 2020										
	Specific							Unallocated			
	Retail										
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total	Total
	(In millions)										
Allowance for credit losses, beginning of the period	Rs. 6,169.0	Rs. 9,694.0	Rs. 21,595.3	Rs. 6,544.8	Rs. 1,105.2	Rs. 20,441.5	Rs. 20,233.2	Rs. 52,941.1	Rs. 9,507.9	Rs. 148,232.0	US$ 1,966.2
Write-offs	(11,524.3)	(41,646.3)	(9,379.0)	(10,838.5)	(130.3)	(12,833.1)	(6,328.1)	—	—	(92,679.6)	(1,229.3)
Net allowance for credit losses*	13,169.8	40,487.4	9,471.1	15,901.0	439.8	16,508.1	12,521.3	31,088.3	3,694.0	143,280.8	1,900.5
Allowance for credit losses, end of the period	Rs. 7,814.5	Rs. 8,535.1	Rs. 21,687.4	Rs. 11,607.3	Rs. 1,414.7	Rs. 24,116.5	Rs. 26,426.4	Rs. 84,029.4	Rs. 13,201.9	Rs. 198,833.2	US$ 2,637.4
Allowance for credit losses:											
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 26,426.4	Rs. —	Rs. —	Rs. 26,426.4	US$ 350.5
Allowance collectively evaluated for impairment	7,814.5	8,535.1	21,687.4	11,607.3	1,414.7	24,116.5	—	84,029.4	13,201.9	172,406.8	2,286.9
Loans:											
Loans individually evaluated for impairment	—	—	—	—	—	—	35,423.4	—	—	35,423.4	469.9
Loans collectively evaluated for impairment	15,279.2	14,481.7	32,866.3	22,992.2	2,921.3	33,462.8	—	6,918,796.9	3,547,631.8	10,588,432.2	140,448.8

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 25,658.9 million (US$ 340.3 million). Recoveries from r etail loans is Rs.22,548.7 million and from wholesale loans is Rs. 3,110.2 million.

The unallocated allowance is assessed at each period end and the increase/(decrease), as the case may be is recorded in the income statement under allowance for credit losses net of recoveries against write-offs. There is no transfer of amounts to or from the unallocated category to the specific category.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Troubled debt restructuring (TDR)

When the Bank grants a concession, for economic or legal reasons related to a borrower's financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. On restructuring, the loans are re-measured to reflect the impact, if any, on projected cash flows resulting from the modified terms. Modification may have little or no impact on the allowance established for the loan if there was no forgiveness of the principal and the interest was not decreased. A charge off may be recorded at the time of restructuring if a portion of the loan is deemed to be uncollectible.

During fiscal 2020, the Bank implemented the package announced by RBI on account of COVID-19 situation which grants temporary extensions in repayment obligations to the borrowers without any interest or financial concessions. These did not meet the conditions to be classified as TDR. The following table summarizes the Bank's TDR modifications during the fiscal year ended March 31, 2019 and March 31, 2020 presented by primary modification type and includes the financial effects of these modifications.There was no TDR modification during fiscal year ended March 31, 2018.

	Fiscal year ended March 31, 2019					
	Carrying value	TDRs involving changes in the amount of principal payments (1)	TDRs involving changes in the amount of interest payments (2)	TDRs involving changes in the amount of both principal and interest payments	Balance of principal forgiven	Net P&L impact (3)
	(In millions)					
Retail Loans:						
Retail business banking	Rs. 17.9	Rs. —	Rs. 17.9	Rs. —	Rs. —	Rs. 4.5
Commercial vehicle and construction equipment finance	—	—	—	—	—	—
Wholesale loans	—	—	—	—	—	—
Total (4)	Rs. 17.9	Rs. —	Rs. 17.9	Rs. —	Rs. —	Rs. 4.5

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred.
(4) TDR modification during the year ended March 31, 2019 comprised of one case.

	Fiscal year ended March 31, 2020					
	Carrying value	TDRs involving changes in the amount of principal payments (1)	TDRs involving changes in the amount of interest payments (2)	TDRs involving changes in the amount of both principal and interest payments	Balance of principal forgiven	Net P&L impact (3)
	(In millions)					
Retail Loans:						
Retail business banking	Rs. 964.1	Rs. —	Rs. 964.1	Rs. —	Rs. —	Rs. 43.1
Commercial vehicle and construction equipment finance	—	—	—	—	—	—
Wholesale loans	—	—	—	—	—	—
Total (4)	Rs. 964.1	Rs. —	Rs. 964.1	Rs. —	Rs. —	Rs. 43.1
Total (4)	US$ 12.8	US$ —	US$ 12.8	US$ —	US$ —	US$ 0.6

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred.
(4) TDR modification during the year ended March 31, 2020 comprised of 13 case s .

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes TDRs that have defaulted in the current period within 12 months of their modification date. The defaulted TDRs are based on a payment default definition of 90 days past due.

	As of March 31, 2020 recorded investments (In millions)
Retail loans:	
Retail business banking	Rs. 17.9
Commercial vehicle and construction equipment finance	—
Wholesale loans	—
Total	Rs. 17.9
Total	US$ 0.2

Interest on loans by facility are as follows:

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Wholesale loans	Rs. 152,124.6	Rs. 199,928.0	Rs. 245,504.7	US$ 3,256.5
Retail loans	515,334.1	627,755.0	736,290.1	9,766.4
Total	Rs. 667,458.7	Rs. 827,683.0	Rs. 981,794.8	US$13,022.9

10. Sales/transfer of receivables

The following table summarizes the cash flows received during the years ended March 31, 2018, March 31, 2019 and March 31, 2020 from customers and paid to SPEs/transferees on securitized/ transferred performing loans:

	Fiscal year ended March 31,			
	2018	2019	2020	202 0
	(In millions)			
Cash flow information				
Collections against securitized receivables/transfers	Rs. 303.9	Rs. 233.5	Rs. 142.9	US$ 1.9
Payments made	301.8	237.7	139.3	1.8
Cash flows on retained interests	Rs. 3.8	Rs. 2.1	Rs. 6.1	US$ 0.1

Other key disclosures are as follows:

	As of March 31,		
	2019	2020	2020
	(In millions)		
Transferred receivables with continuing involvement	Rs. 398.4	Rs. 301.1	US$ 4.0
Delinquencies	253.8	262.0	3.5
Credit losses	242.0	256.4	3.4
Retained interest in sold receivables	15.9	12.1	0.2

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below outlines the economic assumptions and the sensitivity of the estimated fair value of retained interests in finance receivables as of March 31, 2019 and March 31, 2020 to immediate 10% and 20% changes in those assumptions:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Fair value of retained interests			
Annual prepayment rate:			
Impact of 10% adverse change	Rs.1.7	Rs.1.3	US$—
Impact of 20% adverse change	3.3	2.5	—
Expected credit losses:			
Impact of 10% adverse change	2.3	1.8	—
Impact of 20% adverse change	4.5	3.6	—

Weighted average life in years of the securitized receivables is not subject to change, except in the case of a change in the prepayment rate assumption. Consequently, the above sensitivity analysis does not include the impact on the estimated fair values of the retained interests due to an adverse change in the weighted average life in years and the discount rate.

These sensitivities are hypothetical and should be used with appropriate caution. A 10% change in the assumptions may not result in proportionate changes in the fair values of retained interests. Adverse changes assumed in the above analysis and the resultant change in the fair values of retained interests are calculated independent of each other. In reality, any change in one factor may cause a change in the other factors.

11. Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank manages its credit risk collectively for its loan portfolio and credit substitute securities as these instruments are invested in as part of an overall lending program for corporate customers; accordingly, information on concentrations of credit risk has been provided for these exposures together.

In the case of wholesale loans, while the Bank generally lends on a cash-flow basis, it also requires collateral which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities) from a large number of the Bank's borrowers. The Bank's retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities). Retail business banking loans are secured with current assets as well as immovable property and fixed assets in some cases. However, collateral securing each individual loan may not be adequate in relation to the value of the loan. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts. The maximum estimated loss that would be incurred under severe, hypothetical circumstances, for which the Bank believes the possibility is extremely remote, such as where the value of the Bank's interests and any associated collateral declines to zero, without any consideration of recovery or offset is determined as the carrying values of the instruments as given in the below table.

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank's portfolio of loans, credit substitute securities and non-funded exposure (including derivatives) is broadly diversified along industry and product lines, and as of March 31, 2019 and March 31, 2020 the exposures are as set forth below.

	As of March 31, 2019				
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	%
	(In millions, except percentages)				
Consumer Loans	Rs. 2,477,945.6	Rs. —	Rs. 1,552.1	Rs. 2,479,497.7	23.5
Retail trade	445,757.8	1,170.7	15,051.6	461,980.1	4.4
NBFC/Financial Intermediaries	311,477.1	98,274.0	13,203.1	422,954.2	4.0
Automobile & Auto Ancillary	352,979.1	10,413.9	32,546.7	395,939.7	3.8
Road Transportation	376,547.1	—	9,808.2	386,355.3	3.7
Consumer Services	354,060.4	3,957.3	13,757.6	371,775.3	3.5
Agriculture Production — Food	330,092.5	—	728.8	330,821.3	3.1
Power	251,169.4	37,188.7	39,998.4	328,356.5	3.1
Telecom	246,272.4	21,288.6	26,245.9	293,806.9	2.8
Real Estate & Property Services	257,056.8	1,978.8	33,482.7	292,518.3	2.8
Engineering	159,462.7	1,557.3	120,816.0	281,836.0	2.7
Food & Beverage	233,798.9	—	15,325.7	249,124.6	2.4
Business Services	236,853.7	249.2	11,318.3	248,421.2	2.4
Iron & Steel	195,488.6	5,514.4	44,149.5	245,152.5	2.3
Coal & Petroleum Products	92,504.7	705.0	150,857.5	244,067.2	2.3
Wholesale Trade — Industrial	192,708.4	67.8	29,835.7	222,611.9	2.1
Textiles & Garments	187,527.5	4,436.1	26,803.8	218,767.4	2.1
Infrastructure Development	128,273.5	9,035.5	79,596.8	216,905.8	2.1
Wholesale Trade — Non Industrial	200,089.4	248.3	12,218.2	212,555.9	2.0
Others (none greater than 2%)	2,081,399.0	76,801.2	470,669.6	2,628,869.8	24.9
Total	Rs. 9,111,464.6	Rs. 272,886.8	Rs. 1,147,966.2	Rs. 10,532,317.6	100.0

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of March 31, 2020					
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	Total	%
	(In millions, except percentages)					
Consumer Loans	Rs. 2,958,437.7	Rs. 2,756.6	Rs. 446.4	Rs. 2,961,640.7	US$ 39,284.3	24.3
Retail Trade	533,155.3	343.7	22,820.3	556,319.3	7,379.2	4.6
Power	458,628.1	48,997.7	41,445.6	549,071.4	7,283.1	4.5
Consumer Services	399,046.4	2,015.1	19,135.9	420,197.4	5,573.6	3.4
Engineering	240,196.0	12,255.3	144,296.9	396,748.2	5,262.6	3.2
NBFC	317,450.0	76,860.2	1,659.1	395,969.3	5,252.3	3.2
Road Transportation	376,334.2	495.3	10,849.7	387,679.2	5,142.3	3.2
Automobile & Auto Ancillary	330,632.5	18,397.9	33,037.0	382,067.4	5,067.9	3.1
Real Estate & Property Services	280,870.4	4,309.5	36,335.2	321,515.1	4,264.7	2.6
Agri Production — Food	313,143.6	—	833.3	313,976.9	4,164.7	2.6
Coal & Petroleum Products	136,531.9	33,834.9	115,440.2	285,807.0	3,791.0	2.3
Food and Beverage	260,907.9	1,391.3	21,853.6	284,152.8	3,769.1	2.3
Financial Institutions	219,417.5	59,118.8	2,058.7	280,595.0	3,721.9	2.3
Iron and Steel	231,524.9	1,144.7	45,235.4	277,905.0	3,686.2	2.3
Telecom	232,932.0	10,412.6	29,949.6	273,294.2	3,625.1	2.2
Infrastructure Development	165,578.8	2,457.1	104,731.8	272,767.7	3,618.1	2.2
Business Services	244,028.7	2,278.5	15,953.3	262,260.5	3,478.7	2.1
Wholesale Trade — Non Industrial	238,436.5	—	18,766.1	257,202.6	3,411.6	2.1
Wholesale Trade — Industrial	211,849.6	34.2	34,840.2	246,724.0	3,272.6	2.0
Others (none greater than 2%)	2,474,753.6	85,270.3	525,004.6	3,085,028.5	40,920.9	25.5
Total	Rs. 10,623,855.6	Rs. 362,373.7	Rs. 1,224,692.9	Rs. 12,210,922.2	US$161,969.9	100.0

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank's ten largest exposures as of March 31, 2019 and March 31, 2020, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures (including derivatives), are as follows:

	As of March 31, 2019		
	Funded Exposure	Non-Funded Exposure	Total Exposure
		(In millions)	
Borrower 1	Rs. 146,141.2	Rs. 6,457.1	Rs. 152,598.3
Borrower 2	27,488.9	115,089.5	142,578.4
Borrower 3	120,004.3	312.8	120,317.1
Borrower 4	92,271.4	1,200.0	93,471.4
Borrower 5	80,008.5	32.6	80,041.1
Borrower 6	57,604.0	14,843.9	72,447.9
Borrower 7	32,948.9	34,806.0	67,754.9
Borrower 8	51,283.8	15,163.0	66,446.8
Borrower 9	43,602.4	22,513.2	66,115.6
Borrower 10	30,559.1	26,347.9	56,907.0

	As of March 31, 2020			
	Funded Exposure	Non-Funded Exposure	Total Exposure	Total Exposure
		(In millions)		
Borrower 1	Rs. 243,382.8	Rs. 1,200.0	Rs. 244,582.8	US$ 3,244.2
Borrower 2	180,100.0	305.1	180,405.1	2,393.0
Borrower 3	163,738.7	610.9	164,349.6	2,180.0
Borrower 4	74,421.4	75,432.2	149,853.6	1,987.7
Borrower 5	135,455.0	—	135,455.0	1,796.7
Borrower 6	31,934.6	55,651.4	87,586.0	1,161.8
Borrower 7	63,228.0	15,355.2	78,583.2	1,042.4
Borrower 8	75,035.9	221.6	75,257.5	998.2
Borrower 9	75,027.7	182.8	75,210.5	997.6
Borrower 10	51,361.3	22,128.1	73,489.4	974.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. Property and equipment

Property and equipment by asset category is as follows:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Land and premises	Rs. 18,836.5	Rs. 19,567.6	US$ 259.5
Software and systems	29,855.2	33,433.9	443.5
Equipment and furniture	73,601.8	82,179.1	1,090.1
Property and equipment, at cost	122,293.5	135,180.6	1,793.1
Less: Accumulated depreciation	79,105.7	86,852.9	1,152.1
Property and equipment, net	Rs. 43,187.8	Rs. 48,327.7	US$ 641.0

Depreciation and amortization charged for the years ended March 31, 2018, March 31, 2019 and March 31, 2020 was Rs. 9,678.9 million, Rs. 12,247.8 million and Rs. 12,800.3 million (US$ 169.8 million), respectively.

13. Goodwill and other intangible assets

Goodwill arising from a business combination is tested at least on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million (US$ 994.0 million) for the fiscal year ended March 31, 2019 and the year ended March 31, 2020. The entire amount of goodwill was allocated to the retail business.

The net carrying amount, in total and by class of intangible assets as of March 31, 2019 and March 31, 2020 was nil. The aggregate amortization charged for the years ended March 31, 2018, March 31, 2019 and March 31, 2020 was Rs. 1.0 million, Rs. 1.0 million and nil, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

14. Other assets

Other assets include the following:

	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
		(In millions)	
Security deposits for leased property	Rs. 5,112.9	Rs. 5,410.3	US$ 71.8
Sundry accounts receivable	49,465.6	55,379.5	734.6
Advance income tax (net of current tax expense)	18,785.7	25,140.7	333.5
Advances	4,213.1	7,639.3	101.3
Prepaid expenses	1,356.7	1,374.6	18.2
Deposits/Margins paid	8,319.8	15,226.9	202.0
Derivatives (refer to note 24)	132,524.1	190,537.6	2,527.4
Term placements	115,428.4	109,372.8	1,450.8
Receivable on account of trade date	4,890.7	221,960.9	2,944.1
Right-of-use assets	—	60,756.9	805.9
Others *	55,636.0	44,552.6	590.9
Total	Rs. 395,733.0	Rs. 737,352.1	US$ 9,780.5

* Effective April 1, 2018, the Bank adopted ASU 2016-01. The equity securities that were previously reported as AFS securities were reclassified to other assets with carrying value amounting to Rs. 1,267.7 million. Others include equity securities with carrying value amounting to Rs. 11,483.4 million and Rs. 11,611.2 million as at March 31, 2019 and March 31, 2020, respectively. Equity securities include non-marketable equity securities carried at cost Rs. 459.4 million and Rs. 696.9 million as at March 31, 2019 and March 31, 2020, respectively. Unrealized gain \ (loss) recognized in non-interest revenue–other, net Rs 6,717.5 million and Rs. (131.1) million for the fiscal year ended March 31, 2019 and March 31, 2020, respectively.

15. Deposits

Deposits include demand deposits, which are non-interest-bearing, and savings and time deposits, which are interest-bearing. Deposits as of March 31, 2019 and March 31, 2020 were as follows:

	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
		(In millions)	
Interest-bearing:			
Savings deposits	Rs.2,487,001.6	Rs. 3,103,769.5	US$ 41,169.5
Time deposits	5,317,715.9	6,626,711.8	87,899.1
Total interest-bearing deposits	7,804,717.5	9,730,481.3	129,068.6
Non-interest-bearing deposits	1,420,309.4	1,731,590.0	22,968.4
Total	Rs.9,225,026.9	Rs.11,462,071.3	US$152,037.0

As of March 31, 2019 and March 31, 2020, time deposits of Rs. 4,570,771.1 million and Rs. 5,233,225.0 million, respectively, had a residual maturity of one year or less. The remaining deposits mature between one and ten years.

As of March 31, 2019 and March 31, 2020, time deposits in excess of Rs. 0.1 million aggregated Rs. 5,145,912.9 million and Rs. 6,397,698.1 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of March 31, 20 20 , the scheduled maturities for total time deposits were as follows:

	As of March 31, 2020	
	(In millions)	
Due to mature in the fiscal year ending March 31:		
2021	Rs.5,233,225.0	US$69,415.4
2022	992,908.7	13,170.3
2023	251,362.6	3,334.2
2024	66,752.1	885.4
2025	49,990.3	663.1
Thereafter	32,473.1	430.7
Total	Rs.6,626,711.8	US$87,899.1

16. Short-term borrowings

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2019 and March 31, 2020 comprised of the following:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Borrowed in the call market	Rs. 9,155.9	Rs. 11,339.8	US$ 150.4
Term borrowings from institutions/banks	363,921.2	73,737.9	978.1
Foreign currency borrowings	280,980.9	292,339.9	3,877.7
Total	Rs.654,058.0	Rs.377,417.6	US$ 5,006.2
Total borrowings outstanding:			
Maximum amount outstanding	Rs.957,026.5	Rs.971,364.0	US$12,884.5
Average amount outstanding	Rs.705,161.6	Rs.493,786.9	US$ 6,549.8
Weighted average interest rate	5.3%	3.2%	3.2%

17. Long-term debt

Long-term debt as of March 31, 2019 and March 31, 2020 comprised of the following:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Subordinated debt	Rs. 211,320.0	Rs. 218,755.0	US$ 2,901.6
Others*	833,265.2	808,222.0	10,720.5
Less: Debt issuance cost	(32.2)	(458.7)	(6.0)
Total	Rs. 1,044,553.0	Rs. 1,026,518.3	US$13,616.1

* Includes securities sold under repurchase agreements amounting to Rs. 17,260.0 million (USD 228.9 million) for the fiscal period ended March 31, 2020 with stated interest rate of 5.15% per annum, under RBI long-term repo operation with a three - year maturity period.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The below table presents the balance of long-term debt as of March 31, 2019 and March 31, 2020 and the related contractual rates and maturity dates:

	As of,						
	March 31, 2019			March 31, 2020			
	Maturity / Call dates	Stated interest rates	Total	Maturity / Call dates	Stated interest rates	Total	Total
				(In millions)			
Subordinated debt							
Subordinated debt (other than perpetual debt)	2021-2029	7.56% to 10.20%	Rs. 128,315.8	2021-2030	7.56% to 10.20%	Rs. 133,730.8	US$ 1,773.9
Perpetual debt	2023-2029	8.85% to 9.40%	82,997.9	2023-2030	8.84% to 9.70%	84,972.7	1,127.1
Others*							
Variable rate—(1)	2020-2022	3.30% to 3.88%	36,288.8	2021-2023	0.80% to 2.87%	59,018.7	782.8
Variable rate—(2)	2020-2024	8.25% to 10.05%	116,615.2	2021-2024	7.50% to 8.95%	118,083.8	1,566.3
Fixed rate—(1)	2020-2029	4.60% to 9.56%	680,335.3	2021-2030	4.15% to 9.56%	630,712.3	8,366.0
Total			Rs. 1,044,553.0			Rs. 1,026,518.3	US$13,616.1

* Variable rate (1) represent foreign currency debt. Variable rate debt is typically indexed to LIBOR, T-bill rates, Marginal cost of funds based lending rates (MCLR), among others.

The scheduled maturities of long-term debt are set out below:

	As of March 31, 2020	
	(In millions)	
Due in the twelve months ending March 31:		
2021	Rs. 223,540.8	US$ 2,965.1
2022	125,258.5	1,661.5
2023	192,835.2	2,557.8
2024	58,948.6	781.9
2025	60,797.6	806.4
Thereafter	280,164.9	3,716.2
Total (1)	Rs. 941,545.6	US$ 12,488.9

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 84,972.7 million (net of debt issuance cost).

During the fiscal year ended March 31, 2020 the Bank issued subordinated debt amounting to Rs. 5,435.0 million (previous period Rs. 6,000.0 million) and perpetual debt amounting to Rs. 2,000.0 million (previous period Rs. 3,000.0 million). During the fiscal year ended March 31, 2020 the Bank also raised other long-term debt amounting to Rs. 264,669.7 million (previous period Rs. 311,093.6 million).

As of March 31, 2019 and March 31, 2020, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 36,305.9 million and Rs. 59,392.3 million, respectively, and functional currency borrowings aggregating to Rs. 796,959.3 million and Rs. 748,829.7 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Accrued expenses and other liabilities

Accrued expenses and oth e r liabilities include the amounts set forth below:

	As of March 31, 2019	2020	2020
	(In millions)		
Bills payable	Rs. 70,404.0	Rs. 75,837.2	US$ 1,005.9
Remittances in transit	41,721.1	35,507.3	471.0
Accrued expenses	57,816.9	54,898.3	728.2
Accounts payable	88,212.9	103,386.2	1,371.4
Derivatives (refer to note 24)	128,449.0	184,783.0	2,451.0
Lease liabilities	—	65,615.1	870.3
Others	80,834.7	91,300.1	1,211.0
Total	Rs.467,438.6	Rs.611,327.2	US$ 8,108.8

The Bank amortizes annual fees on credit cards over the contractual period of the fees. The unamortized annual fees as of March 31, 2019 and March 31, 2020 was Rs. 538.8 million and Rs. 786.8 million (US$ 10.4 million), respectively.

19. Accumulated other comprehensive income

The below table presents the changes in accumulated other comprehensive income (OCI) after income tax for the years ended March 31, 2019 and March 31, 2020.

	Available for sale securities	Foreign currency translation reserve	Total
		(In millions)	
Balance, March 31, 2018	Rs. (4,467.3)	Rs. 670.6	Rs. (3,796.7)
Adjustment to Other Comprehensive Income (loss)	(268.0)	—	(268.0)
Net unrealized gain/(loss) arising during the period	17,105.1	663.9	17,769.0
Amounts reclassified to income	(1,895.5)	—	(1,895.5)
Balance, March 31, 2019	Rs. 10,474.3	Rs. 1,334.5	Rs. 11,808.8
Balance, March 31, 2019	Rs. 10,474.3	Rs. 1,334.5	Rs. 11,808.8
Net unrealized gain/(loss) arising during the period	47,574.2	1,771.7	49,345.9
Amounts reclassified to income	(8,823.1)	—	(8,823.1)
Balance, March 31, 2020	Rs. 49,225.4	Rs. 3,106.2	Rs. 52,331.6
Balance, March 31, 2020	US$ 652.9	US$ 41.2	US$ 694.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The below table presents the reclassification out of accumulated other comprehensive income (OCI) by income line item and the related income tax effect for periods ended March 31, 2019 and March 31, 2020.

	As of March 31, 2019	2020	2020
		(In millions)	
Available for sale debt securities:			
Realized (gain)/loss on sales of available for sale debt securities, net	Rs. (3,994.6)	Rs. (22,671.3)	US$ (300.7)
Other than temporary impairment losses on available for sale debt securities	1,081.0	9,109.0	120.8
Total before income tax	Rs. (2,913.6)	Rs. (13,562.3)	US$ (179.9)
Income tax	1,018.1	4,739.2	62.9
Net of income tax	Rs. (1,895.5)	Rs. (8,823.1)	US$ (117.0)

20. Non-interest revenue

Revenue Recognition

Deposit related fees

Deposit-related fees consist of fees earned on consumer deposit activities and are generally recognized when the transaction occurs or as the service is performed. Consumer fees are earned on consumer deposit accounts for account maintenance and various transaction-based services, such as ATM transactions, wire transfer activities, check and money order processing, standing instruction processing, cash management services, etc.

Lending related fees

Lending-related fees generally represent transactional fees earned from certain loan related services, guarantees and letters of credit (LCs).

Third-party products related fees

Third-party products related fees consist of fees earned from distribution of third party products such as insurance and mutual funds.

Payments and cards business fees

Payments and cards business fees include fees earned from merchant acquiring business and on Credit, Debit, Prepaid or Forex cards, among others. Cards business income includes annual and renewal fees, late and over-limit fees, currency conversion fees, as well as fees earned from interchange, cash advances and other miscellaneous transactions fees. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit and debit cards based on the corresponding payment network’s rates. Substantially all cards business related fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over 12 months. Payments business fees includes fees earned from merchants net of interchange expenses paid to issuing banks, rentals from point of sale machines and merchant service charges.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below presents the fees and commissions disaggregated by revenue source for the fiscal years ended March 31, 2018, March 31, 2019 and March 31, 2020.

	Fiscal years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Deposit related fees	Rs. 22,424.9	Rs. 25,383.0	Rs. 29,031.9	US$ 385.1
Lending related fees	31,791.6	30,176.2	30,699.9	407.2
Third-party products related fees	20,908.1	22,000.4	28,169.6	373.7
Payments and cards business fees	34,551.4	47,012.4	58,899.3	781.3
Others	10,384.9	9,583.2	13,298.8	176.3
Fees and commissions	Rs.120,060.9	Rs.134,155.2	Rs.160,099.5	US$2,123.6

The table below presents the fees and commission disaggregated by segment for the fiscal years ended March 31, 2018, March 31, 2019 and March 31, 2020.

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Retail Banking	Rs.110,927.2	Rs.123,070.6	Rs.146,855.7	US$1,947.9
Wholesale Banking	8,985.0	10,839.6	13,041.6	173.0
Treasury Services	148.7	245.0	202.2	2.7
Fees and commissions	Rs.120,060.9	Rs.134,155.2	Rs.160,099.5	US$2,123.6

21. Income taxes

Income tax expense is comprised of the following:

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Current tax expense	Rs.108,676.0	Rs.128,050.2	Rs.105,587.8	US$1,400.6
Deferred tax (benefit) expense	(10,403.5)	(8,129.4)	(101.2)	(1.3)
Interest on income tax refund	—	(527.3)	(6.6)	(0.2)
Income tax expense	Rs. 98,272.5	Rs.119,393.5	Rs.105,480.0	US$1,399.1

Income before income tax expense and income tax expense are substantially all from India.

On December 12, 2019, the India Taxation Laws (Amendment) Act, 2019, was promulgated, which provided domestic companies with an option to pay income tax at the rate of 22 percent (previously 30 percent) , provided they do not claim certain deductions under the Income Tax Act with effect from the financial year 2019-20 (i . e. , assessment year 2020-21). The bank intends to elect to be subject to the 22 percent rate (25.17% including surcharge and education cess). The Bank has accounted for the effect of this change in the income tax rate using reasonable estimates based on currently available information and its interpretations thereof.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is the reconciliation of income taxes at the Indian statutory income tax rate to income tax expense as reported:

	Fiscal year ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Income before income tax expense	Rs.277,106.4	Rs.339,959.0	Rs.365,844.0	US$4,852.8
Statutory income tax rate	34.61%	34.94%	25.17%	25.17%
Expected income tax expense	95,901.0	118,795.3	92,075.6	1,221.3
Adjustments to reconcile expected income tax to actual tax expense				
Interest on income tax refund	—	(343.0)	(4.9)	(0.1)
Stock-based compensation	2,282.3	1,867.2	1,881.6	25.0
Income exempt from taxes	(524.8)	(1,422.8)	(744.2)	(9.9)
Effect of change in statutory income tax rate	(209.2)	—	11,213.2	148.7
Others, net	823.2	496.8	1,058.7	14.1
Income tax expense	Rs. 98,272.5	Rs.119,393.5	Rs.105,480.0	US$1,399.1

The tax effects of significant temporary differences are as follows:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Tax effect of:			
Deductible temporary differences:			
Allowance for loan losses	Rs.39,604.8	Rs.37,561.2	US$ 498.2
Lease liabilities	—	16,514.0	219.0
Employee benefits	2,063.1	1,415.0	18.8
Accrued expenses and other liabilities	4,310.4	3,381.2	44.8
Others	1,874.4	1,769.4	23.5
Deferred tax asset	47,852.7	60,640.8	804.3
Taxable temporary differences:			
Right-of-use assets	—	16,514.0	219.0
Unrealized gain on securities available for sale	5,680.2	16,644.6	220.8
Loan origination cost and fees	5,606.3	3,373.3	44.7
Investments, others	2,677.0	1,510.2	20.0
Deferred tax liability	13,963.5	38,042.1	504.5
Net deferred tax asset (liability)	Rs.33,889.2	Rs.22,598.7	US$ 299.8

Management believes that the realization of the recognized deferred tax assets is more likely than not and the realization is based on a combination of reversing taxable temporary differences and expectations as to future pretax income.

The total unrecognized tax benefit as of March 31, 2019 and March 31, 2020 is Rs. 14,448.1 million and Rs. 37,103.2 million, respectively. The major income tax jurisdiction for the Bank is India. The open tax years (first assessment by the tax authorities) is pending from fiscal 2018 onwards. However, appeals filed by the Bank are pending with various local tax authorities in India for earlier tax years.

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of the beginning and ending b a lance of unrecognized tax benefits is as follows:

	Fiscal year ended March 31,		
	2019	2020	202 0
		(In millions)	
Opening balance	Rs. 648.3	Rs.14,448.1	US$191.6
Increase related to prior year tax positions	13,799.8	16,274.4	215.9
Increase related to current year tax positions	Rs. —	Rs. 6,380.7	US$ 84.6
Closing balance	Rs.14,448.1	Rs.37,103.2	US$492.1

The Bank's total unrecognized tax benefits, if recognized, would reduce the income tax expense by Rs. 37,103.2 million as of March 31, 2020 and thereby would affect the Bank's effective tax rate. There is no tax liability relating to the above unrecognized tax benefits.

Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax examinations with various tax authorities.

22. Stock-based compensation

By way of an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of the Bank's equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

The stock-based compensation plans of the Bank are as follows:

Employees Stock Option Scheme(ESOP):

The shareholders of the Bank approved in January 2000 Plan "A", in June 2003 Plan "B", in June 2005 Plan "C", in June 2007 Plan "D", in June 2010 Plan "E", in June 2013 Plan "F", in July 2016 Plan "G" of the Employees' Stock Option Scheme (the "Plan"). The Bank reserved 100.0 million equity shares, with an aggregate nominal value of Rs.100.0 million, for issuance under each Plan "A", "B" and "C". Under Plan "D" the Bank reserved 150.0 million equity shares with an aggregate nominal value of Rs.150.0 million. The Bank reserved 200.0 million equity shares with an aggregate nominal value of Rs. 200.0 million, for issuance under each Plan "E", "F" and "G". Under the terms of each of these Plans, the Bank may issue stock options to employees and whole time directors of the Bank, each of which is convertible into one equity share.

Plan A provides for the issuance of options at the recommendation of the Nomination and Remuneration Committee of the Board (the "NRC") at an average of the daily closing prices on the BSE Limited during the 60 days preceding the date of grant of options, which was the minimum prescribed option price under regulations then issued by the Securities and Exchange Board of India ("SEBI"). Presently, there are no stock options issued and outstanding under Plan A.

Plan B, Plan C, Plan D, Plan E, Plan F and Plan G provide for the issuance of options at the recommendation of the NRC 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, Plan E, Plan F and Plan G, the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant. Presently, there are no stock options issued and outstanding under Plan B.

Such options vest at the discretion of the NRC. These options are exercisable for a period following vesting at the discretion of the NRC, subject to a maximum of five years, as set forth at the time of the grant.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On September 1, 2018, September 29, 2018 and February 2, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 38,238,000 options (Scheme XXIX), the grant of 880,000 options (Scheme XXX) and the grant of 672,000 options (Scheme XXXI), respectively, to the employees of the Bank. On August 3, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 578,000 options (Scheme XXXII) to the employees of the Bank. On October 19, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 46,175,200 options (Scheme XXXIII) to the employees of the Bank. On March 21, 2020 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 1,020,400 options (Scheme XXXIV) to the employees of the Bank.

Modification of employee stock option schemes

During the periods ended March 31, 2018, March 31, 2019 and March 31, 2020, there were no modifications to employee stock option schemes.

Assumptions used

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	Years ended March 31,		
	2018	2019	2020
Dividend yield	0.65%-0.66%	0.62%-0.65%	0.61%-0.85%
Expected volatility	19.94%-21.65%	14.53%-18.68%	15.30%-20.13%
Risk-free interest rate	6.73%-7.20%	7.23%-8.31%	5.81%-6.70%
Expected term (in years)	4.66-6.06	2.78-5.16	2.82-5.42

The Bank recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instruments' grant-date fair value, reduced by expected forfeitures. Ultimately, the compensation cost for all awards that vest is recognized.

Activity and other details

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	Number of options available to be granted year ending March 31,		
	2018	2019	2020
Options available to be granted, beginning of period	267,347,300	235,683,200	202,413,370
Equity shares allocated for grant under the plan	—	—	—
Options granted	(33,764,100)	(39,790,000)	(47,773,600)
Forfeited/lapsed	2,100,000	6,520,170	4,847,580
Options available to be granted, end of period	235,683,200	202,413,370	159,487,350

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	Years ended March 31,					
	2018		2019		2020	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Options outstanding, beginning of period	184,312,600	Rs. 452.48	150,887,600	Rs. 525.11	136,612,822	Rs. 682.99
Granted	33,764,100	716.61	39,790,000	1,030.24	47,773,600	1,220.13
Exercised	(65,089,100)	418.80	(47,544,608)	462.89	(36,673,240)	504.10
Forfeited	(1,973,600)	527.80	(6,410,770)	759.21	(4,813,580)	965.64
Lapsed	(126,400)	481.72	(109,400)	418.55	(34,000)	568.10
Options outstanding, end of period	150,887,600	Rs. 525.11	136,612,822	Rs. 682.99	142,865,602	Rs. 899.03
Options exercisable, end of period	93,620,500	Rs. 450.72	80,609,722	Rs. 508.89	64,464,392	Rs. 638.18
Weighted average fair value of options granted during the year		Rs. 232.09		Rs. 262.79		Rs. 305.78

The following summarizes information about stock options outstanding as of March 31, 2020:

		As of March 31, 2020		
Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life (years)	Weighted average exercise price
Plan C	Rs.340.00 to Rs.417.75 (or US$ 4.51 to US$ 5.54)	485,100	0.34	344.05
Plan D	Rs.340.00 (or US$ 5.51)	345,900	0.30	340.00
Plan E	Rs.340.00 (or US$ 5.51)	1,705,500	0.30	340.00
Plan F	Rs.417.75 to Rs. 731.08 (or US$ 5.54 to US$ 9.70)	58,568,822	2.02	587.08
Plan G	Rs.882.85 to Rs. 1,229.00 (or US$ 11.71 to US$ 16.30)	81,760,280	3.45	1,139.82

The intrinsic value, of options exercised during the years ended March 31, 2018, March 31, 2019 and March 31, 2020 at grant date was Rs. 28.8 million, nil and nil, respectively, and at exercise date was Rs. 34,123.2 million, Rs. 33,117.4 million and Rs. 13,339.6 million, respectively. The aggregate intrinsic value as of grant date and as at March 31, 2020 attributable to options which are outstanding as on March 31, 2020 was Rs. 0.5 million (previous year Rs. 0.6 million) and Rs. 17,418.0 million (previous year Rs. 65,091.1 million), respectively. The aggregate intrinsic value as at grant date and as at March 31, 2020 attributable to options exercisable as on March 31, 2020 was Rs. 0.4 million (previous year 0.2 million) and was Rs. 16,291.8 million (previous year Rs. 52,441.6 million), respectively. Total stock compensation cost recognized under these plans was Rs. 6,594.6 million, Rs. 5,343.3 million and Rs. 7,476.1 million during the years ended March 31, 2018, March 31, 2019 and March 31, 2020, respectively. As of March 31, 2020, there were 78,401,210 (previous year 56,003,100) unvested options with weighted average exercise price of Rs. 1,113.5 (previous year Rs. 933.6) and aggregate intrinsic value at grant date and as at March 31, 2020 was Rs. 0.2 million (previous year Rs. 0.3 million) and Rs.1,126.2 million (previous year Rs. 12,649.5 million), respectively. As at March 31, 2020, the total estimated compensation cost to be recognized in future periods was Rs.13,294.0 million (previous year Rs. 7,065.9 million). This is expected to be recognized over a weighted average period of 1.21 years.

23. Retirement benefits

Gratuity

In accordance with Indian law, the Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement, resignation, death while in employment or on termination of employment in an amount equivalent to 15 days' eligible salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by said insurance companies, and in respect of certain employees, the Bank makes contributions to a fund set up for the purpose and administered by the board of trustees. The contributions are invested in specific designated instruments as permitted by Indian law. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on an actuarial valuation done on March 31 of every year.

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Bank's financial statements as of March 31, 2019 and March 31, 2020:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 5,975.5	Rs. 6,653.5	US$ 88.3
Service cost	820.6	965.4	12.8
Interest cost	476.7	483.3	6.4
Actuarial(gains)/ losses	(46.4)	368.9	4.9
Benefits paid	(572.9)	(588.1)	(7.8)
Projected benefit obligation, end of the period	6,653.5	7,883.0	104.6
Change in plan assets:			
Fair value of plan assets, beginning of the period	4,573.4	5,501.8	73.0
Expected return on plan assets	347.4	389.9	5.2
Actuarial gains/(losses)	130.2	(620.5)	(8.2)
Actual return on plan assets	477.6	(230.6)	(3.0)
Employer contributions	1,023.7	1,096.7	14.5
Benefits paid	(572.9)	(588.1)	(7.8)
Fair value of plan assets, end of the period	5,501.8	5,779.8	76.7
Funded Status	Rs. (1,151.7)	Rs. (2,103.2)	US$ (27.9)

The Bank's expected contribution to the gratuity fund for the next fiscal year is estimated at Rs. 1,960.6 million. The accumulated benefit obligation as of March 31, 2019 and March 31, 2020 was Rs. 3,777.3 million and Rs. 5,005.9 million, respectively. The vested accumulated benefit obligation as on March 31, 2019 and March 31, 2020 was Rs. 3,292.4 million and Rs. 4,381.2 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net gratuity cost for the years ended March 31, 2018, March 31, 2019 and March 31, 2020 was comprised of the following components:

	Fiscal years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Service cost	Rs. 741.0	Rs. 820.6	Rs. 965.4	US$ 12.8
Interest cost	392.2	476.7	483.3	6.4
Expected return on plan assets	(297.4)	(347.4)	(389.9)	(5.2)
Actuarial (gains)/losses	85.1	(176.6)	989.4	13.1
Net gratuity cost*	Rs. 920.9	Rs. 773.3	Rs. 2,048.2	US$ 27.1

* Effective April 1, 2018, the Bank adopted ASU 2017-07 Compensation- Retirement Benefits (Topic 715) -Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Accordingly, service cost is reported in the Consolidated Statements of Income in line Non-interest expense-salaries and staff benefits and other components of net benefit cost is reported in the Consolidated Statements of Income in line Non-interest expense –Administrative and other. The amendments have been applied retrospectively.

The assumptions used in accounting for the gratuity plan are set out below:

	Fiscal years ended March 31,		
	2018	2019	2020
	(% per annum)		
Discount rate*	7.4-8.0	7.2-8.4	6.0-7.5
Rate of increase in compensation levels of covered employees	5.0-11.0	5.0-9.0	7.0-8.0
Rate of return on plan assets	7.0-8.0	7.0-7.2	6.0-7.0
Mortality rates used are based on the published “Indian Assured Lives Mortality (2012-2014) Ultimate” table			

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The rate of return on plan assets is based on historical returns, the current market conditions, anticipated future assets allocation and expected future returns. The rate of return on plan assets represents a long-term average view of the expected return.

The following benefit payments, which includes benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2021	Rs. 969.5
2022	784.2
2023	679.2
2024	602.3
2025	538.1
2026 - 2030	2,352.8

The expected benefit payments are based on the same assumptions used to measure the Bank’s benefit obligations as of March 31, 2020.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The gratuity contributions of the Bank which are administered by a trust set up for the purpose are managed by two insurance companies and in respect of certain employees the funds are invested by the trust set up for the said purpose. The overall asset allocation of the gratuity fund by the two insurance companies is structured so as to provide stable earnings while still allowing for potentially higher returns through an investment in equity securities. As at March 31, 2020, the plan assets as a percentage of the total funds were as follows:

	As of March 31, 2020		
	Funds managed by insurance company (1)*	Funds managed by insurance company (2)*	Funds managed by trust
Government securities	81.2%	17.8%	37.5%
Debenture and bonds	13.8%	32.0%	38.2%
Equity securities	4.9%	48.1%	—
Other	0.1%	2.1%	24.3%
Total	100.0%	100.0%	100.0%

* *The data pertaining to plan investment assets measured at fair value by level and total at March 31, 2020 are provided separately.*

Pension

In respect of pensions payable to certain erstwhile CBoP employees, which are payable pursuant to a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on an actuarial valuation at the balance sheet date conducted by an independent actuary. In respect of employees who have moved to a cost to company (CTC) driven compensation structure and have completed services up to 15 years as on the date of movement to a CTC driven compensation structure, any contribution made until such date, and any additional one-time contribution made for employees (who have completed more than 10 years but less than 15 years) stand frozen and will be converted into an annuity on separation after a lock-in-period of two years. Hence for this category of employees, liability stands frozen and no additional provision is required except for interest, if any. In respect of employees who accepted the offer and have completed services for more than 15 years, the pension would be paid based on the employee’s salary as of the date of movement to a CTC driven compensation structure and a provision is made based on an actuarial valuation at the balance sheet date conducted by an independent actuary.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets out the funded status of the pension plan and the amounts recognized in the Bank's financial statements as of March 31, 2019 and March 31, 2020:

	As of March 31, 2019	2020	2020
	(In millions)		
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 722.8	Rs. 677.6	US$ 9.0
Service cost	7.7	6.5	0.1
Interest cost	66.3	45.3	0.6
Actuarial (gains)/losses	6.5	15.3	0.2
Benefits paid	(125.7)	(146.5)	(1.9)
Projected benefit obligation, end of the period	677.6	598.2	8.0
Change in plan assets:			
Fair value of plan assets, beginning of the period	313.0	219.5	2.9
Expected return on plan assets	18.6	11.0	0.1
Actuarial gains/(losses)	4.8	2.9	—
Actual return on plan assets	23.4	13.9	0.1
Employer contributions	8.8	8.3	0.1
Benefits paid	(125.7)	(146.5)	(1.9)
Fair value of plan assets, end of the period	219.5	95.2	1.2
Funded Status	Rs. (458.1)	Rs. (503.0)	US$ (6.8)

The Bank's expected contribution to the pension fund for the next fiscal year is estimated at Rs. 129.7 million. The accumulated benefit obligation as of March 31, 2019 and March 31, 2020 was Rs. 468.3 million and Rs. 387.0 million, respectively. The vested accumulated benefit obligation as of March 31, 2019 and March 31, 2020 was Rs. 455.5 million and Rs. 241.3 million, respectively.

Net pension cost for the years ended March 31, 2018, March 31, 2019 and March 31, 2020 was comprised of the following components:

	As of March 31, 2018	2019	2020	2020
	(In millions)			
Service cost	Rs. 7.6	Rs. 7.7	Rs. 6.5	US$ 0.1
Interest cost	57.9	66.3	45.3	0.6
Expected return on plan assets	(23.6)	(18.6)	(11.0)	(0.1)
Actuarial (gains)/losses	16.7	1.7	12.4	0.2
Net pension cost*	Rs. 58.6	Rs. 57.1	Rs. 53.2	US$ 0.8

* Effective April 1, 2018, the Bank adopted ASU 2017-07 Compensation- Retirement Benefits (Topic 715) -Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Accordingly, service cost is reported in the Consolidated Statements of Income in line Non-interest expense-salaries and staff benefits and other components of net benefit cost is reported in the Consolidated Statements of Income in line Non-interest expense –Administrative and other. The amendments have been applied retrospectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The assumptions used in accounting for the pension plan are set out below:

	Fiscal years ended March 31,		
	2018	2019	2020
		(% per annum)	
Discount rate*	8.0	8.4	7.5
Rate of increase in compensation levels of covered employees	8.0	8.0	7.0
Rate of return on plan assets	7.0	7.0	7.0
Mortality rates used are based on the published “Indian Assured Lives Mortality (2012-2014) Ultimate” table			

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The following benefit payments, which include benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2021	Rs. 46.6
2022	43.7
2023	14.1
2024	21.3
2025	18.1
2026-2030	102.3

The expected benefits are based on the same assumptions used to measure the Bank’s benefit obligations as of March 31, 2020.

The retirement funds of a section of the employees are managed by a trust set up for the purpose. The trust essentially manages the defined retirement benefit plans belonging to certain employees. The funds are mainly invested in government securities and other corporate bonds. The weighted-average asset allocation of the said plan assets for the pension benefits as at March 31, 2020 is as follows:

Asset category	Funds managed by trust
Government securities	20.8%
Debenture and bonds	17.1%
Other	62.1%
Total	100.0%

For information on fair value measurements, including descriptions of Levels 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by the Bank, see note 3 1 – Fair value measurements.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Plan investment assets for gratuity funds and the pension fund measured at fair value by level and in total as of March 31, 2019 and March 31, 2020 are summarized in the table below.

	As of March 31, 2019			As of March 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Funds managed by insurance company (1)	Rs. —	Rs. —	Rs.625.0	Rs. —	Rs. —	Rs. 600.2
Funds managed by insurance company (2)	—	4,632.5	—	—	4,937.3	—
Funds managed by trust						
— Government securities	—	106.6	—	—	110.8	—
— Debenture and bonds	—	320.1	—	—	108.7	—
— Others	37.1	—	—	118.0	—	—
Total	Rs.37.1	Rs.5,059.2	Rs.625.0	Rs. 118.0	Rs. 5,156.8	Rs. 600.2
				US$ 1.6	US$ 68.4	US$ 8.0

The table below presents a reconciliation of all Plan investment assets measured at fair value using significant unobservable inputs (Level 3) during fiscal 2019 and 2020.

	Funds managed by Insurance companies as of March 31,		
	2019	2020	2020
		(In millions)	
Particulars			
Opening balance	Rs. 519.9	Rs. 625.0	US$ 8.3
Realized interest credited to fund	36.7	48.0	0.6
Contribution during the period	88.6	89.5	1.2
Amount paid towards claim	(20.2)	(162.3)	(2.1)
Closing balance	Rs. 625.0	Rs. 600.2	US$ 8.0

Superannuation

Eligible employees of the Bank are entitled to receive retirement benefits under the Bank’s superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee’s eligible annual salary (15% for the Managing Director, Executive Directors and for certain employees of CBoP) to the insurance companies in India, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred. The Bank contributed Rs. 676.8 million, Rs. 1,034.1 million and Rs. 1,269.9 million to the superannuation plan for the years ended March 31, 2018, March 31, 2019 and March 31, 2020, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Provident fund

In accordance with Indian law, eligible employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of an employee's eligible salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that out of the employer's contribution, an amount equal to 8.33% of the lower of employee's monthly eligible salary or Rs. 0.015 million, is contributed by the Bank to the Pension Scheme administered by the Regional Provident Fund Commissioner. Employees are credited with interest, which is subject to a government specified minimum rate. The Bank has no liability for future provident fund benefits other than its annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund's assets, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 3,081.4 million, Rs. 3,312.1 million and Rs. 4,901.4 million to the Provident Fund Trust and Regional Provident Fund Commissioner for the years ended March 31, 2018, March 31, 2019 and March 31, 2020, respectively. The Hon'ble Supreme Court of India issued an order dated February 28, 2019 relating to employer's contribution to the provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Based on external legal opinion, the Bank has concluded the abovementioned order is applicable prospectively and hence it is not probable that there will be an outflow of resources in relation to past periods. From April 1, 2019, the employer's contribution by the Bank to the provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 w as made in accordance with the terms of the said order.

National Pension Scheme

In respect of employees who opt for contribution to the National Pension Scheme, the Bank contributes a certain percentage of the basic salary of employees to the aforesaid scheme, a defined contribution plan, which is managed and administered by pension fund management companies. The Bank has no liability other than its contribution, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 32.7 million and Rs. 37.9 million to the National Pension Scheme for the fiscal years ended March 31, 2019 and March 31, 2020, respectively.

Compensated absences

The Bank has provided for unutilized leave balances as on March 31, 2020 standing to the credit of each employee on an actuarial valuation conducted by an independent actuary.

24. Financial instruments

Foreign exchange and derivative contracts

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating rate interest cash flows. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank uses its pricing models to determine fair values of its derivative financial instruments. The Bank records credit risk valuation adjustments on derivative financial instruments in order to reflect the credit quality of the counterparties and its own credit quality. The Bank calculates valuation adjustments on derivatives based on observable market credit risk spreads.

The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and other derivative contracts as of March 31, 2019 and March 31, 2020, together with the fair values on each reporting date.

	As of March 31, 2019			
	Notional	Gross Assets	Gross Liabilities	Net Fair Value
Interest rate derivatives	Rs. 3,159,867.1	Rs. 27,932.0	Rs. 27,102.8	Rs. 829.2
Forward rate agreements	—	—	—	—
Currency options	282,096.9	2,326.1	2,617.2	(291.1)
Currency swaps	197,044.2	5,841.0	4,070.7	1,770.3
Forward exchange contracts	5,561,859.5	96,425.0	94,658.3	1,766.7
Total	Rs. 9,200,867.7	Rs. 132,524.1	Rs. 128,449.0	Rs. 4,075.1

	As of March 31, 2020					
	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
	(In millions)					
Interest rate derivatives	Rs. 3,644,495.8	Rs. 49,876.8	Rs. 51,976.9	Rs. (2,100.1)	US$ 48,341.9	US$ (27.9)
Forward rate agreements	—	—	—	—	—	—
Currency options	304,252.4	3,034.4	4,342.0	(1,307.6)	4,035.7	(17.3)
Currency swaps	202,725.6	12,396.0	6,592.1	5,803.9	2,689.0	77.0
Forward exchange contracts	6,079,195.0	125,230.4	121,872.0	3,358.4	80,636.6	44.6
Total	Rs. 10,230,668.8	Rs. 190,537.6	Rs. 184,783.0	Rs. 5,754.6	US$ 135,703.2	US$ 76.4

The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in net income. The gross assets and the gross liabilities are recorded in 'other assets' and 'accrued expenses and other liabilities', respectively.

The following table summarizes certain information related to derivative amounts recognized in income:

	Non-interest revenue, net – Derivatives for the years ended March 31,			
	2018	2019	2020	2020
	(In millions)			
Interest rate derivatives	Rs. 1,027.5	Rs. 736.4	Rs. (2,572.2)	US$ (34.1)
Forward rate agreements	0.5	0.1	—	—
Currency options	(15.0)	(262.5)	585.5	7.7
Currency swaps	(1,706.9)	1,045.0	3,465.5	46.0
Forward exchange contracts	7,436.5	10,890.1	2,071.2	27.5
Total gains/(losses)	Rs. 6,742.6	Rs. 12,409.1	Rs. 3,550.0	US$ 47.1

Offsetting

The following table shows the impact of netting arrangements on derivative financial instruments, repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements, but are not offset in accordance with ASC 210-20-45 and ASC 815-10-45.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements or similar agreements with substantially all of the Bank's foreign exchange and derivative contract counterparties. These master netting agreements, give the Bank, in the event of default by the counterparty, the right to liquidate collaterals held or placed and to offset receivables and payables with the same counterparty. In the table below the Bank has presented the gross derivative assets and liabilities adjusted for the effects of master netting agreements and collaterals received or pledged.

Transactions with counterparties for Securities sold under agreements to repurchase ("repos") and securities purchased under agreements to resell ("reverse repos") are settled through the Clearing Corporation of India Limited ("CCIL"), a centralized clearing house. Collaterals received or pledged comprise of highly liquid investments. For undertaking the above transactions, power of attorney is executed by the Bank and the counterparties in favor of CCIL to liquidate the securities pledged in the event of default.

	As of March 31, 2019					
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount
	(In millions)					
Financial assets						
Derivative assets	Rs. 132,524.1	Rs. —	Rs. 132,524.1	Rs. 104,025.7	Rs. 2,651.7	Rs. 25,846.7
Securities purchased under agreements to resell	76,213.5	—	76,213.5	—	76,213.5	—
Financial liabilities						
Derivative liabilities	Rs. 128,449.0	Rs. —	Rs. 128,449.0	Rs. 104,025.7	Rs. 3,098.1	Rs. 21,325.2
Securities sold under repurchase agreements	174,000.0	—	174,000.0	—	174,000.0	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

	As of March 31, 2020						
	Amounts subject to enforceable netting arrangements						
	Effects of offsetting on balance sheet			Related amounts not offset			
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount	
	(In millions)						
Financial assets							
Derivative assets	Rs. 190,537.6	Rs. —	Rs. 190,537.6	Rs. 147,844.5	Rs. 8,326.7	Rs. 34,366.4	US$ 455.8
Securities purchased under agreements to resell	250,000.0	—	250,000.0	—	250,000.0	—	—
Financial liabilities							
Derivative liabilities	Rs. 184,783.0	Rs. —	Rs. 184,783.0	Rs. 147,844.5	Rs. 6,706.7	Rs. 30,231.8	US$ 401.0
Securities sold under repurchase agreements	507,982.0	—	507,982.0	—	507,982.0	—	—
Long Term debt	17,260.0	—	17,260.0	—	17,260.0	—	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Guarantees

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third-party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third-party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the Bank is normally in line with requirements on case-by-case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and currently outstanding ranges from 1 day to 25.6 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

In accordance with FASB ASC 460-10 the Bank has recognized a liability of Rs. 3,544.4 million and Rs. 4,191.9 million as of March 31, 2019 and March 31, 2020, respectively, in respect of guarantees issued or modified. Based on historical trends, in accordance with FASB ASC 450, the Bank has recognized a liability of Rs. 2,589.5 million and Rs. 3,011.9 million as of March 31, 2019 and March 31, 2020, respectively.

Details of guarantees and documentary credits outstanding are set out below:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs. 254,075.9	Rs. 263,758.0	US$ 3,498.6
Performance guarantees	285,748.4	330,164.6	4,379.4
Documentary credits	475,617.8	440,232.7	5,839.4
Total	Rs.1,015,442.1	Rs.1,034,155.3	US$13,717.4
Estimated fair values:			
Guarantees	Rs. (3,544.4)	Rs. (4,191.9)	US$ (55.6)
Documentary credits	(501.7)	(488.8)	(6.5)
Total	Rs. (4,046.1)	Rs. (4,680.7)	US$ (62.1)

As part of its risk management activities, the Bank continuously monitors the creditworthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss. Margins in the form of cash and fixed deposit available to the Bank to reimburse losses realized under guarantees amounted to Rs. 99.5 billion and Rs. 130.5 billion as of March 31, 2019 and March 31, 2020, respectively. Other property or security may also be available to the Bank to cover losses under these guarantees.

Undrawn commitments

The Bank has outstanding undrawn commitments to provide loans and financing to customers. These commitments aggregated to Rs. 452.9 billion and Rs. 539.8 billion (US$ 7.2 billion) as of March 31, 2019 and March 31, 2020, respectively. Among other things, the making of a loan is subject to a review of the creditworthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. Further, the Bank has unconditional cancellable commitments aggregating to Rs. 3,150.9 billion and Rs. 3,806.2 billion (US$ 50.5 billion) as of March 31, 2019 and March 31, 2020, respectively.

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25. Estimated fair value of financial instruments

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2019 and March 31, 2020. The estimated fair value amounts as of March 31, 2019 and March 31, 2020 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

A comparison of the fair values and carrying values of financial instruments is set out below:

	As of											
	March 31, 2019					March 31, 2020						
		Estimated Fair Value					Estimated Fair Value					
	Carrying Value	Level 1	Level 2	Level 3	Total	Carrying Value	Level 1	Level 2	Level 3	Total	Carrying Value	Estimated Fair Value
	(In millions)											
Financial Assets:												
Cash and due from banks, and restricted cash	Rs. 734,872.6	Rs.734,872.6	Rs. —	Rs. —	Rs. 734,872.6	Rs. 611,961.0	Rs.611,961.0	Rs. —	Rs. —	Rs. 611,961.0	US$ 8,117.3	US$ 8,117.3
Investments held for trading	265,516.1	1,999.6	263,516.5	—	265,516.1	304,962.9	6,291.0	298,671.9	—	304,962.9	4,045.1	4,045.1
Investments available for sale debt securities	2,633,348.4	34,807.2	2,559,728.3	38,812.9	2,633,348.4	3,406,289.2	371,450.5	2,907,384.4	127,454.3	3,406,289.2	45,182.2	45,182.2
Securities purchased under agreements to resell	76,213.5	—	76,213.5	—	76,213.5	250,000.0	—	250,000.0	—	250,000.0	3,316.1	3,316.1
Loans	8,963,232.6	—	2,593,533.9	6,378,523.8	8,972,057.7	10,425,022.4	—	2,593,022.1	7,936,633.4	10,529,655.5	138,281.2	139,669.1
Accrued interest receivable	93,031.7	—	93,031.7	—	93,031.7	103,035.9	—	103,035.9	—	103,035.9	1,366.7	1,366.7
Other assets	344,873.6	2,390.1	340,767.5	—	343,157.6	641,605.5	2,282.4	637,594.1	—	639,876.5	8,510.5	8,487.6
Financial Liabilities :												
Interest-bearing deposits	7,804,717.5	—	7,826,794.0	—	7,826,794.0	9,730,481.3	—	9,786,793.2	—	9,786,793.2	129,068.6	129,815.5
Non-interest-bearing deposits	1,420,309.4	—	1,420,309.4	—	1,420,309.4	1,731,590.0	—	1,731,590.0	—	1,731,590.0	22,968.4	22,968.4
Securities sold under repurchase agreements	174,000.0	—	174,000.0	—	174,000.0	507,982.0	—	507,982.0	—	507,982.0	6,738.1	6,738.1
Short-term borrowings	654,058.0	—	655,215.2	—	655,215.2	377,417.6	—	378,027.9	—	378,027.9	5,006.2	5,014.3
Accrued interest payable	79,372.5	—	79,372.5	—	79,372.5	80,078.9	—	80,078.9	—	80,078.9	1,062.2	1,062.2
Long-term debt	1,044,553.0	—	1,061,687.0	—	1,061,687.0	1,026,518.3	—	1,074,826.3	—	1,074,826.3	13,616.1	14,256.9
Accrued expenses and other liabilities	366,071.3	—	366,071.3	—	366,071.3	460,931.4	—	460,931.4	—	460,931.4	6,114.0	6,114.0

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

26. Segment information

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in note 2. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and grant loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank's retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans given to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions. Wholesale banking segment includes unallocated tax balances and other items.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Summarized segment information for the years ended March 31, 2018, March 31, 2019 and March 31, 2020:

	Fiscal year ended March 31,							
	2018				2019			
	Retail Banking	Wholesale Banking	Treasury Services	Total	Retail Banking	Wholesale Banking	Treasury Services	Total
	(In millions)							
Net interest income/(expense) (External)	Rs. 279,198.3	Rs. 120,341.3	Rs. 23,611.0	Rs. 423,150.6	Rs. 336,677.1	Rs. 140,085.0	Rs. 30,743.5	Rs. 507,505.6
Net interest income/(expense) (Internal)	65,690.2	(48,571.1)	(17,119.1)	—	62,339.1	(43,842.8)	(18,496.3)	—
Net interest revenue	344,888.5	71,770.2	6,491.9	423,150.6	399,016.2	96,242.2	12,247.2	507,505.6
Less: Provision for credit losses	52,577.1	6,820.7	—	59,397.8	64,051.0	8,228.3	—	72,279.3
Net interest revenue, after provision for credit losses	292,311.4	64,949.5	6,491.9	363,752.8	334,965.2	88,013.9	12,247.2	435,226.3
Non-interest revenue	122,582.6	12,674.1	9,350.3	144,607.0	138,783.0	23,789.6	(2,450.4)	160,122.2
Non-interest expense	(210,257.2)	(19,792.1)	(1,204.1)	(231,253.4)	(230,726.5)	(22,744.8)	(1,918.2)	(255,389.5)
Income before income tax	Rs. 204,636.8	Rs. 57,831.5	Rs. 14,638.1	Rs. 277,106.4	Rs. 243,021.7	Rs. 89,058.7	Rs. 7,878.6	Rs. 339,959.0
Income tax expense				Rs. 98,272.5				Rs. 119,393.5
Segment assets:								
Segment total assets	Rs. 6,351,601.7	Rs. 4,140,606.7	Rs. 875,100.4	Rs. 11,367,308.8	Rs. 7,432,733.8	Rs. 4,732,290.7	Rs. 1,115,049.1	Rs. 13,280,073.6

	Fiscal year ended March 31,				
	2020				
	Retail Banking	Wholesale Banking	Treasury Services	Total	Total
			(In millions)		
Net interest income/(expense) (External)	Rs. 356,017.3	Rs. 204,725.8	Rs. 32,784.3	Rs. 593,527.4	US$ 7,872.8
Net interest income/(expense) (Internal)	127,065.9	(101,002.5)	(26,063.4)	—	—
Net interest revenue	483,083.2	103,723.3	6,720.9	593,527.4	7,872.8
Less: Provision for credit losses	104,516.8	13,105.1	—	117,621.9	1,560.2
Net interest revenue, after provision for credit losses	378,566.4	90,618.2	6,720.9	475,905.5	6,312.6
Non-interest revenue	161,890.1	36,059.1	269.8	198,219.0	2,629.4
Non-interest expense	(278,605.8)	(27,774.0)	(1,900.7)	(308,280.5)	(4,089.2)
Income before income tax	Rs. 261,850.7	Rs. 98,903.3	Rs. 5,090.0	Rs. 365,844.0	US$ 4,852.8
Income tax expense				Rs. 105,480.0	US$ 1,399.1
Segment assets:					
Segment total assets	Rs. 8,353,762.3	Rs. 5,933,391.4	Rs. 1,674,735.4	Rs. 15,961,889.1	US$ 211,724.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

27. Commitments and contingencies

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 24) are as follows:

Capital commitments

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2019 and March 31, 2020 aggregated Rs. 5,503.6 million and Rs. 12,756.9 million, respectively.

Contingencies

The Bank is party to various legal proceedings in the normal course of business. The Bank estimates the provision for contingencies which majorly include indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank towards indirect taxes and other claims which are not acknowledged as debts as of March 31, 2020 aggregated to Rs. 8,437.8 million (previous year Rs. 8,936.3 million). The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of other legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank's business, financial condition or results of operations.

Lease commitments

The Bank is party to operating leases for certain of its office premises and employee residences, with a renewal at the option of the Bank. Operating lease right-of-use assets and lease liabilities were as follows:

	As of March 31,	
	2020	2020
	(In millions)	
Right-of-use assets	Rs. 60,756.9	US$ 805.9
Lease liabilities	65,615.1	870.3

The total lease expenses are as follows:

	As of March 31,			
	2018	2019	2020	2020
	(In millions)			
The total minimum lease expense during the year recognized in the consolidated statement of income	Rs.12,311.3	Rs.12,700.8	Rs.13,698.7	US$ 181.7

The total operating cash flow for operating lease expenses during the year ended March 31, 2020 was Rs. 11,692.3 million (US $ 155.1 million).

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The future minimum lease payments prior to adoption of ASU 2016-02- Leases as of March 31, 2019 were as follows:

Year ending March 31,	Operating leases (In millions)
2020	Rs. 10,538.6
2021	9,921.4
2022	9,100.7
2023	8,137.3
2024	7,104.2
Thereafter	41,090.6
Total	Rs. 85,892.8

The future minimum lease payments subsequent to adoption of ASU 2016-02- Leases as of March 31, 2020 were as follows:

Due in fiscal year ending March 31:	Operating leases (In millions, except for weighted averages)	
2021	Rs. 11,411.4	US$ 151.4
2022	10,617.5	140.8
2023	9,808.5	130.1
2024	8,839.5	117.3
2025	8,227.8	109.1
Thereafter	48,321.0	640.9
Total lease payments	Rs. 97,225.7	US$ 1,289.6
Less: imputed interest	31,610.6	419.3
Total operating lease liabilities	Rs. 65,615.1	US$ 870.3
Weighted average remaining lease term (in years)	10.3	10.3
Weighted average discount rate	7.4%	7.4%

The Bank adopted ASU 2016-02 "Leases (Topic842)" and subsequent related updates on April 1, 2019. The Bank enters into lease agreements to obtain the right-of-use assets for its business operations, substantially all of which are premises. On April 1, 2019, the Bank recognized a lease liability of Rs. 56.9 billion and a corresponding right-of-use asset of approximately Rs. 53.0 billion on the Consolidated Balance Sheet related to its future lease payments as a lessee under operating leases. On adoption of Topic 842, accrued rent amounting to Rs. 3.9 billion , earlier included in accrued expenses and other liabilities, reclassified to right-of-use assets as at April 1, 2019. Lease liabilities and right-of-use assets are recognized when the Bank enters into operating leases and represent obligations and rights to use these assets over the period of the leases and are re-measured for modifications. Operating lease liabilities include fixed payments for the contractual duration of the lease, adjusted for renewals or terminations. The lease agreements entered into by the Bank do not include any material residual value guarantees and material restrictive covenants. The lease payments are discounted using a rate determined when the lease is recognized. In general, the Bank does not know the discount rate implicit in the lease, and so the Bank estimates a discount rate that the Bank believes approximates a collateralized borrowing rate for the estimated duration of the lease term. The rate is determined at the date of commencement of the lease and for leases existing as at April 1, 2019, the incremental borrowing rate is determined as at that date. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate. Right-of-use assets are reported in other assets on the consolidated balance sheet and related lease liabilities are reported in accrued expenses and other liabilities. The amortization of operating lease right-of-use assets and the accretion of operating lease liabilities are reported together as fixed lease expenses and are included in non-interest expense- premises and equipment. The lease expense is recognized on a straight-line basis over the life of the lease. The lease agreements entered into by the Bank generally have renewal and escalation clauses. These agreements also in general permit the Bank to terminate the lease arrangement within a certain period of notice of termination. The Bank does not include renewal or termination options in the establishment of the lease term when it is not reasonably certain that it will exercise them. The Bank has elected to exclude leases with terms of less than one year from the operating lease right-of-use assets and lease liabilities. The related short-term lease expense is included in non-interest expense- premises and equipment. As of March 31, 2020, the Bank had additional undiscounted operating lease commitments of Rs .6.9 billion, predominantly for premises, with leases which have not yet commenced. These leases will commence by April 2020 and have lease terms ranging from 4 to 26 years.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reward points

The movement in provision for credit card and debit card reward points as of March 31, 2019 and March 31, 2020 is as follows:

	As of March 31,		
	2019	2020	2020
		(In millions)	
Opening provision of reward points	Rs. 4,711.2	Rs. 6,030.9	US$ 80.0
Provision made during the year	3,747.3	5,356.0	71.0
Utilization/write back of provision	(2,555.9)	(3,868.8)	(51.3)
Effect of change in rate of accrual of reward points	91.5	(176.6)	(2.3)
Effect of change in cost of reward points	36.8	—	—
Closing provision of reward points	Rs. 6,030.9	Rs. 7,341.5	US$ 97.4

28. Related party transactions

The Bank's principal related parties consist of HDFC Limited, its principal owner, subsidiaries of HDFC Limited and affiliates of the Bank. Transactions disclosed under "others" primarily consist of transactions with subsidiaries of HDFC Limited and affiliates of the Bank. The Bank enters into transactions with its related parties, such as providing banking services, sharing costs and service providers, purchasing services, making joint investments, and borrowing from related parties and subletting premises. The Bank is prohibited from making loans to companies with which it has directors in common. The Bank, being an authorized dealer, deals in foreign exchange and derivative transactions with certain parties which include the principal owner and related companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The Bank's related party balances and transactions are in the normal course of business and are summarized as follows:

Balances payable to related parties are as follows:

	As of March 31,						
	2019			2020			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
				(In millions)			
Balances in non-interest-bearing deposits	Rs.32,176.8	Rs. 14,170.1	Rs. 46,346.9	Rs. 35,128.7	Rs. 8,258.8	Rs. 43,387.5	US$ 575.5
Balances in interest-bearing deposits	733.1	1,732.9	2,466.0	1,662.0	5,954.8	7,616.8	101.0
Accrued expenses and other liabilities	836.4	—	836.4	1,002.8	—	1,002.8	13.3
Total	Rs. 33,746.3	Rs. 15,903.0	Rs. 49,649.3	Rs. 37,793.5	Rs. 14,213.6	Rs. 52,007.1	US$ 689.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Balances receivable from related parties are as follows:

	As of March 31,						
	2019			2020			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
				(In millions)			
Loans	Rs. —	Rs. 33.9	Rs. 33.9	Rs. —	Rs. 26.5	Rs. 26.5	US$ 0.4
Other assets	310.2	1,474.7	1,784.9	449.5	1,266.9	1,716.4	22.8
Total	Rs. 310.2	Rs. 1,508.6	Rs. 1,818.8	Rs. 449.5	Rs. 1,293.4	Rs. 1,742.9	US$ 23.2

Purchase of property and equipment from related parties for the years ended March 31, 2019 and 2020 were nil. Purchase and sale of investments from Others for the year ended March 31, 2020 were Rs.4,872.8 million (previous year Rs. 6,490.7 million) and Rs. 28,016.8 million (previous year Rs. 22,236.2 million), respectively. Investments of Others in the Bank's subordinated debt for the fiscal year ended March 31, 2020 were Rs. 200.0 million (previous year Rs. 250.0 million).

Included in the determination of net income are the following significant transactions with related parties:

	Fiscal year ended March 31,									
	2018			2019			2020			
	Principal owner	Others	Total	Principal owner	Others	Total	Principal owner	Others	Total	Total
					(In millions)					
Non-interest revenue-Fees and commissions	Rs. 2,642.7	Rs. 14,913.5	Rs. 17,556.2	Rs. 2,829.7	Rs. 14,558.3	Rs. 17,388.0	Rs. 3,089.4	Rs. 17,001.7	Rs. 20,091.1	US$ 266.5
Interest and Dividend revenue	132.8	1,396.9	1,529.7	352.0	1,549.7	1,901.7	—	1,194.2	1,194.2	15.8
Interest expense-Deposits	(59.6)	(115.9)	(175.5)	(54.9)	(138.0)	(192.9)	(85.3)	(84.2)	(169.5)	(2.2)
Non-interest expense-Administrative and other	(4,031.9)	(2,266.8)	(6,298.7)	(4,838.3)	(2,841.7)	(7,680.0)	(5,840.8)	(3,119.6)	(8,960.4)	(118.9)
Non-interest expense-Premises and equipment	(19.8)	(7.6)	(27.4)	(31.2)	(6.1)	(37.3)	(25.8)	(9.7)	(35.5)	(0.5)

Other transactions with the Bank's principal owner are as follows:

During the years ended March 31, 2019 and March 31, 2020, the Bank purchased loans from the principal owner aggregating Rs. 239,824.2 million and Rs. 241,272.5 million, respectively. Dividends paid to the principal owner during the years ended March 31, 2019 and March 31, 2020 were Rs. 5,111.7 million and Rs. 8,646.2 million, respectively. The Bank also enters into foreign exchange and derivative transactions with its principal owner. The notional principal amount and the mark-to-market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2020 was Rs. 120,099.5 million (previous year Rs. 58,655.0 million) and Rs. 53.5 million (previous year Rs. 143.1 million), respectively. During the fiscal year ended March 31, 2020, the Bank subscribed to debt securities of nil (previous year Rs. 6,850.0 million) issued by the principal owner. During the fiscal year ended March 31, 2020, the Bank issued Guarantees on behalf of its Principal owner and Others for Rs. 3.9 million (previous year Rs. 3.7 million) and for Rs. 29.9 million (previous year Rs. 1,127.4 million), respectively.

For contributions made to provident funds and pension funds set up by the Bank, see note 23 – Retirement benefits.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

29. Earnings per equity share

By way of an ordinary resolution passed on July 12, 2019, the shareholders of the Bank approved a subdivision (stock split) of equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per equity share effective as of September 20, 2019. The number of issued and subscribed equity shares increased to 5,470,763,894 shares of par value Rs. 1.0 each. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three equity shares.

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of nil and 24.2 million were excluded from the calculation of diluted earnings per share for the years ended March 31, 2019 and March 31, 2020, respectively, as these were anti-dilutive.

	As of March 31,		
	2018	2019	2020
Weighted average number of equity shares used in computing basic earnings per equity share	5,161,077,010	5,360,068,058	5,468,802,148
Effect of potential equity shares for stock options outstanding	66,800,242	53,585,896	36,990,405
Weighted average number of equity shares used in computing diluted earnings per equity share	5,227,877,252	5,413,653,954	5,505,792,553

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

	Fiscal years ended March 31,			
	2018	2019	2020	2020
Basic earnings per share	Rs. 34.59	Rs. 41.07	Rs. 47.59	US$0.63
Effect of potential equity shares for stock options outstanding	0.44	0.41	0.32	0.01
Diluted earnings per share	Rs. 34.15	Rs. 40.66	Rs. 47.27	US$0.62
Basic earnings per ADS	Rs.103.77	Rs.123.21	Rs.142.77	US$1.89
Effect of potential equity shares for stock options outstanding	1.32	1.23	0.96	0.03
Diluted earnings per ADS	Rs.102.45	Rs.121.98	Rs.141.81	US$1.86

Dividends

Any dividends declared by the Bank are based on the profit available for distribution as reported in the statutory financial statements of the Bank prepared in accordance with Indian GAAP. Additionally, the Banking Regulation Act and related regulations require the Bank to transfer 25% of its Indian GAAP profit after-tax to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval. As per the RBI guidelines, the dividend payout (excluding dividend tax) for March 31, 2020 cannot exceed 35% of net income of Rs. 262,573.2 million as calculated under Indian GAAP. Accordingly, the net income reported in these financial statements may not be fully distributable in that year. Dividends declared for the years ended March 31, 2018 and March 31, 2019 were Rs. 6.5 and Rs. 7.5 per equity share , respectively. A special interim dividend of Rs. 2.5 per share to commemorate 25 years of HDFC Bank's operations was paid on August 2, 2019. The RBI in its circular dated April 17, 2020, announced that banks shall not make any further dividend payouts from the profits relating to the financial year ended March 31, 2020 until further instructions . As a result , the Board of Directors of the Bank, at their meeting held on April 18, 2020, has not proposed any final dividend for fiscal 2020.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

30. Subsidiaries

HDB Financial Services Limited (“HDBFSL”) is a non-deposit taking non-banking finance company and a subsidiary of the Bank. As at March 31, 2020, HDFC Bank Ltd. and its subsidiaries effectively hold 95.9% (previous year 96.1%). The financial statements of HDBFSL are consolidated.

HDFC Securities Ltd. (“HSL”) offers trading facilities in a range of equity, fixed income and derivative products to its clients. As at March 31, 2020 the Bank holds a 96.8% (previous year 97.6%) effective equity interest. The financial statements of HSL are consolidated.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

31. Fair value measurement

FASB Accounting Standards Codification "ASC" 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level of input	
Level 1	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the positions that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for sale debt securities: Available for sale debt securities are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. A reduction in the estimated cash flows of these instruments will adversely impact the value of these securities. A change in the timing of these estimated cash flows will also impact the value of these securities.

Trading securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2019 and March 31, 2020.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Trading account securities	Rs. 265,516.1	Rs. 1,999.6	Rs. 263,516.5	Rs. —
Securities Available-for-Sale	2,633,348.4	34,807.2	2,559,728.3	38,812.9
Equity securities *	11,024.0	2,390.1	8,633.9	—
Total	Rs.2,909,888.5	Rs. 39,196.9	Rs. 2,831,878.7	Rs.38,812.9

* Equity securities classified within other assets.

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Trading account securities	Rs. 304,962.9	Rs. 6,291.0	Rs. 298,671.9	Rs. —
Securities Available-for-Sale	3,406,289.2	371,450.5	2,907,384.4	127,454.3
Equity securities *	10,937.5	2,282.4	8,655.1	—
Total	Rs. 3,722,189.6	Rs. 380,023.9	Rs. 3,214,711.4	Rs. 127,454.3
Total	US$ 49,372.4	US$ 5,040.7	US$ 42,641.1	US$ 1,690.6

* Equity securities classified within other assets.

Available-for-Sale securities aggregating to Rs.5.3 billion and classified as Level 1 as of March 31, 2019 were transferred to Level 2 during fiscal 2020. The following table summarizes, certain additional information about changes in the fair value of Level 3 assets pertaining to instruments carried at fair value for the years ended March 31, 2019 and March 31, 2020:

Particulars	As of March 31, 2019 (in millions)
Beginning balance at April 1, 2018	Rs. 18,534.6
Total gains or losses (realized/unrealized)	
-Included in net income	—
-Included in other comprehensive income	355.9
Purchases/additions	42,885.7
Sales	—
Issuances	—
Settlements	(22,963.3)
Transfers in Level 3	—
Transfers out of Level 3	—
Foreign currency translation adjustment	—
Ending balance at March 31, 2019	Rs. 38,812.9
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs —

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Particulars	As of March 31, 2020 (In millions)
Beginning balance at April 1, 2019	Rs. 38,812.9
Total gains or losses (realized/unrealized)	
-Included in net income	—
-Included in other comprehensive income	1,535.5
Purchases/additions	126,891.3
Sales	—
Issuances	—
Settlements	(39,785.4)
Transfers in Level 3	—
Transfers out of Level 3	—
Foreign currency translation adjustment	—
Ending balance at March 31, 2020	Rs. 127,454.3
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs —

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurements Using		
Particulars	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Derivative assets	Rs.132,524.1	Rs. —	Rs. 132,524.1	Rs. —
Derivative liabilities	Rs.128,449.0	Rs. —	Rs. 128,449.0	Rs. —

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurements Using		
Particulars	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Derivative assets	Rs.190,537.6	Rs. —	Rs. 190,537.6	Rs. —
Derivative liabilities	Rs.184,783.0	Rs. —	Rs. 184,783.0	Rs. —

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

32. Risk and uncertainties

At the date of approval of the consolidated financial statements, the SARS-CoV-2 virus responsible for COVID-19 continues to spread across the globe and India, contributing to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activity. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Numerous governments and companies, including the Bank, have introduced a variety of measures to contain the spread of the virus. In India, the Bank's main place of business, on March 24, 2020, the Government announced a strict 21-day lockdown across the country, which was later extended until May 31, 2020. On May 30, 2020 the Government announced a phased reopening of certain previously prohibited activities outside specified containment zones, while the lockdown was extended to June 30, 2020 in such containment zones.

To reduce the economic impact of the pandemic on Indian corporate and retail borrowers, on March 27, 2020 , the RBI announced COVID- 19 regulations, which included permission for financial institutions to extend a three-month moratorium on the repayment of debt installments or interest, as applicable, due between March 1, 2020 and May 31, 2020 to all eligible borrowers even if overdue, as at February 29, 2020. In line with the RBI's additional COVID-19 Regulatory Package guidelines dated May 23, 2020, the Bank granted a second three-month moratorium on debt installments or interest, as applicable, due between June 1, 2020 and August 31, 2020. Interest on the debt will continue to accrue during the moratorium.

The extent to which the COVID-19 pandemic will impact the Bank's results will depend on future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated or elected by the Bank.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of **HDFC Bank Limited** (the "Bank") is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control system was designed to provide reasonable assurance to the Bank's management, its Audit Committee and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any internal control or system of control, however well-designed, including the possibility of human error and the possible circumvention or overriding of such controls or systems. Moreover, because of changing conditions, the reliability of internal controls may vary over time. As a result, even effective internal controls can provide no more than reasonable assurance with respect to the accuracy and completeness of financial statements and their process of preparation.

The Bank management assessed the effectiveness of the Bank's internal control over financial reporting as of March 31, 2019. In making this assessment, it has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on those criteria and our assessment we believe that, as of March 31, 2019, the Bank's internal control over financial reporting was effective.

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

HDFC BANK LIMITED
HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013, India

July 31, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on Internal Control Over Financial Reporting

We have audited HDFC Bank Limited and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated July 31, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG

Mumbai, India
July 31, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
HDFC Bank Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of HDFC Bank Limited and subsidiaries (the Company) as of March 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 31, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements as of and for the year ended March 31, 2019 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such financial statements expressed in Indian rupee have been translated into United States dollars on the basis set forth in Note 2(y) to the consolidated financial statements.

/s/ KPMG

We have served as the Company's auditor since 2015.

Mumbai, India
July 31, 2019

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of		
	March 31, 2018	March 31, 2019	March 31, 2019
	(In millions, except number of shares)		
ASSETS:			
Cash and due from banks, and restricted cash	Rs. 574,151.0	Rs. 734,872.6	US$ 10,625.7
Investments held for trading, at fair value	167,513.9	265,516.1	3,839.2
Investments available for sale debt securities, at fair value [includes restricted investments of Rs. 1,354,027.6 and Rs.1,634,673.3 (US$ 23,636.1), as of March 31, 2018 and March 31, 2019, respectively]	2,221,443.3	2,633,348.4	38,076.2
Securities purchased under agreements to resell	650,018.6	76,213.5	1,102.0
Loans [net of allowance of Rs. 112,507.2 and Rs. 148,232.0 (US$ 2,143.4), as of March 31, 2018 and March 31, 2019, respectively]	7,263,671.8	8,963,232.6	129,601.3
Accrued interest receivable	77,894.7	93,031.7	1,345.2
Property and equipment, net	38,968.1	43,187.8	624.5
Intangible assets, net	1.0	—	—
Goodwill	74,937.9	74,937.9	1,083.5
Other assets	298,708.5	395,733.0	5,722.1
Total assets	Rs. 11,367,308.8	Rs. 13,280,073.6	US$ 192,019.7
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Interest-bearing deposits	Rs. 6,693,649.3	Rs. 7,804,717.5	US$ 112,850.2
Non-interest-bearing deposits	1,190,102.2	1,420,309.4	20,536.6
Total deposits	7,883,751.5	9,225,026.9	133,386.8
Securities sold under repurchase agreements	138,000.0	174,000.0	2,515.9
Short-term borrowings	779,201.7	654,058.0	9,457.2
Accrued interest payable	65,514.4	79,372.5	1,147.7
Long-term debt	932,906.3	1,044,553.0	15,103.4
Accrued expenses and other liabilities	391,441.6	467,438.6	6,758.8
Total liabilities	Rs. 10,190,815.5	Rs. 11,644,449.0	US$ 168,369.8
Commitments and contingencies (see note 27)			
Shareholders' equity:			
Equity shares: par value—Rs. 2.0 each; authorized 3,250,000,000 shares and 3,250,000,000 shares; issued and outstanding 2,595,090,267 shares and 2,723,306,610 shares, as of March 31, 2018 and March 31, 2019, respectively	Rs. 5,190.2	Rs. 5,446.6	US$ 78.8
Additional paid-in capital	476,570.4	739,763.6	10,696.4
Retained earnings	462,876.2	587,235.2	8,491.0
Statutory reserve	233,323.5	288,321.1	4,168.9
Accumulated other comprehensive income (loss)	(3,796.7)	11,808.8	170.7
Total HDFC Bank Limited shareholders' equity	1,174,163.6	1,632,575.3	23,605.8
Noncontrolling interest in subsidiaries	2,329.7	3,049.3	44.1
Total shareholders' equity	1,176,493.3	1,635,624.6	23,649.9
Total liabilities and shareholders' equity	Rs. 11,367,308.8	Rs. 13,280,073.6	US$ 192,019.7

Effective April 1, 2018, the Bank adopted ASU 2016-01 retrospectively and accordingly, prior period amounts were reclassified. For additional information, refer to note 2(w)(ii).

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions, except share and per share amounts)			
Interest and dividend revenue:				
Loans	Rs. 552,686.8	Rs. 667,458.7	Rs. 827,683.0	US$ 11,967.7
Trading securities	5,041.8	4,049.1	8,892.9	128.6
Available for sale debt securities	154,618.6	158,209.2	190,992.5	2,761.6
Other	13,207.1	13,748.3	14,146.5	204.5
Total interest and dividend revenue	725,554.3	843,465.3	1,041,714.9	15,062.4
Interest expense:				
Deposits	308,078.3	326,717.8	410,026.4	5,928.7
Short-term borrowings	21,821.9	26,004.4	39,054.3	564.7
Long-term debt	43,781.1	67,297.5	85,081.1	1,230.2
Other	77.4	295.0	47.5	0.7
Total interest expense	373,758.7	420,314.7	534,209.3	7,724.3
Net interest revenue	351,795.6	423,150.6	507,505.6	7,338.1
Provision for credit losses	37,951.4	59,397.8	72,279.3	1,045.1
Net interest revenue after provision for credit losses	313,844.2	363,752.8	435,226.3	6,293.0
Non-interest revenue, net:				
Fees and commissions	94,120.3	120,060.9	134,155.2	1,939.8
Trading securities gain/(loss), net	467.2	(63.4)	1,028.4	14.9
Realized gain/(loss) on sales of available for sale debt securities, net	9,606.2	10,853.2	2,596.0	37.5
Other than temporary impairment losses on available for sale debt securities	(13.4)	(149.1)	(1,081.0)	(15.6)
Foreign exchange transactions	11,282.7	6,209.5	1,917.8	27.7
Derivatives gain/(loss), net	(5,738.5)	6,742.6	12,409.1	179.4
Other, net	601.6	953.3	9,096.7	131.5
Total non-interest revenue, net	110,326.1	144,607.0	160,122.2	2,315.2
Total revenue, net	424,170.3	508,359.8	595,348.5	8,608.2
Non-interest expense:				
Salaries and staff benefits	92,663.0	98,483.7	104,652.6	1,513.2
Premises and equipment	28,024.2	29,816.9	29,527.7	426.9
Depreciation and amortization	8,876.9	9,678.9	12,247.8	177.1
Administrative and other	74,637.7	93,272.9	108,960.4	1,575.5
Amortization of intangible assets	3.0	1.0	1.0	—
Total non-interest expense	204,204.8	231,253.4	255,389.5	3,692.7
Income before income tax expense	219,965.5	277,106.4	339,959.0	4,915.5
Income tax expense	79,224.9	98,272.5	119,393.5	1,726.3
Net income before noncontrolling interest	Rs. 140,740.6	Rs. 178,833.9	Rs. 220,565.5	US$ 3,189.2
Less: Net income attributable to shareholders of noncontrolling interest	210.8	319	461.7	6.7
Net income attributable to HDFC Bank Limited	Rs. 140,529.8	Rs. 178,514.9	Rs. 220,103.8	US$ 3,182.5

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME—(Continued)

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions, except share and per share amounts)			
Per share information:				
Earnings per equity share—basic	Rs. 55.23	Rs. 69.18	Rs. 82.13	US$ 1.19
Earnings per equity share—diluted	Rs. 54.57	Rs. 68.29	Rs. 81.31	US$ 1.18
Per ADS information (where 1 ADS represents 3 shares):				
Earnings per ADS—basic	Rs. 165.69	Rs. 207.54	Rs. 246.39	US$ 3.57
Earnings per ADS—diluted	Rs. 163.71	Rs. 204.87	Rs. 243.93	US$ 3.54
Dividends declared per equity share	Rs. 11.0	Rs 13.0	Rs 15.0	US$ 0.2

Effective April 1, 2018, the Bank adopted ASU 2017-07 retrospectively and accordingly, prior period amounts were revised. For additional information, refer to note 2(w)(viii) and note 23

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Net income before noncontrolling interest	Rs. 140,740.6	Rs. 178,833.9	Rs. 220,565.5	US$ 3,189.2
Other comprehensive income, net of tax:				
Foreign currency translation adjustment:				
Net unrealized gain (loss) arising during the period [net of tax Rs. 110.6, Rs. (39.6) and Rs. (356.6), as of March 31, 2017, March 31, 2018 and March 31, 2019, respectively]	(209.2)	72.1	663.9	9.6
Available for sale debt securities:				
Net unrealized gain (loss) arising during the period [net of tax Rs. (9,478.8), Rs. 11,319.5 and Rs. (9,187.8), as of March 31, 2017, March 31, 2018 and March 31, 2019, respectively]	17,910.7	(21,445.3)	17,105.1	247.3
Reclassification adjustment for net (gain) loss included in net income [net of tax Rs. 1,685.7, Rs. 4,541.5 and Rs. 1,018.1, as of March 31, 2017, March 31, 2018 and March 31, 2019, respectively]	(3,185.2)	(8,455.1)	(1,895.5)	(27.4)
Other comprehensive income, net of tax	14,516.3	(29,828.3)	15,873.5	229.5
Total comprehensive income	155,256.9	149,005.6	236,439.0	3,418.7
Less: Comprehensive income attributable to shareholders of noncontrolling interest	210.8	319.0	461.7	6.7
Comprehensive income attributable to HDFC Bank Limited	Rs. 155,046.1	Rs. 148,686.6	Rs. 235,977.3	US$ 3,412.0

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Cash flows from operating activities:				
Net income before noncontrolling interest	Rs. 140,740.6	Rs. 178,833.9	Rs. 220,565.5	US$ 3,189.2
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	37,951.4	59,397.8	72,279.3	1,045.1
Depreciation and amortization	8,876.9	9,678.9	12,247.8	177.1
Amortization of intangible assets	3.0	1.0	1.0	—
Amortization of deferred customer acquisition costs and fees	7,913.8	9,246.2	10,423.1	150.7
Amortization of premium (discount) on investments	2,609.8	3,599.4	4,532.1	65.5
Other than temporary impairment losses on available for sale debt securities	13.4	149.1	1,081.0	15.6
Deferred tax benefit	(5,048.6)	(10,403.5)	(8,129.4)	(117.6)
Other gains, net	—	—	(6,717.5)	(97.1)
Share-based compensation expense	8,203.2	6,594.6	5,343.3	77.3
Net realized (gain) loss on sale of available for sale debt securities	(9,606.2)	(10,853.2)	(2,596.0)	(37.5)
(Gain) loss on disposal of property and equipment, net	14.8	(64.5)	(64.8)	(0.9)
Unrealized exchange (gain) loss	407.9	1,719.5	574.6	8.3
Net change in:				
Investments held for trading	35,241.8	(131,816.3)	(96,555.7)	(1,396.1)
Accrued interest receivable	(9,083.4)	(10,527.8)	(15,060.3)	(217.8)
Other assets	(65,542.3)	90,525.6	(112,726.3)	(1,629.9)
Accrued interest payable	3,286.3	20,997.1	13,775.0	199.2
Accrued expense and other liabilities	223,289.8	(122,803.6)	84,299.5	1,218.9
Net cash provided by operating activities	379,272.2	94,274.2	183,272.2	2,650.0
Cash flows from investing activities:				
Term placements	17,830.3	(8,806.4)	24,447.4	353.5
Activity in available for sale debt securities:				
Purchases	(2,890,096.8)	(1,518,100.1)	(1,781,754.9)	(25,762.8)
Proceeds from sales	412,536.2	197,206.3	453,778.9	6,561.3
Maturities, prepayments and calls	2,274,701.2	1,171,299.5	937,072.0	13,549.3
Net change in repurchase agreements and reverse repurchase agreements	(355,040.1)	(462,018.6)	609,805.1	8,817.3
Loans purchased	(128,490.2)	(55,216.0)	(240,356.2)	(3,475.4)
Repayments on loans purchased	59,803.7	76,993.2	89,713.3	1,297.2
Increase in loans originated, net of principal collections	(956,914.2)	(1,440,601.9)	(1,610,724.3)	(23,289.8)
Additions to property and equipment	(12,628.5)	(9,181.5)	(16,355.0)	(236.5)
Proceeds from sale or disposal of property and equipment	94.3	95.1	212.3	3.1
Activity in equity securities, net	—	4.7	(2,821.4)	(40.8)
Net cash used in investing activities	(1,578,204.1)	(2,048,325.7)	(1,536,982.8)	(22,223.6)

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Cash flows from financing activities:				
Net increase in deposits	979,662.7	1,447,097.0	1,331,850.9	19,257.5
Net increase (decrease) in short-term borrowings	68,703.2	456,558.6	(127,707.1)	(1,846.5)
Purchase of subsidiary shares from noncontrolling interest	—	(143.3)	—	—
Proceeds from issue of shares by a subsidiary to noncontrolling interests	301.9	366.5	459.8	6.6
Proceeds from issuance of long-term debt	335,048.9	425,517.1	320,093.6	4,628.3
Repayment of long-term debt	(123,074.3)	(225,150.2)	(224,084.5)	(3,240.1)
Proceeds from issuance of equity shares for options exercised	22,615.1	27,259.1	22,008.2	318.2
Proceeds from issuance of equity shares (net of issuance cost)	—	—	235,896.2	3,410.9
Payment of dividends and dividend tax	(29,280.9)	(34,490.3)	(41,015.2)	(593.0)
Net cash provided by financing activities	1,253,976.6	2,097,014.5	1,517,501.9	21,941.9
Effect of exchange rate changes on cash and due from banks, and restricted cash	(2,007.8)	479.4	(3,069.7)	(44.4)
Net change in cash and due from banks, and restricted cash	53,036.9	143,442.4	160,721.6	2,323.9
Cash and due from banks, and restricted cash, beginning of year	377,671.7	430,708.6	574,151.0	8,301.8
Cash and due from banks, and restricted cash, end of year	Rs. 430,708.6	Rs. 574,151.0	Rs. 734,872.6	US$ 10,625.7
Supplementary cash flow information:				
Interest paid	Rs. 370,455.4	Rs. 399,287.9	Rs. 520,351.2	US$ 7,523.9
Income taxes paid, net of refunds	Rs. 76,849.6	Rs. 100,089.3	Rs. 119,365.0	US$ 1,725.9
Non-cash investment activities				
Payable for purchase of property and equipment	Rs. 537.8	Rs. 1,064.5	Rs. 1,323.7	US$ 19.1

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
	(In millions, except for equity shares)								
Balance at March 31, 2016	**2,528,186,517**	**Rs. 5,056.4**	**Rs. 412,264.5**	**Rs. 290,542.4**	**Rs. 149,931.6**	**Rs. 11,515.3**	**Rs. 869,310.2**	**Rs. 1,485.0**	**Rs. 870,795.2**
Shares issued upon exercise of options	34,359,200	68.7	22,546.4				22,615.1		22,615.1
Share-based compensation			8,203.2				8,203.2		8,203.2
Dividends, including dividend tax				(29,280.9)			(29,280.9)		(29,280.9)
Change in ownership interest in subsidiary			(292.3)	452.2			159.9	(150.2)	9.7
Shares issued to noncontrolling interest							—	301.9	301.9
Transfer to statutory reserve				(37,771.6)	37,771.6		—		—
Net income				140,529.8			140,529.8	210.8	140,740.6
Net change in accumulated other comprehensive income						14,516.3	14,516.3		14,516.3
Balance at March 31, 2017	**2,562,545,717**	**Rs. 5,125.1**	**Rs. 442,721.8**	**Rs. 364,471.9**	**Rs. 187,703.2**	**Rs. 26,031.6**	**Rs. 1,026,053.6**	**Rs. 1,847.5**	**Rs. 1,027,901.1**

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
	(In millions, except for equity shares)								
Balance at March 31, 2017	**2,562,545,717**	**Rs. 5,125.1**	**Rs. 442,721.8**	**Rs. 364,471.9**	**Rs. 187,703.2**	**Rs. 26,031.6**	**Rs. 1,026,053.6**	**Rs. 1,847.5**	**Rs. 1,027,901.1**
Shares issued upon exercise of options	32,544,550	65.1	27,194.0				27,259.1		27,259.1
Share-based compensation			6,594.6				6,594.6		6,594.6
Dividends, including dividend tax				(34,490.3)			(34,490.3)		(34,490.3)
Change in ownership interest in subsidiary			60.0				60.0	(203.3)	(143.3)
Shares issued to noncontrolling interest							—	366.5	366.5
Transfer to statutory reserve				(45,620.3)	45,620.3		—		—
Net income				178,514.9			178,514.9	319.0	178,833.9
Net change in accumulated other comprehensive income						(29,828.3)	(29,828.3)		(29,828.3)
Balance at March 31, 2018	**2,595,090,267**	**Rs. 5,190.2**	**Rs. 476,570.4**	**Rs. 462,876.2**	**Rs. 233,323.5**	**Rs. (3,796.7)**	**Rs. 1,174,163.6**	**Rs. 2,329.7**	**Rs. 1,176,493.3**

See accompanying notes to consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—(Continued)

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders' Equity	Noncontrolling interest	Total Shareholders' Equity
	(In millions, except for equity shares)								
Balance at March 31, 2018	**2,595,090,267**	**Rs. 5,190.2**	**Rs. 476,570.4**	**Rs. 462,876.2**	**Rs. 233,323.5**	**Rs. (3,796.7)**	**Rs. 1,174,163.6**	**Rs. 2,329.7**	**Rs. 1,176,493.3**
Adoption of accounting standard (1)				268.0		(268.0)	—		—
Shares issued in public offering (net of issuance cost of Rs. 1,262.9 million)	104,444,039	208.9	235,687.3				235,896.2		235,896.2
Shares issued upon exercise of options	23,772,304	47.5	21,960.7				22,008.2		22,008.2
Share-based compensation			5,343.3				5,343.3		5,343.3
Dividends, including dividend tax				(41,015.2)			(41,015.2)		(41,015.2)
Change in ownership interest in subsidiary			201.9				201.9	(201.9)	—
Shares issued to noncontrolling interest							—	459.8	459.8
Transfer to statutory reserve				(54,997.6)	54,997.6		—		—
Net income				220,103.8			220,103.8	461.7	220,565.5
Net change in accumulated other comprehensive income						15,873.5	15,873.5		15,873.5
Balance at March 31, 2019	**2,723,306,610**	**Rs. 5,446.6**	**Rs. 739,763.6**	**Rs. 587,235.2**	**Rs. 288,321.1**	**Rs. 11,808.8**	**Rs. 1,632,575.3**	**Rs. 3,049.3**	**Rs. 1,635,624.6**
Balance at March 31, 2019	**2,723,306,610**	**US$ 78.8**	**US$ 10,696.4**	**US$ 8,491.0**	**US$ 4,168.9**	**US$ 170.7**	**US$ 23,605.8**	**US$ 44.1**	**US$ 23,649.9**

* *Under local regulations, the Bank is required to transfer 25% of its profit after tax (per Indian GAAP) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval.*

(1) *Effective April 1, 2018, the Bank adopted ASU 2016-01 "Financial Instruments—Overall (Subtopic 825-10)". For additional information, refer to note 2(w)(ii) and note 19*

See accompanying notes to consolidated financial statements

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Bank overview

HDFC Bank Limited (the "Bank") was incorporated in August 1994 with its registered office in Mumbai, India. The Bank is a banking company governed by India's Banking Regulation Act, 1949. The Bank's shares are listed on the BSE Limited (formerly known as Bombay Stock Exchange Limited) and The National Stock Exchange of India Ltd. Its American Depositary Shares (ADS) are listed on the New York Stock Exchange. Global Depositary Receipts (GDR) which were listed on the Luxembourg Stock Exchange have since been delisted effective July 15, 2019.

The Bank's largest shareholder is Housing Development Finance Corporation Limited ("HDFC Limited"), which, along with its subsidiaries, owns 20.9% and 21.4% of the Bank's equity as of March 31, 2018 and March 31, 2019, respectively. The remainder of the Bank's equity is widely held by the public and by foreign and Indian institutional investors.

On July 17, 2018, the Bank made a preferential allotment of 39,096,817 equity shares to Housing Development Finance Corporation Limited at an issue price of Rs. 2,174.09 per equity share. On August 2, 2018, the Bank issued 17,500,000 American Depositary Shares (ADSs) representing 52,500,000 equity shares at a price of US$ 104.00 per ADS. The Bank also allotted 12,847,222 equity shares pursuant to a qualified institutional placement (QIP) offering at a price of Rs. 2,160.0 per equity shares. The total number of shares issued pursuant to exercise of stock options during the period is 23,772,304 shares.

The Bank's principal business activities are retail banking, wholesale banking and treasury services. The Bank's retail banking division provides a variety of deposit products as well as loans, credit cards, debit cards, third-party mutual funds and insurance, investment advisory services, depositary services, trade finance, foreign exchange and derivative services and sale of gold bars. Through its wholesale banking operations, the Bank provides loans, deposit products, documentary credits, guarantees, bullion trading, foreign exchange, and derivative products. It also provides cash management services, clearing and settlement services for stock exchanges, tax and other collections for the government, custody services for mutual funds and correspondent banking services. The Bank's treasury group manages its debt securities and money market operations and its foreign exchange and derivative products.

2. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights and/or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary (see note 2j). All significant inter-company balances and transactions are eliminated on consolidation.

b. Basis of presentation

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulation Act 1949 and related regulations issued by the Reserve Bank of India ("RBI") (collectively "Indian GAAP"), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences, insofar as they relate to the Bank, include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred taxes, stock-based compensation, loan origination fees, derivative financial instruments, business combination and the presentation format and disclosures of the financial statements and related notes.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

c. Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, other than temporary impairment, valuation of derivatives, stock-based compensation, unrecognized tax benefits and impairment assessment of goodwill.

d. Cash and due from banks, and restricted cash

Cash and due from banks comprise of cash and deposit with banks that have original maturities of 90 days or less. The Bank has captioned cash and cash equivalent as "cash and due from banks, and restricted cash" on the consolidated balance sheets. Cash and due from banks includes restricted cash (see note 3).

e. Customer acquisition costs

Customer acquisition costs principally consist of commissions paid to third party referral agents who source retail loans and such costs are deferred and amortized as a yield adjustment over the life of the loans. Advertising and marketing expenses incurred to solicit new business are expensed as incurred.

f. Investments in securities

Investments consist of securities purchased as part of the Bank's treasury operations, such as government securities and other debt securities, and investments purchased as part of the Bank's wholesale banking operations, such as credit substitute securities issued by the Bank's wholesale banking customers.

Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom the Bank has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and the Bank bears the same customer credit risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Bank with the issuer. As the Bank's exposures to such securities are similar to its exposures on its loan portfolio, additional disclosures have been provided on impairment status in note 7 and on concentrations of credit risk in note 11.

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

Securities that are held principally for resale in the near term are classified as held for trading ("HFT") and are carried at fair value, with changes in fair value recorded in net income.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity ("HTM") and are carried at amortized cost.

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

Up to March 31, 2018, equity securities with readily determinable fair values that were not classified as HFT were classified as available for sale and were carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, were reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Dividend income on such securities was included in Interest and dividend revenue- available for sale debt securities. Non-marketable equity securities were carried at cost.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank adopted ASU 2016-01 and ASU 2018-03 with effect from April 1, 2018. The available-for-sale category was eliminated for equity securities which were reclassified to other assets. This resulted in a cumulative catch-up reclassification from AOCI to retained earnings (see note 2 (w)(ii) and note 14). Marketable securities are measured at fair value, change in fair value recorded in earnings. Non- marketable equity securities under the measurement alternative are carried at cost plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer and impairment, if any. The Bank's review for impairment for equity method, cost method and measurement alternative securities typically includes an analysis of the facts and circumstances of each security, the intent or requirement to sell the security, and the expectations of cash flows.

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

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

g. Impairment of debt securities

Declines in the fair values of held to maturity and available for sale debt securities below their carrying value that are other than temporary are reflected in net income as other than temporary impairment losses, based on management's best estimate of the fair value of the investment. The Bank conducts a review each year to identify other than temporary declines based on an evaluation of all significant factors. The Bank's review of impairment generally entails identification and evaluation of investments that have indications of possible impairment, analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment and documentation of the results of these analysis, as required under business policies. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. The Bank does not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increase and the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis.

h. Loans

The Bank grants retail and wholesale loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for an allowance for credit losses. Loan origination fees and certain direct origination costs are generally deferred and recognized as adjustments to net income over the lives of the related loans.

Interest is accrued on the unpaid principal balance and is included in interest income. Loans are generally placed on "non-accrual" status when interest or principal payments are past due for a specified period, at which time no further interest is accrued and overdue interest is written off against interest income. Interest income and principal payments on loans placed on non-accrual status is recognized when received. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are generally placed on "non-accrual" status when interest or principal payments are three months past due or if they are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

i. Allowance for credit losses

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

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Retail

The Bank's retail loan loss allowance consists of specific allowance and allowance for loans collectively evaluated for impairment (termed as "unallocated allowance").

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

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

Wholesale

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

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

The Bank establishes specific allowances for each impaired wholesale loan customer, in the aggregate, for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent. Collateral values are generally based on appraisals from internal and external valuation sources.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

j. Sales/transfer of receivables

The Bank enters into assignment transactions, which are similar to asset-backed securitization transactions through the special purpose entities (SPEs) route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. The Bank also sells finance receivables to SPEs, formerly qualifying special purpose entities (QSPEs) in securitization transactions. Recourse is in the form of the Bank’s investment in subordinated securities issued by these SPEs, cash collateral and other credit and liquidity enhancements. The receivables are derecognized in the balance sheet when they are sold and consideration has been received by the Bank. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

The Bank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets is considered a sale. Furthermore, former qualifying special purpose entities (QSPEs) are now considered VIEs and are no longer exempt from consolidation. The Bank consolidates VIEs when it has both: (1) power to direct activities of the VIE that most significantly impact the entity’s economic performance and (2) an obligation to absorb losses or right to receive benefits from the entity that could potentially be significant to the VIE. The scope conditions examined include whether the entities’ equity investment at risk is insufficient to finance the activities without subordinated financial support and whether the holders of equity lack the characteristics of a financial interest. A controlling financial interest includes characteristics such as ability to make decisions through voting or similar rights, unlimited obligation to absorb the entities expected losses, and unlimited rights to receive the entities expected residual returns.

Gains or losses from the sale of receivables are recognized in the income statement in the period the sale occurs based on the relative fair value of the portion sold and the portion allocated to retained interests, and are reported net of the estimated cost of servicing by the Bank.

Fair values are determined based on the present value of expected future cash flows, using best estimates for key assumptions, such as prepayment and discount rates, commensurate with the risk involved.

k. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of fixed assets on a straight-line basis at the following rates:

Type of Asset	Rate of depreciation
Premises	1.63%
Software and systems	20.00%
Equipment and furniture	10.00%-33.33%

For assets purchased and sold during the year, depreciation is provided on a pro rata basis by the Bank and capital advances are included in other assets.

l. Impairment or disposal of tangible long-lived assets

Whenever events or circumstances indicate that the carrying amount of tangible long lived assets may not be recoverable, the Bank subjects such long lived assets to a test of recoverability based on the undiscounted cash flows from use or disposition of the asset. Such events or circumstances would include changes in the market, technology obsolescence, adverse changes in profitability or regulation. If the asset is impaired, the Bank recognizes an impairment loss estimated as the difference between the carrying value and the net realizable value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

m. Income tax

Income tax expense/benefit consists of the current tax expense and the net change in deferred tax assets or liabilities during the year.

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance to the amount that is more likely than not to be realized based on management's judgment. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the deferred tax assets or liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is greater than 50 percent likely of being realized upon settlement. The difference between the benefit recognized for a position in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. The Bank's policy is to include interest income, interest expense and penalties on overpayments and underpayment of income taxes within income tax expense in the consolidated statement of income. Interest income on overpayments of income taxes is recognized when the related matter is resolved.

The Bank accounts for dividend distribution tax in equity in the year in which a dividend is declared.

n. Revenue recognition

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment.

Dividends from investments are recognized when declared.

Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

o. Foreign currency transactions

The Bank's functional currency is the Indian Rupee, except for the Bank's foreign branches. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into respective functional currency using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on foreign currency transactions are included in the determination of net income under foreign exchange transactions.

For the foreign branches, the assets, liabilities and operations are translated, for consolidation purposes, from functional currency of the foreign branch to the Indian Rupee reporting currency at period-end rates for assets and liabilities and at average rates for operations. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive income (OCI).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

p. Stock-based compensation

The fair value of stock-based compensation is estimated on the date of each grant based on a binomial model. For further information, see note 22.

q. Debt issuance costs

Issuance costs of long-term debt are amortized over the tenure of the debt.

r. Earnings per share

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period, using the treasury stock method, except where the result would be anti-dilutive. The Bank also reports basic and diluted earnings per ADS, where each ADS represents three equity shares. Earnings per ADS have been computed as earnings per equity share multiplied by the number of equity shares per ADS. A reconciliation of the number of shares used in computing earnings per share has been provided in note 29.

s. Segment information

The Bank operates in three reportable segments, namely retail banking, wholesale banking and treasury services. Segment-wise information has been provided in note 26.

t. Derivative financial instruments

The Bank recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the balance sheet and measures them at fair value. The Bank has not designated any derivatives as hedges. As such, all changes in fair value of derivative instruments are recognized in net income under derivative gain/(loss) in the period of change.

The Bank enters into forward exchange contracts, currency swaps and currency options with its customers and typically transfers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on market quotations or market-based inputs.

The Bank enters into interest rate swaps for its own account. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically offsets these risks in the inter-bank market. Such contracts are carried on the balance sheet at fair value, or priced using market determined yield curves.

u. Business combination

The Bank accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Bank’s future results of operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of bank’s interest and the acquiree’s net fair value of identifiable assets and liabilities is recognized as goodwill.

v. Goodwill and other intangibles

Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step is to be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

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

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

w. Recently adopted accounting standards

i. In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)”. This update modifies the principles for revenue recognition in transactions involving contracts with customers. On March 17, 2016, the FASB issued Accounting Standards Update No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606)”. This update clarifies in regard to identifying performance obligations and licensing. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606)”. The updates require that revenue from contracts with customers is to be recognized upon transfer of goods and services at the amount of consideration expected to be recognized and transfer of nonfinancial assets, unless those contracts are within the scope of other guidance. The ASU also clarifies the guidance related to reporting gross revenue as a principal versus net revenue as an agent. The ASU also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The guidance replaces most existing revenue recognition guidance in GAAP, the update is not applicable to financial instruments and accordingly does not impact materially the Bank’s revenues including Net interest revenue, loan fees and mark-to-market accounting. This guidance was adopted retrospectively with effect from April 1, 2018. Adoption of the guidance did not result in any material changes in the timing of revenue recognition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ii. In January 2016, the FASB issued ASU 2016-01 "Financial Instruments—Overall (Subtopic 825-10)". The update requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments also require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10), to clarify certain provisions in ASU 2016-01. Effective April 1, 2018, the Bank adopted ASU 2016-01 and ASU 2018-03 retrospectively. The available-for-sale category was eliminated for equity securities which were reclassified to other assets with carrying value amounting to Rs. 1,267.7 million. The impact of adopting the change to AFS securities resulted in a cumulative catch-up reclassification from AOCI to retained earnings of an accumulated after-tax gain of Rs. 268.0 million (gross of tax Rs. 412.0 million) as at April 1, 2018.

iii. In March 2016, the FASB issued ASU 2016-04 "Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products". The update addresses the current and potential future diversity in practice related to de-recognition of a prepaid stored-value product liability that may be unused wholly or partially for an indefinite time period. The update modifies the accounting for certain prepaid card products to require the recognition of breakage. Breakage represents the estimated amount that will not be redeemed by the cardholder for goods or services. The amendments in this update are to be applied either using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective or retrospectively to each period presented. The Bank adopted the provisions of ASU 2016-04 effective April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

iv. In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230)". This is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The Bank adopted the guidance from April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

v. In October 2016, the FASB issued ASU 2016-16 "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Bank adopted the guidance from April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

vi. In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230)—Restricted Cash". The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The adoption of this guidance did not have a material impact on the Bank's consolidated statements of cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

vii. In January 2017, the FASB issued ASU No. 2017-01 "Business Combinations (Topic 805)—Clarifying the Definition of a Business". The amendment in this update narrows the definition of a business by introducing a quantitative screen as the first step, such that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the first step is not met, then an entity needs to evaluate whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The Bank adopted the guidance from April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

viii. In March 2017, the FASB issued ASU 2017-07 "Compensation—Retirement Benefits (Topic 715)—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendment in this update changes the income statement presentation of net benefit expense and requires restating the Company's financial statements for each of the earlier periods presented in annual and interim financial statements. The amendment requires that only the service cost component of net benefit expense be included in the Compensation and benefits line on the income statement. The other components of net benefit expense are required to be presented outside of the Compensation and benefits line. Since both of these income statement line items are part of Non-interest expense, total Non-interest expense and Net income will not change. This change in presentation did not have a material effect on Salaries and staff benefits expense and Administrative and other expense and is applied retrospectively for the periods presented. The other components of net benefit expense is included in Administrative and other expense. The new standard also changes the components of net benefit expense that are eligible for capitalization when employee costs are capitalized in connection with various activities, such as internally developed software, construction-in-progress, and loan origination costs. Prospectively from April 1, 2018, only the service cost component of net benefit expense may be capitalized. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures. (see note 23)

ix. In May 2017, the FASB issued ASU 2017-09 "Compensation—Stock Compensation (Topic 718)—Scope of Modification Accounting." The amendment in this update clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. The Bank adopted the provisions of ASU 2016-09 effective April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

x. In August 2017, the FASB issued ASU No. 2017-12 "Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities". The amendment in the update better aligns the accounting and reporting of hedging relationships with the economics of risk management activities. ASU 2017-12 provides administrative reliefs to simplify the application of hedge accounting. The Bank adopted the guidance from April 1, 2018. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

x. Recently issued accounting pronouncements not yet effective

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)". The update generally requires recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. In particular, the guidance requires a lessee, of operating or finance leases, to recognize on the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. However, for leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. Previously, a lessee was not required to recognize lease assets and lease liabilities arising from operating leases. Lessor accounting is largely unchanged. Expanded disclosures about the nature and terms of lease agreements will be required prospectively. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Bank does not plan to early adopt the ASU. The Bank expects to adopt the guidance in fiscal 2020. In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842)—Targeted improvements" which permits the update to be adopted using a modified cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date, or a cumulative-effect adjustment to retained earnings at the effective date without revising prior comparative periods. The Bank expects to recognize lease liabilities and corresponding assets at their present value predominantly related to all of the Rs. 85.9 billion of future minimum lease payments required under operating leases as disclosed in note 27. The effect of the adoption will depend on the lease portfolio at the time of transition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses, while also providing transparency about credit risk. The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held to maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses is required to be adjusted each period for changes in expected lifetime credit losses. The update requires use of judgment in determining the relevant information and estimation methods that are appropriate for measurement of expected credit losses which is to be based on relevant information about past events, historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In regard to Available-for-Sale Debt Securities, the credit losses is required to be recorded through an allowance and the ASU limits the amount of the allowance for credit losses to the amount by which fair value is below amortized cost. While the update changes the measurement of the allowance for credit losses, it does not change the Bank's credit risk of its loan portfolios. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. While early adoption is permitted beginning fiscal 2020, the Bank does not expect to elect that option. The Bank expects to adopt the guidance in fiscal 2021. The amendments represent a significant departure from the existing GAAP. The credit loss estimation models and processes to be used in implementing the update are under design and development. The Bank has been assessing the key differences and gaps between its current allowance methodologies and models with those it is considering to use upon adoption. The allowance methodologies and model to be adopted will be validated and tested, which is expected to be completed by fiscal 2020. The Bank expects the update will result in an increase in the allowance for credit losses given the change to estimated losses over the contractual life adjusted for expected prepayments with an anticipated material impact from longer duration portfolios, as well as the addition of an allowance for debt securities. At the date of adoption, this may have a resulting negative adjustment to retained earnings. The ultimate impact will be dependent on the characteristics of the Bank's portfolio at date of adoption as well as the macroeconomic conditions and forecasts as of that date. At this point in implementation the Bank is not able to provide a more precise estimate of the impact. In November 2018, the FASB issued ASU 2018-19 to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases are be accounted for in accordance with Topic 842, Leases.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles-Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment". The amendment in this update simplifies the subsequent measurement of goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e., the current Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. The impairment test is simply the comparison of the fair value of a reporting unit with its carrying amount (the current Step 1), with the impairment charge being the deficit in fair value but not exceeding the total amount of goodwill allocated to that reporting unit. The simplified one-step impairment test applies to all reporting units (including those with zero or negative carrying amounts). The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank expects to adopt the guidance in fiscal 2021. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations or disclosures.

In March 2017, the FASB issued ASU 2017-08 "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)—Premium Amortization on Purchased Callable Debt Securities". This update amends the amortization period for certain purchased callable debt securities held at a premium. The update requires entities to amortize premiums on debt securities by the first call date when the securities have fixed and determinable call dates and prices. ASU 2017-08 does not change the accounting for discounts, which continue to be recognized over the contractual life of a security. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but such adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Adoption of the ASU is on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Bank expects to adopt the guidance in fiscal 2020. The impact of this ASU is not expected to be material. In June 2018, the FASB issued ASU No. 2018-07 “Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting”. This update simplifies the accounting for share-based payment transactions for acquiring goods and services from nonemployees, applying some of the same requirements as employee share-based payment transactions. The ASU will not affect the accounting for share-based payment awards to nonemployee directors, which will continue to be treated as employee share-based transactions under the current standards. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The requirements of the ASU will be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The bank expects to adopt the guidance in fiscal 2020. The adoption of this guidance is not expected to have a material impact on the Bank’s consolidated financial position or results of operations or disclosures, as it is not the Bank’s practice to issue stock-based awards to pay for goods and services from nonemployees.

In August 2018, the FASB issued ASU No. 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments modify certain disclosure requirements for fair value measurements. Entities are required to disclose and describe the range and weighted-average of significant observable inputs used to develop Level 3 fair value measurements prospectively. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The bank expects to adopt the guidance in fiscal 2021. The adoption of this guidance is not expected to have a material impact on the Bank’s consolidated financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”. The update aligns the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, regardless of whether they convey a license to the hosted software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by this ASU. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. An entity has the option to apply amendments in the ASU either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. The bank expects to adopt the guidance in fiscal 2021. The adoption of this guidance is not expected to have a material impact on the Bank’s consolidated financial position or results of operations.

y. Convenience translation

The accompanying financial statements have been expressed in Indian Rupees (“Rs.”), the Bank’s functional currency. For the convenience of the reader, the financial statements as of and for the fiscal year ended March 31, 2019 have been translated into U.S. dollars at U.S.$1.00 = Rs. 69.16 as published by the Federal Reserve Board of New York on March 29, 2019. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Cash and due from banks, and restricted cash

The Bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. The cash reserve ratio has to be maintained on an average basis for a two-week period and should not fall below 95% of the required cash reserve ratio on any particular day. Non-maintenance of the requisite balance is subject to levy of penalty. The Bank has classified the cash reserve maintained with the RBI as restricted cash or restricted cash equivalents (restricted cash).

The cash and due from banks, and restricted cash consist of restricted cash of Rs. 314,463.4 million and Rs.383,503.0 million (US$ 5,545.2 million) as at March 31, 2018 and March 31, 2019, respectively.

4. Investments, held for trading

The portfolio of trading securities as of March 31, 2018 and March 31, 2019 was as follows:

	As of March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 25,962.2	Rs. 19.0	Rs. 8.0	Rs. 25,973.2
Other corporate/financial institution securities	49,982.3	62.8	0.4	50,044.7
Total debt securities	Rs. 75,944.5	Rs. 81.8	Rs. 8.4	Rs. 76,017.9
Other securities (including mutual fund units)	91,488.6	7.4	—	91,496.0
Total	Rs. 167,433.1	Rs. 89.2	Rs. 8.4	Rs. 167,513.9

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 134,084.9	Rs. 163.2	Rs. 0.1	Rs. 134,248.0
Other corporate/financial institution securities	33,990.6	15.8	1.1	34,005.3
Total debt securities	Rs. 168,075.5	Rs. 179.0	Rs. 1.2	Rs. 168,253.3
Other securities (including mutual fund units)	96,935.6	327.2	—	97,262.8
Total	Rs. 265,011.1	Rs. 506.2	Rs. 1.2	Rs. 265,516.1
Total	US$ 3,831.9	US$ 7.3	US$ —	US$ 3,839.2

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5. Investments, available for sale debt securities

The portfolio of available for sale debt securities as of March 31, 2018 and March 31, 2019 was as follows:

	As of March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 1,748,761.0	Rs. 9,169.5	Rs. 16,843.9	Rs. 1,741,086.6
State government securities	123,426.9	2,349.7	729.0	125,047.6
Government securities outside India	4,223.8	—	6.8	4,217.0
Credit substitutes (see note 7)	325,159.3	495.3	1,623.1	324,031.5
Other corporate/financial institution bonds	8,226.0	0.1	59.0	8,167.1
Debt securities, other than asset and mortgage-backed securities	2,209,797.0	12,014.6	19,261.8	2,202,549.8
Mortgage-backed securities	82.2	2.8	0.1	84.9
Asset-backed securities	18,966.5	62.9	358.7	18,670.7
Other securities (including mutual fund units) (1)	137.6	0.3	—	137.9
Total	Rs. 2,228,983.3	Rs. 12,080.6	Rs. 19,620.6	Rs. 2,221,443.3
Securities with gross unrealized losses				Rs. 1,174,742.9
Securities with gross unrealized gains				1,046,700.4
				Rs. 2,221,443.3

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Government of India securities	Rs. 2,147,934.6	Rs. 21,881.4	Rs. 9,834.9	Rs. 2,159,981.1
State government securities	144,633.7	4,864.6	475.7	149,022.6
Government securities outside India	7,201.6	3.3	—	7,204.9
Credit substitutes (see note 7)	273,550.7	899.9	1,563.8	272,886.8
Other corporate/financial institution bonds	3,925.0	30.9	6.3	3,949.6
Debt securities, other than asset and mortgage-backed securities	2,577,245.6	27,680.1	11,880.7	2,593,045.0
Mortgage-backed securities	56.3	1.0	0.4	56.9
Asset-backed securities	38,827.1	165.0	122.2	38,869.9
Other securities (including mutual fund units) (1)	1,376.3	0.3	—	1,376.6
Total	Rs. 2,617,505.3	Rs. 27,846.4	Rs. 12,003.3	Rs. 2,633,348.4
Total	US$ 37,847.2	US$ 402.6	US$ 173.6	US$ 38,076.2
Securities with gross unrealized losses				Rs. 799,718.5
Securities with gross unrealized gains				1,833,629.9
				Rs. 2,633,348.4
				US$ 38,076.2

(1) *The Bank adopted ASU 2016-01 and ASU 2018-03 as of April 1, 2018, resulting in a cumulative effect adjustment from AOCI to retained earnings for net unrealized gains on marketable equity securities AFS. The available-for sale category was eliminated for equity securities amortized cost Rs. 855.6 million and carrying value Rs. 1,267.7 million effective April 1, 2018. See note 2 (w)(ii) and note 14 to the Consolidated Financial Statements for additional details.*

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

AFS investments of Rs. 1,866,134.2 million and Rs. 2,309,003.7 million (US$ 33,386.4 million) as of March 31, 2018 and March 31, 2019, respectively, are eligible towards the Bank's statutory liquidity reserve requirements. These balances are subject to withdrawal and usage restrictions towards the reserve requirements, but may be freely traded by the Bank. Of these investments, Rs. 1,354,027.6 million as of March 31, 2018 and Rs. 1,634,673.3 million (US$ 23,636.1 million) as of March 31, 2019, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO) and real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 13.4 million, Rs. 149.1 million and Rs. 1,081.0 million (USD 15.6 million) as other than temporary impairment in fiscal year 2017, 2018 and 2019, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank is of the opinion that the other unrealized losses on its investments in debt securities as of March 31, 2019 are temporary in nature. As of March 31, 2018 and March 31, 2019, the Bank did not hold any debt securities with credit losses for which a portion of other-than-temporary impairment was recognized in other comprehensive income.

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2018 was as follows:

	As of March 31, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs.540,941.5	Rs.8,852.9	Rs.342,621.5	Rs.7,991.0	Rs.883,563.0	Rs.16,843.9
State government securities	31,940.1	729.0	—	—	31,940.1	729.0
Government securities outside India	4,217.0	6.8	—	—	4,217.0	6.8
Credit substitutes (see note 7)	159,026.1	1,002.8	73,734.9	620.3	232,761.0	1,623.1
Other corporate/financial institution bonds	4,057.2	51.8	4,109.6	7.2	8,166.8	59.0
Debt securities, other than asset and mortgage-backed securities	740,181.9	10,643.3	420,466.0	8,618.5	1,160,647.9	19,261.8
Mortgage-backed securities	57.0	0.1	—	—	57.0	0.1
Asset-backed securities	8,331.9	213.1	5,706.1	145.6	14,038.0	358.7
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs.748,570.8	Rs.10,856.5	Rs.426,172.1	Rs.8,764.1	Rs.1,174,742.9	Rs.19,620.6

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The gross unrealized losses and fair value of available for sale debt securities at March 31, 2019 was as follows:

	As of March 31, 2019					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. —	Rs. —	Rs. 568,759.0	Rs. 9,834.9	Rs. 568,759.0	Rs. 9,834.9
State government securities	—	—	27,415.5	475.7	27,415.5	475.7
Government securities outside India	—	—	—	—	—	—
Credit substitutes (see note 7)	17,996.3	88.1	165,700.5	1,475.7	183,696.8	1,563.8
Other corporate/financial institution bonds	—	—	2,117.6	6.3	2,117.6	6.3
Debt securities, other than asset and mortgage-backed securities	17,996.3	88.1	763,992.6	11,792.6	781,988.9	11,880.7
Mortgage-backed securities	—	—	45.7	0.4	45.7	0.4
Assetbacked securities	14,191.2	48.9	3,492.7	73.3	17,683.9	122.2
Other securities (including mutual fund units)	—	—	—	—	—	—
Total	Rs. 32,187.5	Rs. 137.0	Rs. 767,531.0	Rs. 11,866.3	Rs. 799,718.5	Rs. 12,003.3
Total	US$ 465.4	US$ 2.0	US$ 11,097.9	US$ 171.6	US$ 11,563.3	US$ 173.6

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of March 31, 2019 is set out below:

	As of March 31, 2019		
	Amortized Cost	Fair Value	Fair Value
	(In millions)		
Within one year	Rs. 767,752.7	Rs. 769,080.4	US$ 11,120.3
Over one year through five years	547,095.3	554,493.3	8,017.5
Over five years through ten years	862,305.7	868,843.0	12,562.8
Over ten years	400,091.9	400,628.3	5,792.8
Total	Rs.2,577,245.6	Rs.2,593,045.0	US$ 37,493.4

The contractual residual maturity of available for sale mortgage-backed and asset-backed debt securities as of March 31, 2019 is set out below:

	As of March 31, 2019		
	Amortized Cost	Fair Value	Fair Value
	(In millions)		
Within one year	Rs. 19,027.9	Rs. 19,015.0	US$ 274.9
Over one year through five years	19,812.5	19,836.4	286.8
Over five years through ten years	13.2	13.0	0.2
Over ten years	29.8	62.4	0.9
Total	Rs. 38,883.4	Rs. 38,926.8	US$ 562.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Gross realized gains on sale	Rs. 10,108.2	Rs. 11,433.8	Rs. 3,788.1	US$ 54.8
Gross realized losses on sale	(502.0)	(580.6)	(1,192.1)	(17.3)
Realized gains (losses), net	9,606.2	10,853.2	2,596.0	37.5
Dividends and interest	154,618.6	158,209.2	190,992.5	2,761.6
Total	Rs.164,224.8	Rs.169,062.4	Rs.193,588.5	US$2,799.1

6. Investments, held to maturity

There were no HTM securities as of March 31, 2018 and March 31, 2019.

7. Credit substitutes

Credit substitutes consist of securities that the Bank invests in as part of an overall extension of credit to certain customers. Such securities share many of the risk and reward characteristics of loans and are managed by the Bank together with other credit facilities extended to the same customers. The fair values of credit substitutes by type of instrument as of March 31, 2018 and March 31, 2019 were as follows:

	As of March 31,			
	2018		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions)			
Available for sale credit substitute debt securities:				
Debentures	Rs. 290,893.5	Rs.289,782.9	Rs. 247,869.1	Rs. 247,152.5
Commercial paper	34,265.8	34,248.6	25,681.6	25,734.3
Total	Rs. 325,159.3	Rs.324,031.5	Rs. 273,550.7	Rs. 272,886.8
			US$ 3,955.3	US$ 3,945.8

The fair values of credit substitutes by the Bank's internal credit quality indicators and amounts provided for other than temporary impairments is as follows:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Pass	Rs. 324,031.5	Rs. 272,886.8	US$ 3,945.8
Impaired—gross balance	—	—	—
Less: amounts provided for other than temporary impairments	—	—	—
Impaired credit substitutes, net	—	—	—
Total credit substitutes, net	Rs. 324,031.5	Rs. 272,886.8	US$ 3,945.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impaired credit substitutes:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Gross impaired credit substitutes	Rs —	Rs —	US$ —
Gross impaired credit substitutes by industry	Rs. —	Rs. —	US$ —
Average impaired credit substitutes	Rs. —	Rs. —	US$ —
Interest income recognized on impaired credit substitutes	Rs. —	Rs. —	US$ —

As of March 31, 2019, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

8. Repurchase and resell agreements

Securities sold under agreements to repurchase (“repos”) and securities purchased under agreements to resell (“reverse repos”) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized transactions. There were no such transactions accounted for as sales during the years ended March 31, 2017, March 31, 2018 and March 31, 2019. Interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

a. Securities purchased under agreements to resell

Securities purchased under agreements to resell are classified separately from investments and generally mature within 14 days of the transaction date. Such resell transactions are recorded at the amount of cash advanced on the transaction. Resell transactions outstanding as of March 31, 2018 and March 31, 2019 were Rs. 650,018.6 million and Rs. 76,213.5 million (US$ 1,102.0 million), respectively.

b. Securities sold under repurchase agreements

Securities sold under agreements to repurchase are classified separately under liabilities and generally mature within 14 days of the transaction date. Such repurchase transactions are recorded at the amount of cash received on the transaction. Repurchase transactions outstanding as of March 31, 2018 and March 31, 2019 were Rs. 138,000.0 and Rs. 174,000.0 million (US$ 2,515.9 million), respectively. The Government of India securities are pledged as collateral.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Loans

Loan balances include Rs. 665,906.2 million and Rs. 780,869.5 million (US$ 11,290.8 million) as of March 31, 2018 and March 31, 2019, respectively, which have been provided as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2018 and March 31, 2019 were as follows:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Retail loans:			
Auto loans	Rs. 885,234.7	Rs. 951,744.2	US$ 13,761.5
Personal loans/Credit cards	1,187,127.1	1,538,107.4	22,239.8
Retail business banking	1,305,219.8	1,478,317.8	21,375.3
Commercial vehicle and construction equipment finance	595,813.6	746,288.0	10,790.7
Housing loans	362,718.1	513,771.6	7,428.7
Other retail loans	877,251.3	1,009,674.6	14,599.1
Subtotal	Rs.5,213,364.6	Rs.6,237,903.6	US$ 90,195.1
Wholesale loans	Rs.2,162,814.4	Rs.2,873,561.0	US$ 41,549.6
Gross loans	7,376,179.0	9,111,464.6	131,744.7
Less: Allowance for credit losses	112,507.2	148,232.0	2,143.4
Total	Rs.7,263,671.8	Rs.8,963,232.6	US$129,601.3

The maturity of gross loans as of March 31, 2019 is set out below:

	As of March 31, 2019		
	Wholesale loans	Retail loans	Total
		(In millions)	
Maturity profile of loans:			
Within one year	Rs. 1,537,701.3	Rs. 1,911,646.9	Rs. 3,449,348.2
Over one year through five years	899,447.4	3,912,771.8	4,812,219.2
Over five years	436,412.3	413,484.9	849,897.2
Total gross loans	Rs. 2,873,561.0	Rs. 6,237,903.6	Rs. 9,111,464.6
Total gross loans	US$ 41,549.6	US$ 90,195.1	US$ 131,744.7

Gross loans analyzed by performance are as follows:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Performing	Rs.7,267,461.7	Rs.8,971,042.1	US$129,714.3
Impaired	108,717.3	140,422.5	2,030.4
Total gross loans	Rs.7,376,179.0	Rs.9,111,464.6	US$131,744.7

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table provides details of age analysis of loans as of March 31, 2018 and March 31, 2019.

	As of March 31, 2018			
	31-90 days past due	Impaired / 91 days or more past due	Current [1,2]	Total
	(In millions)			
Retail Loans				
Auto loans	Rs. 4,384.5	Rs. 8,634.5	Rs. 872,215.7	Rs. 885,234.7
Personal loans/Credit card	8,179.1	10,150.9	1,168,797.1	1,187,127.1
Retail business banking	10,522.0	25,547.2	1,269,150.6	1,305,219.8
Commercial vehicle and construction equipment finance	7,324.9	6,968.1	581,520.6	595,813.6
Housing loans	25.9	1,899.5	360,792.7	362,718.1
Other retail	8,716.0	22,704.3	845,831.0	877,251.3
Wholesale loans	308.6	32,812.8	2,129,693.0	2,162,814.4
Total	Rs. 39,461.0	Rs. 108,717.3	Rs. 7,228,000.7	Rs. 7,376,179.0

1) Loans up to 30 days past due are considered current
2) Includes crop related agricultural loans with days past due less than 366 as they are not considered as impaired Rs. 31.5 billion.

	As of March 31, 2019			
	31-90 days past due	Impaired / 91 days or more past due	Current [1,2]	Total
	(In millions)			
Retail Loans				
Auto loans	Rs. 4,807.0	Rs. 13,606.7	Rs. 933,330.5	Rs. 951,744.2
Personal loans/Credit card	11,520.2	15,781.5	1,510,805.7	1,538,107.4
Retail business banking	9,087.9	29,945.0	1,439,284.9	1,478,317.8
Commercial vehicle and construction equipment finance	9,225.0	11,254.9	725,808.1	746,288.0
Housing loans	23.6	2,157.1	511,590.9	513,771.6
Other retail	9,480.1	29,523.6	970,670.9	1,009,674.6
Wholesale loans	202.9	38,153.7	2,835,204.4	2,873,561.0
Total	Rs. 44,346.7	Rs. 140,422.5	Rs. 8,926,695.4	Rs. 9,111,464.6
Total	US$ 641.2	US$ 2,030.4	US$ 129,073.1	US$ 131,744.7

1) Loans up to 30 days past due are considered current
2) Includes crop related agricultural loans with days past due less than 366 as they are not considered as impaired Rs. 34.0 billion.

The Bank has a credit risk mitigating/monitoring mechanism which is comprised of target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

For wholesale credit risk in addition to the credit approval process the Bank has an approved framework for the review and approval of credit ratings. Credit Policies and Procedures articulate credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. These are reviewed in detail at annual or more frequent intervals. To ensure adequate diversification of risk, concentration limits have been set up in terms of borrower/business group, industry and risk grading.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For retail credit, the policy and approval processes are designed for the fact that the Bank has high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of the Bank's experience and industry data, in combination with the judgment of the Bank's senior officers. The Bank mines data on its borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment and use these as inputs in revising the Bank's product programs, target market definitions and credit assessment criteria to meet the Bank's twin objectives of combining volume growth and maintenance of asset quality.

As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments. The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

The amount of purchased financing receivable outstanding as of March 31, 2018 and March 31, 2019 is Rs. 364,113.0 and Rs. 514,756.0, respectively.

Retail Loans

Credit quality indicator based on payment activity as of March 31, 2018 and as of March 31, 2019 is given below:

	As of March 31, 2018						
	Auto loans	Personal loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Total
				(In millions)			
Performing	Rs. 876,600.2	Rs. 1,176,976.2	Rs. 1,279,672.6	Rs. 588,845.5	Rs. 360,818.6	Rs. 854,547.0	Rs. 5,137,460.1
Impaired	8,634.5	10,150.9	25,547.2	6,968.1	1,899.5	22,704.3	75,904.5
Total	Rs. 885,234.7	Rs. 1,187,127.1	Rs. 1,305,219.8	Rs. 595,813.6	Rs. 362,718.1	Rs. 877,251.3	Rs. 5,213,364.6

	As of March 31, 2019						
	Auto loans	Personal loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Total
				(In millions)			
Performing	Rs. 938,137.5	Rs. 1,522,325.9	Rs. 1,448,372.8	Rs. 735,033.1	Rs. 511,614.5	Rs. 980,151.0	Rs. 6,135,634.8
Impaired	13,606.7	15,781.5	29,945.0	11,254.9	2,157.1	29,523.6	102,268.8
Total	Rs. 951,744.2	Rs. 1,538,107.4	Rs. 1,478,317.8	Rs. 746,288.0	Rs. 513,771.6	Rs. 1,009,674.6	Rs. 6,237,903.6
Total	US$ 13,761.5	US$ 22,239.8	US$ 21,375.3	US$ 10,790.7	US$ 7,428.7	US$ 14,599.1	US$ 90,195.1

Wholesale Loans

The Bank has in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/impaired. Wholesale loans that are not impaired are disclosed as pass or labeled and considered to be performing. Labeled loans are those with evidence of weakness where such exposures indicate deteriorating trends which if not corrected could adversely impact repayment of the obligations. The Bank's model assesses the overall risk over four major categories – industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of March 31,		
	2018	2019	2019
	(In millions)		
Credit quality indicators-Internally assigned grade and payment activity			
Pass	Rs. 2,116,499.3	Rs. 2,834,466.7	US$ 40,984.2
Labeled	13,502.3	940.6	13.7
Impaired	32,812.8	38,153.7	551.7
Total	Rs. 2,162,814.4	Rs. 2,873,561.0	US$ 41,549.6

Impaired loans are those for which the Bank believes that it is probable that it will not collect all amounts due according to the original contractual terms of the loans and includes troubled debt restructuring. The following table provides details of impaired loans as of March 31, 2018 and March 31, 2019.

	As of March 31, 2018				
	Recorded investments	Unpaid principal balance	Related specific allowance	Average recorded investments	Finance receivable on non-accrual status
	(In millions)				
Retail Loans					
Auto loans	Rs. 8,634.5	Rs. 8,634.5	Rs. 3,682.2	Rs. 7,370.1	Rs. 8,634.5
Personal loans/Credit card	10,150.9	10,150.9	6,182.6	8,309.2	10,150.9
Retail business banking	25,547.2	25,547.2	18,709.4	23,303.7	25,547.2
Commercial vehicle and construction equipment finance	6,968.1	6,968.1	4,806.1	6,527.4	6,968.1
Housing loans	1,899.5	1,899.5	974.4	1,788.9	1,899.5
Other retail	22,704.3	22,704.3	12,922.8	17,005.2	22,704.3
Wholesale loans	32,812.8	32,812.8	15,323.0	31,544.3	32,812.8
Total	Rs. 108,717.3	Rs. 108,717.3	Rs. 62,600.5	Rs. 95,848.8	Rs. 108,717.3

	As of March 31, 2019				
	Recorded investments	Unpaid principal balance	Related specific allowance	Average recorded investments	Finance receivable on non-accrual status
	(In millions)				
Retail Loans					
Auto loans	Rs. 13,606.7	Rs. 13,606.7	Rs. 6,169.0	Rs. 11,120.6	Rs. 13,606.7
Personal loans/Credit card	15,781.5	15,781.5	9,694.0	12,966.2	15,781.5
Retail business banking	29,945.0	29,945.0	21,595.3	27,746.1	29,945.0
Commercial vehicle and construction equipment finance	11,254.9	11,254.9	6,544.8	9,111.5	11,254.9
Housing loans	2,157.1	2,157.1	1,105.2	2,028.3	2,157.1
Other retail	29,523.6	29,523.6	20,441.5	26,114.0	29,523.6
Wholesale loans	38,153.7	38,153.7	20,233.2	35,483.3	38,153.7
Total	Rs. 140,422.5	Rs. 140,422.5	Rs. 85,783.0	Rs. 124,570.0	Rs. 140,422.5
Total	US$ 2,030.4	US$ 2,030.4	US$ 1,240.4	US$ 1,801.2	US$ 2,030.4

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impaired loans by industry as of March 31, 2018 and March 31, 2019 are as follows:

	As of March 31, 2018 (In millions)
Gross impaired loans by industry:	
—Wholesale Trade- Non Industrial	Rs. 15,239.0
—Consumer Loans	15,236.4
—Agriculture Production—Food	12,227.0
—Food and Beverage	7,007.4
—Retail Trade	6,279.0
—Agri-Allied	6,184.0
—Others (none greater than 5% of impaired loans)	46,544.5
Total	Rs. 108,717.3

	As of March 31, 2019 (In millions)	
Gross impaired loans by industry:		
— Consumer Loans	Rs. 22,513.7	US$ 325.5
— Agriculture Production—Food	18,915.0	273.5
—Wholesale Trade- Non Industrial	15,856.7	229.3
—Food and Beverage	8,577.3	124.0
—Retail Trade	7,767.0	112.3
—Others (none greater than 5% of impaired loans)	66,792.8	965.8
Total	Rs. 140,422.5	US$2,030.4

Summary information relating to impaired loans during the fiscal year ended March 31, 2017, March 31, 2018 and March 31, 2019 is as follows:

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Average impaired loans, net of allowance	Rs. 29,612.1	Rs. 41,683.2	Rs. 50,378.2	US$ 728.4
Interest income recognized on impaired loans	Rs. 3,472.7	Rs. 7,433.7	Rs. 6,994.7	US$ 101.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowances for credit losses as of March 31, 2017 are as follows:

	As of March 31, 2017									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 2,101.1	Rs. 2,638.6	Rs. 10,617.5	Rs. 3,876.7	Rs. 410.4	Rs. 3,950.4	Rs. 7,413.4	Rs. 22,548.6	Rs. 3,803.4	Rs. 57,360.1
Write-offs	(5,155.0)	(11,639.3)	(1,453.4)	(3,227.4)	(32.9)	(2,793.5)	(2,261.7)	—	—	(26,563.2)
Net allowance for credit losses*	5,846.8	13,040.7	6,114.3	3,749.2	361.8	5,610.6	6,561.8	5,562.0	852.8	47,700.0
Allowance for credit losses, end of the period	Rs. 2,792.9	Rs. 4,040.0	Rs. 15,278.4	Rs. 4,398.5	Rs. 739.3	Rs. 6,767.5	Rs. 11,713.5	Rs. 28,110.6	Rs. 4,656.2	Rs. 78,496.9
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 11,713.5	Rs. —	Rs. —	Rs. 11,713.5
Allowance collectively evaluated for impairment	2,792.9	4,040.0	15,278.4	4,398.5	739.3	6,767.5	—	28,110.6	4,656.2	66,783.4
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	30,275.7	—	—	30,275.7
Loans collectively evaluated for impairment	6,105.6	6,467.4	21,060.1	6,086.6	1,678.2	11,306.1	—	3,996,257.3	1,909,672.7	5,958,634.0

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 9,748.6 million. Recoveries from Retail loans is Rs. 8,943.7 million and from Wholesale loans is Rs. 804.9 million.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowance for credit losses as of March 31, 2018 are as follows:

	As of March 31, 2018									
	Specific							Unallocated		
	Retail									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 2,792.9	Rs. 4,040.0	Rs. 15,278.4	Rs. 4,398.5	Rs. 739.3	Rs. 6,767.5	Rs. 11,713.5	Rs. 28,110.6	Rs. 4,656.2	Rs. 78,496.9
Write-offs	(6,826.4)	(16,714.3)	(5,730.0)	(3,644.0)	(61.5)	(4,557.4)	(444.7)	—	—	(37,978.3)
Net allowance for credit losses*	7,715.7	18,856.9	9,161.0	4,051.6	296.6	10,712.7	4,054.2	14,036.8	3,103.1	71,988.6
Allowance for credit losses, end of the period	Rs. 3,682.2	Rs. 6,182.6	Rs. 18,709.4	Rs. 4,806.1	Rs. 974.4	Rs. 12,922.8	Rs. 15,323.0	Rs. 42,147.4	Rs. 7,759.3	Rs. 112,507.2
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 15,323.0	Rs. —	Rs. —	Rs. 15,323.0
Allowance collectively evaluated for impairment	3,682.2	6,182.6	18,709.4	4,806.1	974.4	12,922.8	—	42,147.4	7,759.3	97,184.2
Loans:										
Loans individually evaluated for impairment	—	—	—	—	—	—	32,812.8	—	—	32,812.8
Loans collectively evaluated for impairment	8,634.5	10,150.9	25,547.2	6,968.1	1,899.5	22,704.3	—	5,137,460.1	2,130,001.6	7,343,366.2

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 12,590.8 million. Recoveries from Retail loans is Rs. 12,254.3 million and from Wholesale loans is Rs. 336.5 million.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Allowances for credit losses as of March 31, 2019 are as follows:

	As of March 31, 2019										
	Specific							Unallocated			
	Retail										
	Auto loans	Personal Loans/ Credit card	Retail business banking	Commercial vehicle and Construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total	Total
	(In millions)										
Allowance for credit losses, beginning of the period	Rs. 3,682.2	Rs. 6,182.6	Rs. 18,709.4	Rs. 4,806.1	Rs. 974.4	Rs. 12,922.8	Rs. 15,323.0	Rs. 42,147.4	Rs. 7,759.3	Rs. 112,507.2	US$ 1,626.8
Write-offs	(9,155.3)	(25,197.0)	(6,665.5)	(4,812.8)	(93.3)	(5,652.0)	(1,755.7)	—	—	(53,331.6)	(771.1)
Net allowance for credit losses*	11,642.1	28,708.4	9,551.4	6,551.5	224.1	13,170.7	6,665.9	10,793.7	1,748.6	89,056.4	1,287.7
Allowance for credit losses, end of the period	Rs. 6,169.0	Rs. 9,694.0	Rs. 21,595.3	Rs. 6,544.8	Rs. 1,105.2	Rs. 20,441.5	Rs. 20,233.2	Rs. 52,941.1	Rs. 9,507.9	Rs. 148,232.0	US$ 2,143.4
Allowance for credit losses:											
Allowance individually evaluated for impairment	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 20,233.2	Rs. —	Rs. —	Rs. 20,233.2	US$ 292.6
Allowance collectively evaluated for impairment	6,169.0	9,694.0	21,595.3	6,544.8	1,105.2	20,441.5	—	52,941.1	9,507.9	127,998.8	1,850.8
Loans:											
Loans individually evaluated for impairment	—	—	—	—	—	—	38,153.7	—	—	38,153.7	551.7
Loans collectively evaluated for impairment	13,606.7	15,781.5	29,945.0	11,254.9	2,157.1	29,523.6	—	6,135,634.8	2,835,407.3	9,073,310.9	131,193.0

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 16,777.1 million (US$ 242.6 million). Recoveries from Retail loans is Rs. 16,590.9 million and from wholesale loans is Rs. 186.2 million.

The unallocated allowance is assessed at each period end and the increase/(decrease), as the case may be is recorded in the income statement under allowances for credit losses. There is no transfer of amounts to or from the unallocated category to the specific category.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Troubled debt restructuring (TDR)

When the Bank grants a concession, for economic or legal reasons related to a borrower's financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. On restructuring, the loans are re-measured to reflect the impact, if any, on projected cash flows resulting from the modified terms. Modification may have little or no impact on the allowance established for the loan if there was no forgiveness of the principal and the interest was not decreased. A charge off may be recorded at the time of restructuring if a portion of the loan is deemed to be uncollectible.

The following table summarizes the Bank's TDR modifications during the fiscal year ended March 31, 2018 and March 31, 2019 presented by primary modification type and includes the financial effects of these modifications.

	Fiscal year ended March 31, 2018					
	Carrying value	TDRs involving changes in the amount of principal payments (1)	TDRs involving changes in the amount of interest payments (2)	TDRs involving changes in the amount of both principal and interest payments	Balance of principal forgiven	Net P&L impact (3)
	(In millions)					
Retail Loans:						
Retail business banking	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —
Commercial vehicle and construction equipment finance	—	—	—	—	—	—
Wholesale loans	—	—	—	—	—	—
Total (4)	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —	Rs. —

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred.
(4) TDR modification during the year ended March 31, 2018 comprised of nil case.

	Fiscal year ended March 31, 2019					
	Carrying value	TDRs involving changes in the amount of principal payments (1)	TDRs involving changes in the amount of interest payments (2)	TDRs involving changes in the amount of both principal and interest payments	Balance of principal forgiven	Net P&L impact (3)
	(In millions)					
Retail Loans:						
Retail business banking	Rs. 17.9	Rs. —	Rs. 17.9	Rs. —	Rs. —	Rs. 4.5
Commercial vehicle and construction equipment finance	—	—	—	—	—	—
Wholesale loans	—	—	—	—	—	—
Total (4)	Rs. 17.9	Rs. —	Rs. 17.9	Rs. —	Rs. —	Rs. 4.5
Total (4)	US$ 0.3	US$ —	US$ 0.3	US$ —	US$ —	US$ 0.1

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred.
(4) TDR modification during the year ended March 31, 2019 comprised of one case.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes TDRs that have defaulted in the current period within 12 months of their modification date. The defaulted TDRs are based on a payment default definition of 90 days past due.

	As of March 31, 2019 recorded investments (In millions)
Retail loans:	
Retail business banking	Rs. —
Commercial vehicle and construction equipment finance	—
Wholesale loans	—
Total	Rs. —
Total	US$ —

Interest on loans by facility are as follows:

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Wholesale loans	Rs. 134,543.1	Rs. 152,124.6	Rs. 199,928.0	US$ 2,890.8
Retail loans	418,143.7	515,334.1	627,755.0	9,076.9
Total	Rs. 552,686.8	Rs. 667,458.7	Rs. 827,683.0	US$ 11,967.7

10. Sales/transfer of receivables

The following table summarizes the cash flows received during the years ended March 31, 2017, March 31, 2018 and March 31, 2019 from customers and paid to SPEs/transferees on securitized/ transferred performing loans:

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Cash flow information				
Collections against securitized receivables/transfers	Rs. 471.1	Rs. 303.9	Rs. 233.5	US$ 3.4
Payments made	444.7	301.8	237.7	3.4
Cash flows on retained interests	Rs. 26.6	Rs. 3.8	Rs. 2.1	US$—

Other key disclosures are as follows:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Transferred receivables with continuing involvement	Rs. 575.4	Rs. 398.4	US$ 5.8
Delinquencies	230.7	253.8	3.7
Credit losses	212.3	242.0	3.5
Retained interest in sold receivables	22.8	15.9	0.2

The table below outlines the economic assumptions and the sensitivity of the estimated fair value of retained interests in finance receivables as of March 31, 2018 and March 31, 2019 to immediate 10% and 20% changes in those assumptions:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Fair value of retained interests			
Annual prepayment rate:			
Impact of 10% adverse change	Rs. 2.4	Rs. 1.7	US$—
Impact of 20% adverse change	4.6	3.3	—
Expected credit losses:			
Impact of 10% adverse change	3.1	2.3	—
Impact of 20% adverse change	6.2	4.5	0.1

Weighted average life in years of the securitized receivables is not subject to change, except in the case of a change in the prepayment rate assumption. Consequently, the above sensitivity analysis does not include the impact on the estimated fair values of the retained interests due to an adverse change in the weighted average life in years and the discount rate.

These sensitivities are hypothetical and should be used with appropriate caution. A 10% change in the assumptions may not result in lineally proportionate changes in the fair values of retained interests. Adverse changes assumed in the above analysis and the resultant change in the fair values of retained interests are calculated independent of each other. In reality, any change in one factor may cause a change in the other factors.

11. Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank manages its credit risk collectively for its loan portfolio and credit substitute securities as these instruments are invested in as part of an overall lending program for corporate customers; accordingly, information on concentrations of credit risk has been provided for these exposures together.

In the case of wholesale loans, while the Bank generally lends on a cash-flow basis, it also requires collateral which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities) from a large number of the Bank's borrowers. The Bank's retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities). Retail business banking loans are secured with current assets as well as immovable property and fixed assets in some cases. However, collateral securing each individual loan may not be adequate in relation to the value of the loan. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts. The maximum estimated loss that would be incurred under severe, hypothetical circumstances, for which the Bank believes the possibility is extremely remote, such as where the value of the Bank's interests and any associated collateral declines to zero, without any consideration of recovery or offset is determined as the carrying values of the instruments as given in the below table.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank's portfolio of loans, credit substitute securities and non-funded exposure (including derivatives) is broadly diversified along industry and product lines, and as of March 31, 2018 and March 31, 2019 the exposures are as set forth below.

	As of March 31, 2018				
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	%
	(In millions, except percentages)				
Consumer Loans	Rs. 1,948,328.2	Rs. —	Rs. 665.4	Rs. 1,948,993.6	22.7
Retail trade	385,217.8	1,181.4	13,091.9	399,491.1	4.6
NBFC/Financial Intermediaries	231,249.9	110,494.4	6,888.5	348,632.8	4.1
Automobile & Auto Ancillary	299,680.3	13,105.7	30,876.7	343,662.7	4.0
Consumer Services	308,333.2	3,461.5	14,077.5	325,872.2	3.8
Agriculture Production — Food	318,643.5	497.9	614.9	319,756.3	3.7
Road Transportation	310,740.7	—	5,247.2	315,987.9	3.7
Real Estate & Property Services	233,700.5	1,982.5	27,280.7	262,963.7	3.1
Engineering	133,216.6	2,470.7	99,933.4	235,620.7	2.7
Power	159,239.8	34,738.6	36,017.7	229,996.1	2.7
Food & Beverage	210,780.7	586.8	14,210.0	225,577.5	2.6
Business Services	207,868.8	946.6	7,738.7	216,554.1	2.5
Agriculture Production — Non Food	199,451.2	—	9.0	199,460.2	2.3
Wholesale Trade — Non Industrial	180,841.8	2,239.4	11,945.7	195,026.9	2.3
Wholesale Trade — Industrial	167,253.4	103.9	27,470.1	194,827.4	2.3
Textiles & Garments	159,873.4	4,602.7	20,496.0	184,972.1	2.2
Infrastructure Development	109,841.9	9,762.5	55,773.0	175,377.4	2.0
Telecom	125,842.1	21,629.8	27,802.9	175,274.8	2.0
Iron & Steel	135,431.1	2,583.1	36,184.6	174,198.8	2.0
Housing Finance Companies	110,961.6	60,818.6	585.2	172,365.4	2.0
Others (none greater than 2%)	1,439,682.5	52,825.4	460,885.5	1,953,393.4	22.7
Total	Rs. 7,376,179.0	Rs. 324,031.5	Rs. 897,794.6	Rs. 8,598,005.1	100.0

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of March 31, 2019					
Category	Gross loans	Fair Values Of Credit Substitutes	Non-funded exposure	Total	Total	%
	(In millions, except percentages)					
Consumer Loans	Rs. 2,477,945.6	Rs. —	Rs. 1,552.1	Rs. 2,479,497.7	US$ 35,851.6	23.5
Retail trade	445,757.8	1,170.7	15,051.6	461,980.1	6,679.9	4.4
NBFC/Financial Intermediaries	311,477.1	98,274.0	13,203.1	422,954.2	6,115.6	4.0
Automobile & Auto Ancillary	352,979.1	10,413.9	32,546.7	395,939.7	5,725.0	3.8
Road Transportation	376,547.1	—	9,808.2	386,355.3	5,586.4	3.7
Consumer Services	354,060.4	3,957.3	13,757.6	371,775.3	5,375.6	3.5
Agriculture Production — Food	330,092.5	—	728.8	330,821.3	4,783.4	3.1
Power	251,169.4	37,188.7	39,998.4	328,356.5	4,747.8	3.1
Telecom	246,272.4	21,288.6	26,245.9	293,806.9	4,248.2	2.8
Real Estate & Property Services	257,056.8	1,978.8	33,482.7	292,518.3	4,229.6	2.8
Engineering	159,462.7	1,557.3	120,816.0	281,836.0	4,075.1	2.7
Food & Beverage	233,798.9	—	15,325.7	249,124.6	3,602.1	2.4
Business Services	236,853.7	249.2	11,318.3	248,421.2	3,592.0	2.4
Iron & Steel	195,488.6	5,514.4	44,149.5	245,152.5	3,544.7	2.3
Coal & Petroleum Products	92,504.7	705.0	150,857.5	244,067.2	3,529.0	2.3
Wholesale Trade — Industrial	192,708.4	67.8	29,835.7	222,611.9	3,218.8	2.1
Textiles & Garments	187,527.5	4,436.1	26,803.8	218,767.4	3,163.2	2.1
Infrastructure Development	128,273.5	9,035.5	79,596.8	216,905.8	3,136.3	2.1
Wholesale Trade — Non Industrial	200,089.4	248.3	12,218.2	212,555.9	3,073.4	2.0
Others (none greater than 2%)	2,081,399.0	76,801.2	470,669.6	2,628,869.8	38,011.4	24.9
Total	Rs. 9,111,464.6	Rs. 272,886.8	Rs. 1,147,966.2	Rs. 10,532,317.6	US$152,289.1	100.0

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank’s ten largest exposures as of March 31, 2018 and March 31, 2019, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures (including derivatives), are as follows:

	As of March 31, 2018		
	Funded Exposure	Non-Funded Exposure (In millions)	Total Exposure
Borrower 1	Rs. 11,615.0	Rs. 79,373.2	Rs. 90,988.2
Borrower 2	80,006.2	87.1	80,093.3
Borrower 3	27,567.3	48,406.0	75,973.3
Borrower 4	59,631.9	13,790.6	73,422.5
Borrower 5	70,012.7	—	70,012.7
Borrower 6	34,673.6	22,396.4	57,070.0
Borrower 7	13,054.6	43,324.0	56,378.6
Borrower 8	6,001.5	48,749.4	54,750.9
Borrower 9	44,367.1	3,300.0	47,667.1
Borrower 10	45,000.0	—	45,000.0

	As of March 31, 2019			
	Funded Exposure	Non-Funded Exposure (In millions)	Total Exposure	Total Exposure
Borrower 1	Rs. 146,141.2	Rs. 6,457.1	Rs. 152,598.3	US$ 2,206.5
Borrower 2	27,488.9	115,089.5	142,578.4	2,061.6
Borrower 3	120,004.3	312.8	120,317.1	1,739.7
Borrower 4	92,271.4	1,200.0	93,471.4	1,351.5
Borrower 5	80,008.5	32.6	80,041.1	1,157.3
Borrower 6	57,604.0	14,843.9	72,447.9	1,047.5
Borrower 7	32,948.9	34,806.0	67,754.9	979.7
Borrower 8	51,283.8	15,163.0	66,446.8	960.8
Borrower 9	43,602.4	22,513.2	66,115.6	956.0
Borrower 10	30,559.1	26,347.9	56,907.0	822.8

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. Property and equipment

Property and equipment by asset category is as follows:

	As of March 31, 2018	As of March 31, 2019	As of March 31, 2019
	(In millions)		
Land and premises	Rs. 17,992.1	Rs. 18,836.5	US$ 272.4
Software and systems	24,554.4	29,855.2	431.7
Equipment and furniture	64,927.1	73,601.8	1,064.2
Property and equipment, at cost	107,473.6	122,293.5	1,768.3
Less: Accumulated depreciation	68,505.5	79,105.7	1,143.8
Property and equipment, net	Rs. 38,968.1	Rs. 43,187.8	US$ 624.5

Depreciation and amortization charged for the years ended March 31, 2017, March 31,2018 and March 31, 2019 was Rs. 8,876.9 million, Rs. 9,678.9 million and Rs. 12,247.8 million (US$ 177.1 million), respectively.

13. Goodwill and other intangible assets

Goodwill arising from a business combination is tested at least on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million (US$ 1,083.5 million) for the fiscal year ended March 31, 2018 and the year ended March 31, 2019. The entire amount of goodwill was allocated to the retail business. The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by class of intangible assets as of March 31, 2018 and March 31, 2019:

	As of March 31, 2018			As of March 31, 2019			
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount	Net carrying amount
				(In millions)			
Branch network	Rs. 8,335.0	Rs. 8,335.0	Rs. —	Rs. 8,335.0	Rs. 8,335.0	Rs. —	US$ —
Customer list	2,710.0	2,710.0	—	2,710.0	2,710.0	—	—
Core deposit	4,414.0	4,414.0	—	4,414.0	4,414.0	—	—
Favorable leases	543.0	542.0	1.0	543.0	543.0	—	—
Total	Rs. 16,002.0	Rs. 16,001.0	Rs. 1.0	Rs. 16,002.0	Rs. 16,002.0	Rs. —	US$ —

The aggregate amortization charged for the years ended March 31, 2017, March 31, 2018 and March 31, 2019 was Rs. 3.0 million, Rs. 1.0 million and Rs. 1.0 million, respectively.

The estimated amortization expense for intangible assets for each of the five succeeding twelve months period is nil.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

14. Other assets

Other assets include the following:

	As of March 31, 2018	As of March 31, 2019	2019
	(In millions)		
Security deposits for leased property	Rs. 5,004.1	Rs. 5,112.9	US$ 73.9
Sundry accounts receivable	23,216.1	49,465.6	715.2
Advance income tax (net of current tax expense)	17,988.3	18,785.7	271.6
Advances	5,510.2	4,213.1	60.9
Prepaid expenses	897.0	1,356.7	19.6
Deposits/Margins paid	5,815.1	8,319.8	120.3
Derivatives (refer to note 24)	50,836.3	132,524.1	1,916.2
Term placements	139,875.9	115,428.4	1,669.0
Others*	49,565.5	60,526.7	875.4
Total	Rs. 298,708.5	Rs. 395,733.0	US$ 5,722.1

* Effective April 1, 2018, the Bank adopted ASU 2016-01(See note 2(w)(ii) to the Consolidated Financial Statements for additional details). The equity securities that were previously reported as AFS securities were reclassified to other assets with carrying value amounting to Rs. 1,267.7 million. Others include equity securities with carrying value amounting to Rs. 1,267.7 million and Rs. 11,483.4 million as at March 31, 2018 and March 31, 2019, respectively. Equity securities include non-marketable equity securities carried at cost Rs. 708.4 million and Rs. 459.4 million as at March 31, 2018 and March 31, 2019, respectively. Unrealised gain recognized in non-interest revenue–other, net Rs 6,717.5 million for the fiscal year ended March 31, 2019 .

15. Deposits

Deposits include demand deposits, which are non-interest-bearing, and savings and time deposits, which are interest-bearing. Deposits as of March 31, 2018 and March 31, 2019 were as follows:

	As of March 31, 2018	As of March 31, 2019	2019
	(In millions)		
Interest-bearing:			
Savings deposits	Rs.2,237,968.7	Rs.2,487,001.6	US$ 35,960.1
Time deposits	4,455,680.6	5,317,715.9	76,890.1
Total interest-bearing deposits	6,693,649.3	7,804,717.5	112,850.2
Non-interest-bearing deposits	1,190,102.2	1,420,309.4	20,536.6
Total	Rs.7,883,751.5	Rs.9,225,026.9	US$133,386.8

As of March 31, 2018 and March 31, 2019, time deposits of Rs. 3,904,998.5 million and Rs. 4,570,771.1 million, respectively, had a residual maturity of one year or less. The remaining deposits mature between one and ten years.

As of March 31, 2018 and March 31, 2019, time deposits in excess of Rs. 0.1 million aggregated Rs. 4,282,026.0 million and Rs. 5,145,912.9 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of March 31, 2019, the scheduled maturities for total time deposits were as follows:

	As of March 31, 2019 (In millions)	
Due to mature in the fiscal year ending March 31:		
2020	Rs.4,570,771.1	US$66,089.8
2021	469,740.1	6,792.1
2022	162,234.4	2,345.8
2023	35,359.5	511.3
2024	58,237.5	842.1
Thereafter	21,373.3	309.0
Total	Rs.5,317,715.9	US$76,890.1

16. Short-term borrowings

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2018 and March 31, 2019 comprised of the following:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Borrowed in the call market	Rs. 28,585.7	Rs. 9,155.9	US$ 132.4
Term borrowings from institutions/banks	391,950.0	363,921.2	5,262.0
Foreign currency borrowings	307,066.6	280,980.9	4,062.8
Bills rediscounted	51,599.4	—	—
Total	Rs.779,201.7	Rs.654,058.0	US$ 9,457.2
Total borrowings outstanding:			
Maximum amount outstanding	Rs.865,997.0	Rs.957,026.5	US$13,837.9
Average amount outstanding	Rs.512,626.7	Rs.705,161.6	US$10,196.1
Weighted average interest rate	4.9%	5.3%	5.3%

17. Long-term debt

Long-term debt as of March 31, 2018 and March 31, 2019 comprised of the following:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Subordinated debt	Rs.231,070.0	Rs. 211,320.0	US$ 3,055.5
Others	701,885.6	833,265.2	12,048.4
Less: Debt issuance cost	(49.3)	(32.2)	(0.5)
Total	Rs.932,906.3	Rs.1,044,553.0	US$15,103.4

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The below table presents the balance of long-term debt as of March 31, 2018 and March 31, 2019 and the related contractual rates and maturity dates:

	As of,						
	March 31, 2018			March 31, 2019			
	Maturity / Call dates	Stated interest rates	Total	Maturity / Call dates	Stated interest rates	Total	Total
				(In millions)			
Subordinated debt							
Subordinated debt (other than perpetual debt)	2019-2028	7.56% to 10.85%	Rs. 151,063.5	2021-2029	7.56% to 10.20%	Rs. 128,315.8	US$ 1,855.3
Perpetual debt	2023	8.85%	79,997.3	2023-2029	8.85% to 9.40%	82,997.9	1,200.1
Others*							
Variable rate—(1)	2020-2022	2.68% to 3.25%	32,227.2	2020-2022	3.30% to 3.88%	36,288.8	524.7
Variable rate—(2)	2019-2023	7.64% to 10.05%	108,196.7	2020-2024	8.25% to 10.05%	116,615.2	1,686.2
Fixed rate—(1)	2019-2027	6.90% to 10.35%	561,421.6	2020-2029	4.60% to 9.56%	680,335.3	9,837.1
Total			Rs. 932,906.3			Rs.1,044,553.0	US$15,103.4

* Variable rate (1) represent foreign currency debt. Variable rate debt is typically indexed to LIBOR, T-bill rates, Marginal cost of funds based lending rates (MCLR), among others.

The scheduled maturities of long-term debt are set out below:

	As of March 31, 2019	
	(In millions)	
Due in the twelve months ending March 31:		
2020	Rs. 261,201.6	US$ 3,776.8
2021	153,384.5	2,217.8
2022	114,697.8	1,658.4
2023	79,464.2	1,149.0
2024	23,050.0	333.3
Thereafter	329,757.0	4,768.0
Total (1)	Rs. 961,555.1	US$ 13,903.3

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 82,997.9 million (net of debt issuance cost).

During the fiscal year ended March 31, 2019 the Bank issued subordinated debt amounting to Rs. 6,000.0 million (previous period Rs. 20,000.0 million) and perpetual debt amounting to Rs. 3,000.0 million (previous period Rs. 80,000.0 million). During the fiscal year ended March 31, 2019 the Bank also raised other long-term debt amounting to Rs. 311,093.6 million (previous period Rs. 325,517.1 million).

As of March 31, 2018 and March 31, 2019, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 32,260.9 million and Rs. 36,305.9 million, respectively, and functional currency borrowings aggregating to Rs. 669,624.7 million and Rs. 796,959.3 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the amounts set forth below:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Bills payable	Rs. 82,217.8	Rs. 70,404.0	US$ 1,018.0
Remittances in transit	35,308.9	41,721.1	603.3
Accrued expenses	52,643.5	57,816.9	836.0
Accounts payable	106,510.1	88,212.9	1,275.5
Derivatives (refer to note 24)	56,124.7	128,449.0	1,857.3
Others	58,636.6	80,834.7	1,168.7
Total	Rs.391,441.6	Rs.467,438.6	US$ 6,758.8

The Bank amortizes annual fees on credit cards over the contractual period of the fees. The unamortized annual fees as of March 31, 2018 and March 31, 2019 was Rs. 351.2 million and Rs. 538.8 million (US$ 7.8 million), respectively.

19. Accumulated other comprehensive income

The below table presents the changes in accumulated other comprehensive income (OCI) after income tax for the years ended March 31, 2018 and March 31, 2019.

	Available for sale securities	Foreign currency translation reserve	Total
		(In millions)	
Balance, March 31, 2017	Rs. 25,433.1	Rs. 598.5	Rs. 26,031.6
Net unrealized gain/(loss) arising during the period	(21,445.3)	72.1	(21,373.2)
Amounts reclassified to income	(8,455.1)	—	(8,455.1)
Balance, March 31, 2018	Rs. (4,467.3)	Rs. 670.6	Rs. (3,796.7)
Balance, March 31, 2018	Rs. (4,467.3)	Rs. 670.6	Rs. (3,796.7)
Adjustment to Other Comprehensive Income (loss)	(268.0)	—	(268.0)
Net unrealized gain/(loss) arising during the period	17,105.1	663.9	17,769.0
Amounts reclassified to income	(1,895.5)	—	(1,895.5)
Balance, March 31, 2019	Rs. 10,474.3	Rs. 1,334.5	Rs. 11,808.8
Balance, March 31, 2019	US$ 151.5	US$ 19.2	US$ 170.7

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The below table presents the reclassification out of accumulated other comprehensive income (OCI) by income line item and the related income tax effect for periods ended March 31, 2018 and March 31, 2019.

	As of March 31, 2018	As of March 31, 2019	As of March 31, 2019
	(In millions)		
Available for sale debt securities:			
Realized (gain)/loss on sales of available for sale debt securities, net	Rs. (13,145.7)	Rs. (3,994.6)	US$ (57.8)
Other than temporary impairment losses on available for sale debt securities	149.1	1,081.0	15.6
Total before income tax	Rs. (12,996.6)	Rs. (2,913.6)	US$ (42.2)
Income tax	4,541.5	1,018.1	14.7
Net of income tax	Rs. (8,455.1)	Rs. (1,895.5)	US$ (27.5)

20. Non-interest revenue

Revenue Recognition

Deposit related fees

Deposit-related fees consist of fees earned on consumer deposit activities and are generally recognized when the transaction occurs or as the service is performed. Consumer fees are earned on consumer deposit accounts for account maintenance and various transaction-based services, such as ATM transactions, wire transfer activities, check and money order processing, standing instruction processing, cash management services, etc.

Lending related fees

Lending-related fees generally represent transactional fees earned from certain loan related services, guarantees and letters of credit (LCs).

Third-party products related fees

Third-party products related fees consist of fees earned from distribution of third party products such as insurance and mutual funds.

Payments and cards business fees

Payments and cards business fees includes fees earned from merchant acquiring business and on Credit, Debit, Prepaidor Forex cards, among others. Cards business income includes annual and renewal fees, late and over-limit fees, currency conversion fees, as well as fees earned from interchange, cash advances and other miscellaneous transactions fees. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit and debit cards based on the corresponding payment network's rates. Substantially all cards business related fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over twelve months. Payments business fees includes fees earned from merchants net of interchange expenses paid to issuing banks, rentals from point of sale machines, merchant service charges.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below presents the non-interest revenue disaggregated by revenue source for the fiscal years ended March 31, 2018 and March 31, 2019.

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Deposit related fees	Rs.20,407.5	Rs. 22,424.9	Rs. 25,383.0	US$ 367.0
Lending related fees	26,705.4	31,791.6	30,176.2	436.3
Third-party products related fees	13,813.1	20,908.1	22,000.4	318.1
Payments and cards business fees	25,115.2	34,551.4	47,012.4	679.8
Others	8,079.1	10,384.9	9,583.2	138.6
Fees and commissions	Rs.94,120.3	Rs.120,060.9	Rs.134,155.2	US$1,939.8

The table below presents the non-interest revenue disaggregated by revenue source for the fiscal years ended March 31, 2017, March 31, 2018 and March 31, 2019.

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Retail Banking	Rs.86,237.9	Rs.110,927.2	Rs.123,070.6	US$1,779.5
Wholesale Banking	7,695.8	8,985.0	10,839.6	156.7
Treasury Services	186.6	148.7	245.0	3.6
Fees and commissions	Rs.94,120.3	Rs.120,060.9	Rs.134,155.2	US$1,939.8

21. Income taxes

Income tax expense is comprised of the following:

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Current tax expense	Rs.84,273.5	Rs.108,676.0	Rs.128,050.2	US$1,851.5
Deferred tax (benefit) expense	(5,048.6)	(10,403.5)	(8,129.4)	(117.6)
Interest on income tax refund	—	—	(527.3)	(7.6)
Income tax expense	Rs.79,224.9	Rs. 98,272.5	Rs.119,393.5	US$1,726.3

Income before income tax expense and income tax expense are substantially all from India.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is the reconciliation of income taxes at the Indian statutory income tax rate to income tax expense as reported:

	Fiscal year ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Income before income tax expense	Rs.219,965.5	Rs.277,106.4	Rs.339,959.0	US$4,915.5
Statutory income tax rate	34.61%	34.61%	34.94%	34.94%
Expected income tax expense	76,125.7	95,901.0	118,795.3	1,717.7
Adjustments to reconcile expected income tax to actual tax expense				
Interest on income tax refund	—	—	(343.0)	(5.0)
Stock-based compensation	2,839.0	2,282.3	1,867.2	27.0
Income exempt from taxes	(997.2)	(524.8)	(1,422.8)	(20.6)
Effect of change in statutory tax rate	—	(209.2)	—	—
Other, net	1,257.4	823.2	496.8	7.2
Income tax expense	Rs. 79,224.9	Rs. 98,272.5	Rs.119,393.5	US$1,726.3

The tax effects of significant temporary differences are as follows:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Tax effect of:			
Deductible temporary differences:			
Allowance for loan losses	Rs.30,732.5	Rs.39,604.8	US$ 572.7
Unrealized loss on available for sale debt securities	2,491.2	—	—
Property and equipment	—	383.8	5.5
Derivatives	309.8	289.1	4.2
Employee benefits	1,905.5	2,063.1	29.8
Others*	4,718.5	5,511.9	79.7
Deferred tax asset	40,157.5	47,852.7	691.9
Taxable temporary differences:			
Property and equipment	434.0	—	—
Loan origination cost and fees	4,957.9	5,606.3	81.1
Investments, others	479.2	2,677.0	38.7
Unrealized gain on available for sale debt securities	—	5,680.2	82.1
Intangible assets	0.3	—	—
Deferred tax liability	5,871.4	13,963.5	201.9
Net deferred tax asset (liability)	Rs.34,286.1	Rs.33,889.2	US$ 490.0

* includes deductible temporary differences relating to accrued expenses and other liabilities Rs. 3,400.5 million and Rs. 4,310.4 million as at March 31, 2018 and March 31, 2019, respectively.

Management believes that the realization of the recognized deferred tax assets is more likely than not and the realization is predominantly based on expectations as to future pretax income.

The total unrecognized tax benefit as of March 31, 2018 and March 31, 2019 is Rs. 648.3 million and Rs. 14,448.1 million, respectively. The major income tax jurisdiction for the Bank is India. The open tax years (first assessment by the tax authorities) is pending from fiscal 2017 onwards. However, appeals filed by the Bank are pending with various local tax authorities in India for earlier tax years.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	Fiscal year ended March 31,		
	2018	2019	2019
		(In millions)	
Opening balance	Rs.648.3	Rs. 648.3	US$ 9.4
Increase/(decrease) related to prior year tax positions	—	13,799.8	199.5
Closing balance	Rs.648.3	Rs.14,448.1	US$208.9

The Bank's total unrecognized tax benefits, if recognized, would reduce the income tax expense by Rs. 14,448.1 million as of March 31, 2019 and thereby would affect the Bank's effective tax rate. There is no tax liability relating to the above unrecognized tax benefits.

Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax examinations with various tax authorities.

The Bank's policy is to include interest and penalties related to unrecognized tax benefits within income taxes.

22. Stock-based compensation

The stock-based compensation plans of the Bank are as follows.

Employees Stock Option Scheme(ESOP):

The shareholders of the Bank approved in January 2000 Plan "A", in June 2003 Plan "B", in June 2005 Plan "C", in June 2007 Plan "D", in June 2010 Plan "E", in June 2013 Plan "F", in July 2016 Plan "G" of the Employees' Stock Option Scheme (the "Plan"). The Bank reserved 50.0 million equity shares, with an aggregate nominal value of Rs.100.0 million, for issuance under each Plan "A", "B" and "C". Under Plan "D" the Bank reserved 75.0 million equity shares with an aggregate nominal value of Rs.150.0 million. The Bank reserved 100.0 million equity shares with an aggregate nominal value of Rs. 200.0 million, for issuance under each Plan "E", "F" and "G". Under the terms of each of these Plans, the Bank may issue stock options to employees and whole time directors of the Bank, each of which is convertible into one equity share.

Plan A provides for the issuance of options at the recommendation of the Nomination and Remuneration Committee of the Board (the "NRC") at an average of the daily closing prices on the BSE Limited during the 60 days preceding the date of grant of options, which was the minimum prescribed option price under regulations then issued by the Securities and Exchange Board of India ("SEBI"). Presently, there are no stock options issued and outstanding under Plan A.

Plan B, Plan C, Plan D, Plan E, Plan F and Plan G provide for the issuance of options at the recommendation of the NRC 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, Plan E, Plan F and Plan G, the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant. Presently, there are no stock options issued and outstanding under Plan B.

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

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On April 4, 2017 and April 21, 2017, the NRC approved, under Plan F, the grant of 16,865,850 options (Scheme XXVII) and the grant of 16,200 options (Scheme XXVIII), respectively, to the employees of the Bank. On September 1, 2018, September 29, 2018 and February 2, 2019 the Nomination and Remuneration Committee of the Board approved, under Plan G, the grant of 19,119,000 options (Scheme XXIX), the grant of 440,000 options (Scheme XXX) and the grant of 336,000 options (Scheme XXXI), respectively, to the employees of the Bank.

Modification of employee stock option schemes

During the periods ended March 31, 2017, March 31, 2018 and March 31, 2019, there were no modifications to employee stock option schemes.

Assumptions used

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	Years ended March 31,		
	2017	2018	2019
Dividend yield	—	0.65%-0.66%	0.62%-0.65%
Expected volatility	—	19.94%-21.65%	14.53%-18.68%
Risk-free interest rate	—	6.73%-7.20%	7.23%-8.31%
Expected term (in years)	—	4.66-6.06	2.78-5.16

The Bank recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instruments' grant-date fair value, reduced by expected forfeitures. Ultimately, the compensation cost for all awards that vest is recognized.

Activity and other details

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	Number of options available to be granted year ending March 31,		
	2017	2018	2019
Options available to be granted, beginning of period	31,534,850	133,673,650	117,841,600
Equity shares allocated for grant under the plan	100,000,000	—	—
Options granted	—	(16,882,050)	(19,895,000)
Forfeited/lapsed	2,138,800	1,050,000	3,260,085
Options available to be granted, end of period	133,673,650	117,841,600	101,206,685

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	Years ended March 31,					
	2017		2018		2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Options outstanding, beginning of period	128,654,300	Rs.840.19	92,156,300	Rs. 904.97	75,443,800	Rs.1,050.22
Granted	—	—	16,882,050	1,433.23	19,895,000	2,060.47
Exercised	(34,359,200)	658.20	(32,544,550)	837.59	(23,772,304)	925.79
Forfeited	(1,992,500)	981.44	(986,800)	1,055.59	(3,205,385)	1,518.42
Lapsed	(146,300)	857.61	(63,200)	963.45	(54,700)	837.10
Options outstanding, end of period	92,156,300	Rs.904.97	75,443,800	Rs.1,050.22	68,306,411	Rs.1,365.97
Options exercisable, end of period	56,314,000	Rs.835.06	46,810,250	Rs. 901.44	40,304,861	Rs.1,017.78
Weighted average fair value of options granted during the year		Rs. —		Rs. 464.17		Rs. 525.57

The following summarizes information about stock options outstanding as of March 31, 2019:

		As of March 31, 2019		
Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life (years)	Weighted average exercise price
Plan C	Rs.680.00 to Rs.835.50 (or US$ 9.83 to US$ 12.08)	1,537,400	0.87	685.70
Plan D	Rs.680.00 (or US$ 9.83)	659,900	0.97	680.00
Plan E	Rs.680.00 (or US$ 9.83)	2,498,700	0.96	680.00
Plan F	Rs.835.50 to Rs. 1,462.15 (or US$ 12.08 to US$ 21.14)	44,238,411	2.71	1,134.48
Plan G	Rs.2,006.05 to Rs. 2,090.45 (or US$ 29.01 to US$ 30.23)	19,372,000	3.57	2,060.45

The intrinsic value, of options exercised during the years ended March 31, 2017, March 31, 2018 and March 31, 2019 at grant date was Rs. 140.7 million, Rs. 28.8 million and nil, respectively, and at exercise date was Rs. 26,951.4 million, Rs. 34,123.2 million and Rs. 33,117.4 million, respectively. The aggregate intrinsic value as of grant date and as at March 31, 2019 attributable to options which are outstanding as on March 31, 2019 was Rs. 0.6 million (previous year Rs. 0.6 million) and Rs. 65,091.1 million (previous year Rs. 63,062.0 million), respectively. The aggregate intrinsic value as at grant date and as at March 31, 2019 attributable to options exercisable as on March 31, 2019 was Rs. 0.2 million (previous year nil) and was Rs. 52,441.6 million (previous year Rs. 46,092.3 million), respectively. Total stock compensation cost (including on modification) recognized under these plans was Rs. 8,203.2 million, Rs. 6,594.6 million and Rs. 5,343.3 million during the years ended March 31, 2017, March 31, 2018 and March 31, 2019, respectively. There is no income tax benefit recognized associated with share-based compensation expense. As of March 31, 2019, there were 28,001,550 (previous year 28,633,550) unvested options with weighted average exercise price of Rs. 1,867.2 (previous year Rs. 1,293.5) and aggregate intrinsic value at grant date and as at March 31, 2019 was Rs. 0.3 million (previous year Rs. 0.6 million) and Rs.12,649.5 million (previous year Rs. 16,969.6 million), respectively. As at March 31, 2019, the total estimated compensation cost to be recognized in future periods was Rs.7,065.9 million (previous year Rs. 4,168.8 million). This is expected to be recognized over a weighted average period of 0.92 years.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

23. Retirement benefits

Gratuity

In accordance with Indian law, the Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement, resignation, death while in employment or on termination of employment in an amount equivalent to 15 days' eligible salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by said insurance companies, and in respect of certain employees, the Bank makes contributions to a fund set up for the purpose and administered by the board of trustees. The contributions are invested in specific designated instruments as permitted by Indian law. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on an actuarial valuation done on March 31 of every year.

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Bank's financial statements as of March 31, 2018 and March 31, 2019:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 5,225.6	Rs. 5,975.5	US$ 86.4
Service cost	741.0	820.6	11.9
Interest cost	392.2	476.7	6.9
Actuarial(gains)/ losses	97.8	(46.4)	(0.7)
Benefits paid	(481.1)	(572.9)	(8.3)
Projected benefit obligation, end of the period	5,975.5	6,653.5	96.2
Change in plan assets:			
Fair value of plan assets, beginning of the period	3,902.2	4,573.4	66.1
Expected return on plan assets	297.4	347.4	5.0
Actuarial gains/(losses)	12.7	130.2	1.9
Actual return on plan assets	310.1	477.6	6.9
Employer contributions	842.2	1,023.7	14.8
Benefits paid	(481.1)	(572.9)	(8.3)
Fair value of plan assets, end of the period	4,573.4	5,501.8	79.5
Funded Status	Rs.(1,402.1)	Rs.(1,151.7)	US$(16.7)

The Bank's expected contribution to the gratuity fund for the next fiscal year is estimated at Rs. 1,096.8 million. The accumulated benefit obligation as of March 31, 2018 and March 31, 2019 was Rs. 3,363.1 million and Rs. 3,777.3 million, respectively. The vested accumulated benefit obligation as on March 31, 2018 and March 31, 2019 was Rs. 3,032.9 million and Rs. 3,292.4 million, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net gratuity cost for the years ended March 31, 2017, March 31, 2018 and March 31, 2019 was comprised of the following components:

	Fiscal years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Service cost	Rs. 860.6	Rs. 741.0	Rs. 820.6	US$11.9
Interest cost	454.6	392.2	476.7	6.9
Expected return on plan assets	(389.7)	(297.4)	(347.4)	(5.0)
Actuarial (gains)/losses	287.6	85.1	(176.6)	(2.6)
Net gratuity cost*	Rs.1,213.1	Rs. 920.9	Rs. 773.3	US$11.2

* Effective April 1, 2018, the Bank adopted ASU 2017-07 Compensation- Retirement Benefits (Topic 715) -Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Accordingly, service cost is reported in the Consolidated Statements of Income in line Non-interest expense-salaries and staff benefits and other components of net benefit cost is reported in the Consolidated Statements of Income in line Non-interest expense –Administrative and other. The amendments have been applied retrospectively.

The assumptions used in accounting for the gratuity plan are set out below:

	Fiscal years ended March 31,		
	2017	2018	2019
	(% per annum)		
Discount rate*	6.8-8.1	7.4-8.0	7.2-8.4
Rate of increase in compensation levels of covered employees	5.0-12.0	5.0-11.0	5.0-9.0
Rate of return on plan assets	7.0-7.6	7.0-8.0	7.0-7.2

Mortality rates used are based on the published “Indian Assured Lives Mortality (2012-2014) Ultimate” table

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The rate of return on plan assets is based on historical returns, the current market conditions, anticipated future assets allocation and expected future returns. The rate of return on plan assets represents a long-term average view of the expected return.

The following benefit payments, which includes benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2020	Rs. 847.8
2021	713.9
2022	604.1
2023	527.1
2024	470.2
2025 - 2029	1,906.5

The expected benefit payments are based on the same assumptions used to measure the Bank’s benefit obligations as of March 31, 2019.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The gratuity contributions of the Bank which are administered by a trust set up for the purpose are managed by two insurance companies and in respect of certain employees the funds are invested by the trust set up for the said purpose. The overall asset allocation of the gratuity fund by the two insurance companies is structured so as to provide stable earnings while still allowing for potentially higher returns through an investment in equity securities. As at March 31, 2019, the plan assets as a percentage of the total funds were as follows:

	As of March 31, 2019		
	Funds managed by insurance company (1)*	Funds managed by insurance company (2)*	Funds managed by trust
Government securities	76.9%	15.7%	36.0%
Debenture and bonds	17.3%	29.5%	48.8%
Equity securities	5.5%	53.3%	—
Other	0.3%	1.5%	15.2%
Total	100.0%	100.0%	100.0%

* *The data pertaining to plan investment assets measured at fair value by level and total at March 31, 2019 are provided separately.*

Pension

In respect of pensions payable to certain erstwhile CBoP employees, which are payable pursuant to a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on an actuarial valuation at the balance sheet date conducted by an independent actuary. In respect of employees who have moved to a cost to company (CTC) driven compensation structure and have completed services up to 15 years as on the date of movement to a CTC driven compensation structure, any contribution made until such date, and any additional one-time contribution made for employees (who have completed more than 10 years but less than 15 years) stand frozen and will be converted into an annuity on separation after a lock-in-period of two years. Hence for this category of employees, liability stands frozen and no additional provision is required except for interest, if any. In respect of employees who accepted the offer and have completed services for more than 15 years, the pension would be paid based on the employee’s salary as of the date of movement to a CTC driven compensation structure and a provision is made based on an actuarial valuation at the balance sheet date conducted by an independent actuary.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets out the funded status of the pension plan and the amounts recognized in the Bank's financial statements as of March 31, 2018 and March 31, 2019:

	As of March 31,		
	2018	2019	2019
	(In millions)		
Change in benefit obligations:			
Projected benefit obligation ("PBO"), beginning of the period	Rs. 722.2	Rs. 722.8	US$ 10.5
Service cost	7.6	7.7	0.1
Interest cost	57.9	66.3	1.0
Actuarial (gains)/losses	22.6	6.5	0.1
Benefits paid	(87.5)	(125.7)	(1.8)
Projected benefit obligation, end of the period	722.8	677.6	9.9
Change in plan assets:			
Fair value of plan assets, beginning of the period	361.6	313.0	4.5
Expected return on plan assets	23.6	18.6	0.3
Actuarial gains/(losses)	5.9	4.8	0.1
Actual return on plan assets	29.5	23.4	0.4
Employer contributions	9.4	8.8	0.1
Benefits paid	(87.5)	(125.7)	(1.8)
Fair value of plan assets, end of the period	313.0	219.5	3.2
Funded Status	Rs. (409.8)	Rs. (458.1)	US$ (6.7)

The Bank's expected contribution to the pension fund for the next fiscal year is estimated at Rs. 140.5 million. The accumulated benefit obligation as of March 31, 2018 and March 31, 2019 was Rs. 502.1 million and Rs. 468.3 million, respectively. The vested accumulated benefit obligation as of March 31, 2018 and March 31, 2019 was Rs. 473.7 million and Rs. 455.5 million, respectively.

Net pension cost for the years ended March 31, 2017, March 31, 2018 and March 31, 2019 was comprised of the following components:

	As of March 31,			
	2017	2018	2019	2019
	(In millions)			
Service cost	Rs. 12.9	Rs. 7.6	Rs. 7.7	US$ 0.1
Interest cost	53.4	57.9	66.3	1.0
Expected return on plan assets	(26.1)	(23.6)	(18.6)	(0.3)
Actuarial (gains)/losses	17.7	16.7	1.7	—
Net pension cost*	Rs. 57.9	Rs. 58.6	Rs. 57.1	US$ 0.8

* Effective April 1, 2018, the Bank adopted ASU 2017-07 Compensation- Retirement Benefits (Topic 715) -Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Accordingly, service cost is reported in the Consolidated Statements of Income in line Non-interest expense-salaries and staff benefits and other components of net benefit cost is reported in the Consolidated Statements of Income in line Non-interest expense –Administrative and other. The amendments have been applied retrospectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The assumptions used in accounting for the pension plan are set out below:

	Fiscal years ended March 31,		
	2017	2018	2019
	(% per annum)		
Discount rate*	8.1	8.0	8.4
Rate of increase in compensation levels of covered employees	8.0	8.0	8.0
Rate of return on plan assets	7.0	7.0	7.0
Mortality rates used are based on the published “Indian Assured Lives Mortality (2012-2014) Ultimate” table			

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The following benefit payments, which include benefits attributable to expected future service, as appropriate, are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2020	Rs. 107.7
2021	97.5
2022	54.2
2023	26.6
2024	42.8
2025-2029	117.5

The expected benefits are based on the same assumptions used to measure the Bank’s benefit obligations as of March 31, 2019.

The retirement funds of a section of the employees are managed by a trust set up for the purpose. The trust essentially manages the defined retirement benefit plans belonging to certain employees. The funds are mainly invested in government securities and other corporate bonds. The weighted-average asset allocation of the said plan assets for the pension benefits as at March 31, 2019 is as follows:

Asset category	Funds managed by trust
Government securities	8.5%
Debenture and bonds	91.5%
Other	— %
Total	100.0%

For information on fair value measurements, including descriptions of Levels 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by the Bank, see note 32 – Fair value measurements.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Plan investment assets for gratuity funds and the pension fund measured at fair value by level and in total as of March 31, 2018 and March 31, 2019 are summarized in the table below.

	As of March 31, 2018			As of March 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Funds managed by insurance company (1)	Rs. —	Rs. —	Rs. 519.9	Rs. —	Rs. —	Rs. 625.0
Funds managed by insurance company (2)	—	3,797.4	—	—	4,632.5	—
Funds managed by trust						
— Government securities	—	106.0	—	—	106.6	—
— Debenture and bonds	—	372.4	—	—	320.1	—
— Others	90.7	—	—	37.1	—	—
Total	Rs. 90.7	Rs. 4,275.8	Rs. 519.9	Rs. 37.1	Rs. 5,059.2	Rs. 625.0
				US$ 0.5	US$ 73.2	US$ 9.0

The table below presents a reconciliation of all Plan investment assets measured at fair value using significant unobservable inputs (Level 3) during fiscal 2018 and 2019.

	Funds managed by Insurance companies as of March 31,		
	2018	2019	2019
	(In millions)		
Particulars			
Opening balance	Rs. 457.7	Rs. 519.9	US$ 7.5
Realized interest credited to fund	40.6	36.7	0.5
Contribution during the period	93.2	88.6	1.3
Amount paid towards claim	(71.6)	(20.2)	(0.3)
Closing balance	Rs. 519.9	Rs. 625.0	US$ 9.0

Superannuation

Eligible employees of the Bank are entitled to receive retirement benefits under the Bank's superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee's eligible annual salary (15% for the Managing Director, Executive Directors and for certain employees of CBoP) to the insurance companies in India, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred. The Bank contributed Rs. 786.7 million, Rs. 676.8 million and Rs. 1,034.1 million to the superannuation plan for the years ended March 31, 2017, March 31, 2018 and March 31, 2019, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Provident fund

In accordance with Indian law, eligible employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of an employee's eligible salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that out of the employer's contribution, an amount equal to 8.33% of the lower of employee's monthly eligible salary or Rs. 0.015 million, is contributed by the Bank to the Pension Scheme administered by the Regional Provident Fund Commissioner. Employees are credited with interest, which is subject to a government specified minimum rate. The Bank has no liability for future provident fund benefits other than its annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund's assets, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 2,920.0 million, Rs. 3,081.4 million and Rs. 3,312.1 million to the Provident Fund Trust and Regional Provident Fund Commissioner for the years ended March 31, 2017, March 31, 2018 and March 31, 2019, respectively. The Hon'ble Supreme Court of India issued an order dated February 28, 2019 relating to employer's contribution to the provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Based on external legal opinion, the Bank has concluded the abovementioned order is applicable prospectively and hence it is not probable that there will be an outflow of resources in relation to past periods.

National Pension Scheme

In respect of employees who opt for contribution to the National Pension Scheme, the Bank contributes a certain percentage of the basic salary of employees to the aforesaid scheme, a defined contribution plan, which is managed and administered by pension fund management companies. The Bank has no liability other than its contribution, and recognizes such contributions as an expense in the year incurred. The amount contributed being Rs. 27.6 million and Rs. 32.7 million to the National Pension Scheme for the fiscal years ended March 31, 2018 and March 31, 2019, respectively.

Compensated absences

The Bank has provided for unutilized leave balances as on March 31, 2019 standing to the credit of each employee on an actuarial valuation conducted by an independent actuary.

24. Financial instruments

Foreign exchange and derivative contracts

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating rate interest cash flows. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank uses its pricing models to determine fair values of its derivative financial instruments. The Bank records credit risk valuation adjustments on derivative financial instruments in order to reflect the credit quality of the counterparties and its own credit quality. The Bank calculates valuation adjustments on derivatives based on observable market credit risk spreads.

The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and other derivative contracts as of March 31, 2018 and March 31, 2019, together with the fair values on each reporting date.

	As of March 31, 2018			
	Notional	Gross Assets	Gross Liabilities	Net Fair Value
	(In millions)			
Interest rate derivatives	Rs. 3,084,700.1	Rs. 10,618.3	Rs. 9,520.9	Rs. 1,097.4
Forward rate agreements	2,073.1	2.5	2.6	(0.1)
Currency options	234,613.3	1,863.1	2,361.6	(498.5)
Currency swaps	161,301.3	4,929.0	4,882.5	46.5
Forward exchange contracts	4,344,675.7	33,423.4	39,357.1	(5,933.7)
Total	Rs. 7,827,363.5	Rs. 50,836.3	Rs. 56,124.7	Rs. (5,288.4)

	As of March 31, 2019					
	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
	(In millions)					
Interest rate derivatives	Rs. 3,159,867.1	Rs. 27,932.0	Rs. 27,102.8	Rs. 829.2	US$ 45,689.2	US$ 12.0
Forward rate agreements	—	—	—	—	—	—
Currency options	282,096.9	2,326.1	2,617.2	(291.1)	4,078.9	(4.2)
Currency swaps	197,044.2	5,841.0	4,070.7	1,770.3	2,849.1	25.6
Forward exchange contracts	5,561,859.5	96,425.0	94,658.3	1,766.7	80,420.2	25.5
Total	Rs. 9,200,867.7	Rs. 132,524.1	Rs. 128,449.0	Rs. 4,075.1	US$ 133,037.4	US$ 58.9

The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in net income. The gross assets and the gross liabilities are recorded in 'other assets' and 'accrued expenses and other liabilities', respectively.

The following table summarizes certain information related to derivative amounts recognized in income:

	Non-interest revenue, net – Derivatives for the years ended March 31,			
	2017	2018	2019	2019
	(In millions)			
Interest rate derivatives	Rs. 399.3	Rs. 1,027.5	Rs. 736.4	US$ 10.6
Forward rate agreements	1.2	0.5	0.1	—
Currency options	677.7	(15.0)	(262.5)	(3.8)
Currency swaps	(2,453.4)	(1,706.9)	1,045.0	15.1
Forward exchange contracts	(4,363.3)	7,436.5	10,890.1	157.5
Total gains/(losses)	Rs. (5,738.5)	Rs. 6,742.6	Rs. 12,409.1	US$ 179.4

Offsetting

The following table shows the impact of netting arrangements on derivative financial instruments, repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements, but are not offset in accordance with ASC 210-20-45 and ASC 815-10-45.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Bank enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements or similar agreements with substantially all of the Bank's foreign exchange and derivative contract counterparties. These master netting agreements, give the Bank, in the event of default by the counterparty, the right to liquidate collaterals held or placed and to offset receivables and payables with the same counterparty. In the table below the Bank has presented the gross derivative assets and liabilities adjusted for the effects of master netting agreements and collaterals received or pledged.

Transactions with counterparties for Securities sold under agreements to repurchase ("repos") and securities purchased under agreements to resell ("reverse repos") are settled through the Clearing Corporation of India Limited ("CCIL"), a centralized clearing house. Collaterals received or pledged comprise of highly liquid investments. For undertaking the above transactions, power of attorney is executed by the Bank and the counterparties in favor of CCIL to liquidate the securities pledged in the event of default.

	As of March 31, 2018					
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount
	(In millions)					
Financial assets						
Derivative assets	Rs. 50,836.3	Rs. —	Rs. 50,836.3	Rs. 34,782.9	Rs. 4,297.0	Rs. 11,756.4
Securities purchased under agreements to resell	650,018.6	—	650,018.6	—	650,018.6	—
Financial liabilities						
Derivative liabilities	Rs. 56,124.7	Rs. —	Rs. 56,124.7	Rs. 34,782.9	Rs. 378.3	Rs. 20,963.5
Securities sold under repurchase agreements	138,000.0	—	138,000.0	—	138,000.0	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

	As of March 31, 2019						
	Amounts subject to enforceable netting arrangements						
	Effects of offsetting on balance sheet			Related amounts not offset			
	Gross Amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Financial collateral (1)	Net amount	
	(In millions)						
Financial assets							
Derivative assets	Rs. 132,524.1	Rs. —	Rs. 132,524.1	Rs. 104,025.7	Rs. 2,651.7	Rs. 25,846.7	US$ 373.7
Securities purchased under agreements to resell	76,213.5	—	76,213.5	—	76,213.5	—	—
Financial liabilities							
Derivative liabilities	Rs. 128,449.0	Rs. —	Rs. 128,449.0	Rs. 104,025.7	Rs. 3,098.1	Rs. 21,325.2	US$ 308.3
Securities sold under repurchase agreements	174,000.0	—	174,000.0	—	174,000.0	—	—

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/liability balance, and accordingly, do not include excess collateral received/pledged.

Guarantees

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third-party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third-party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the Bank is normally in line with requirements on case-by-case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and currently outstanding ranges from 1 day to 26.6 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

In accordance with FASB ASC 460-10 the Bank has recognized a liability of Rs. 2,825.4 million and Rs. 3,544.4 million as of March 31, 2018 and March 31, 2019, respectively, in respect of guarantees issued or modified. Based on historical trends, in accordance with FASB ASC 450, the Bank has recognized a liability of Rs. 2,545.2 million and Rs. 2,589.5 million as of March 31, 2018 and March 31, 2019, respectively.

Details of guarantees and documentary credits outstanding are set out below:

	As of March 31,		
	2018	2019	2019
		(In millions)	
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs. 237,417.3	Rs. 254,075.9	US$ 3,673.7
Performance guarantees	214,088.3	285,748.4	4,131.7
Documentary credits	395,452.7	475,617.8	6,877.1
Total	Rs. 846,958.3	Rs.1,015,442.1	US$14,682.5
Estimated fair values:			
Guarantees	Rs. (2,825.4)	Rs. (3,544.4)	US$ (51.2)
Documentary credits	(406.1)	(501.7)	(7.3)
Total	Rs. (3,231.5)	Rs. (4,046.1)	US$ (58.5)

As part of its risk management activities, the Bank continuously monitors the credit-worthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss. Margins in the form of cash and fixed deposit available to the Bank to reimburse losses realized under guarantees amounted to Rs. 103.9 billion and Rs. 99.5 billion as of March 31, 2018 and March 31, 2019, respectively. Other property or security may also be available to the Bank to cover losses under these guarantees.

Undrawn commitments

The Bank has outstanding undrawn commitments to provide loans and financing to customers. These commitments aggregated to Rs. 452.0 billion and Rs. 452.9 billion (US$ 6.5 billion) as of March 31, 2018 and March 31, 2019, respectively. Among other things, the making of a loan is subject to a review of the credit-worthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. Further, the Bank has unconditional cancellable commitments aggregating to Rs. 2,738.5 billion and Rs. 3,150.9 billion (US$ 45.6 billion) as of March 31, 2018 and March 31, 2019, respectively.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

25. Estimated fair value of financial instruments

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2018 and March 31, 2019. The estimated fair value amounts as of March 31, 2018 and March 31, 2019 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

A comparison of the fair values and carrying values of financial instruments is set out below:

	As of												
	March 31, 2018					March 31, 2019							
		Estimated Fair Value					Estimated Fair Value						
	Carrying Value	Level 1	Level 2	Level 3	Total	Carrying Value (In millions)	Level 1	Level 2	Level 3	Total	Carrying Value	Estimated Fair Value
Financial Assets:												
Cash and due from banks, and restricted cash	Rs. 574,151.0	Rs. 574,151.0	Rs. —	Rs. —	Rs. 574,151.0	Rs. 734,872.6	Rs. 734,872.6	Rs. —	Rs. —	Rs. 734,872.6	US$ 10,625.7	US$ 10,625.7
Investments held for trading	167,513.9	3,652.4	163,861.5	—	167,513.9	265,516.1	1,999.6	263,516.5	—	265,516.1	3,839.2	3,839.2
Investments available for sale debt securities	2,221,443.3	4,009.7	2,198,899.0	18,534.6	2,221,443.3	2,633,348.4	34,807.2	2,559,728.3	38,812.9	2,633,348.4	38,076.2	38,076.2
Securities purchased under agreements to resell	650,018.6	—	650,018.6	—	650,018.6	76,213.5	—	76,213.5	—	76,213.5	1,102.0	1,102.0
Loans	7,263,671.8	—	2,078,100.0	5,218,275.8	7,296,375.8	8,963,232.6	—	2,593,533.9	6,378,523.8	8,972,057.7	129,601.3	129,729.0
Accrued interest receivable	77,894.7	—	77,894.7	—	77,894.7	93,031.7	—	93,031.7	—	93,031.7	1,345.2	1,345.2
Other assets	248,805.3	559.3	246,590.6	—	247,149.9	344,873.6	2,390.1	340,767.5	—	343,157.6	4,986.6	4,961.8
Financial Liabilities :												
Interest-bearing deposits	6,693,649.3	—	6,716,360.3	—	6,716,360.3	7,804,717.5	—	7,826,794.0	—	7,826,794.0	112,850.2	113,169.4
Non-interest-bearing deposits	1,190,102.2	—	1,190,102.2	—	1,190,102.2	1,420,309.4	—	1,420,309.4	—	1,420,309.4	20,536.6	20,536.6
Securities sold under repurchase agreements	138,000.0	—	138,000.0	—	138,000.0	174,000.0	—	174,000.0	—	174,000.0	2,515.9	2,515.9
Short-term borrowings	779,201.7	—	779,418.7	—	779,418.7	654,058.0	—	655,215.2	—	655,215.2	9,457.2	9,473.9
Accrued interest payable	65,514.4	—	65,514.4	—	65,514.4	79,372.5	—	79,372.5	—	79,372.5	1,147.7	1,147.7
Long-term debt	932,906.3	—	943,813.5	—	943,813.5	1,044,553.0	—	1,061,687.0	—	1,061,687.0	15,103.4	15,351.2
Accrued expenses and other liabilities	301,871.0	—	301,871.0	—	301,871.0	366,071.3	—	366,071.3	—	366,071.3	5,293.1	5,293.1

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

26. Segment information

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in note 2. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and grant loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance, and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank's retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans given to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions. Wholesale banking segment includes unallocated tax balances and other items.

Summarized segment information for the years ended March 31, 2017, March 31, 2018 and March 31, 2019:

	Fiscal year ended March 31,							
	2017				2018			
	Retail Banking	Wholesale Banking	Treasury Services	Total	Retail Banking	Wholesale Banking	Treasury Services	Total
	(In millions)							
Net interest income/(expense) (External)	Rs. 188,803.6	Rs. 159,644.3	Rs. 3,347.7	Rs. 351,795.6	Rs. 279,198.3	Rs. 120,341.3	Rs. 23,611.0	Rs. 423,150.6
Net interest income/(expense) (Internal)	97,969.3	(100,757.5)	2,788.2	—	65,690.2	(48,571.1)	(17,119.1)	—
Net interest revenue	286,772.9	58,886.8	6,135.9	351,795.6	344,888.5	71,770.2	6,491.9	423,150.6
Less: Provision for credit losses	31,341.7	6,609.7	—	37,951.4	52,577.1	6,820.7	—	59,397.8
Net interest revenue, after allowance for credit losses	255,431.2	52,277.1	6,135.9	313,844.2	292,311.4	64,949.5	6,491.9	363,752.8
Non-interest revenue	95,914.4	11,090.1	3,321.6	110,326.1	122,582.6	12,674.1	9,350.3	144,607.0
Non-interest expense	(187,591.4)	(15,352.0)	(1,261.4)	(204,204.8)	(210,257.2)	(19,792.1)	(1,204.1)	(231,253.4)
Income before income tax	Rs. 163,754.2	Rs. 48,015.2	Rs. 8,196.1	Rs. 219,965.5	Rs. 204,636.8	Rs. 57,831.5	Rs. 14,638.1	Rs. 277,106.4
Income tax expense				Rs. 79,224.9				Rs. 98,272.5
Segment assets:								
Segment total assets	Rs. 4,987,187.1	Rs. 3,346,273.0	Rs. 733,520.4	Rs. 9,066,980.5	Rs. 6,351,601.7	Rs. 4,140,606.7	Rs. 875,100.4	Rs. 11,367,308.8

	Fiscal year ended March 31,				
	2019				
	Retail Banking	Wholesale Banking	Treasury Services	Total	Total
	(In millions)				
Net interest income/(expense) (External)	Rs. 336,677.1	Rs. 140,085.0	Rs. 30,743.5	Rs. 507,505.6	US$ 7,338.1
Net interest income/(expense) (Internal)	62,339.1	(43,842.8)	(18,496.3)	—	—
Net interest revenue	399,016.2	96,242.2	12,247.2	507,505.6	7,338.1
Less: Provision for credit losses	64,051.0	8,228.3	—	72,279.3	1,045.1
Net interest revenue, after allowance for credit losses	334,965.2	88,013.9	12,247.2	435,226.3	6,293.0
Non-interest revenue	138,783.0	23,789.6	(2,450.4)	160,122.2	2,315.2
Non-interest expense	(230,726.5)	(22,744.8)	(1,918.2)	(255,389.5)	(3,692.7)
Income before income tax	Rs. 243,021.7	Rs. 89,058.7	Rs. 7,878.6	Rs. 339,959.0	US$ 4,915.5
Income tax expense				Rs. 119,393.5	US$ 1,726.3
Segment assets:					
Segment total assets	Rs. 7,432,733.8	Rs. 4,732,290.7	Rs. 1,115,049.1	Rs. 13,280,073.6	US$ 192,019.7

27. Commitments and contingencies

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 24) are as follows:

Capital commitments

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2018 and March 31, 2019 aggregated Rs. 5,196.7 million and Rs. 5,503.6 million, respectively.

Contingencies

The Bank is party to various legal proceedings in the normal course of business. The Bank estimates the provision for contingencies which majorly include indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank towards indirect taxes and other claims which are not acknowledged as debts as of March 31, 2019 aggregated to Rs. 8,936.3 million (previous year Rs. 8,398.3 million). The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of other legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank's business, financial condition or results of operations.

Lease commitments

The Bank is party to operating leases for certain of its office premises, employee residences and ATMs, with a renewal at the option of the Bank. The Bank has sub-leased certain of its properties taken on lease. The rental expenses and sub-lease income is as follows:

	As of March 31,			
	2017	2018	2019	2019
	(In millions)			
The total minimum lease expense during the year recognized in the consolidated statement of income	Rs. 11,548.5	Rs. 12,311.3	Rs. 12,700.8	US$ 183.6

The future minimum lease payments as of March 31, 2019 were as follows:

Year ending March 31,	Payments	
	(In millions)	
2020	Rs. 10,538.6	US$ 152.4
2021	9,921.4	143.5
2022	9,100.7	131.6
2023	8,137.3	117.7
2024	7,104.2	102.7
Thereafter	41,090.6	594.1
Total	Rs. 85,892.8	US$ 1,242.0

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.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reward points

The movement in provision for credit card and debit card reward points as of March 31, 2018 and March 31, 2019 is as follows:

	As of March 31, 2018	As of March 31, 2019	As of March 31, 2019
	(In millions)		
Opening provision of reward points	Rs. 4,312.4	Rs. 4,711.2	US$ 68.1
Provision made during the year	2,650.9	3,747.3	54.2
Utilization/write back of provision	(2,220.7)	(2,555.9)	(37.0)
Effect of change in rate of accrual of reward points	1.3	91.5	1.3
Effect of change in cost of reward points	(32.7)	36.8	0.5
Closing provision of reward points	Rs. 4,711.2	Rs. 6,030.9	US$ 87.1

28. Related party transactions

The Bank's principal related parties consist of HDFC Limited, its principal owner, subsidiaries of HDFC Limited and affiliates of the Bank. Transactions disclosed under "others" primarily consist of transactions with subsidiaries of HDFC Limited and affiliates of the Bank. The Bank enters into transactions with its related parties, such as providing banking services, sharing costs and service providers, purchasing services, making joint investments, and borrowing from related parties and subletting premises. The Bank is prohibited from making loans to companies with which it has directors in common. The Bank, being an authorized dealer, deals in foreign exchange and derivative transactions with certain parties which include the principal owner and related companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The Bank's related party balances and transactions are in the normal course of business and are summarized as follows:

Balances payable to related parties are as follows:

	As of March 31, 2018			As of March 31, 2019			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
	(In millions)						
Balances in non-interest-bearing deposits	Rs. 21,758.0	Rs. 11,771.8	Rs. 33,529.8	Rs. 32,176.8	Rs. 14,170.1	Rs. 46,346.9	US$ 670.1
Balances in interest-bearing deposits	10,749.7	1,905.0	12,654.7	733.1	1,732.9	2,466.0	35.7
Accrued expenses and other liabilities	327.8	—	327.8	836.4	—	836.4	12.1
Total	Rs. 32,835.5	Rs. 13,676.8	Rs. 46,512.3	Rs. 33,746.3	Rs. 15,903.0	Rs. 49,649.3	US$ 717.9

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Balances receivable from related parties are as follows:

	As of March 31,						
	2018			2019			
	Principal owner	Others	Total	Principal owner	Others	Total	Total
	(In millions)						
Loans	Rs. —	Rs. 55.0	Rs. 55.0	Rs. —	Rs. 33.9	Rs. 33.9	US$ 0.5
Other assets	288.1	2,317.3	2,605.4	310.2	1,474.7	1,784.9	25.8
Total	Rs. 288.1	Rs. 2,372.3	Rs. 2,660.4	Rs. 310.2	Rs. 1,508.6	Rs. 1,818.8	US$26.3

Purchase of property and equipment from related parties for the years ended March 31, 2018 and 2019 were nil. Purchase and sale of investments from Others for the year ended March 31, 2019 were Rs. 6,490.7 million (previous year Rs. 4,565.9 million) and Rs. 22,236.2 million (previous year Rs. 5,099.3 million), respectively. Investments of Others in the Bank's subordinated debt for the fiscal year ended March 31, 2019 were Rs. 250.0 million (previous year Rs. 250.0 million).

Included in the determination of net income are the following significant transactions with related parties:

	Fiscal year ended March 31,									
	2017			2018			2019			
	Principal owner	Others	Total	Principal owner	Others	Total	Principal owner	Others	Total	Total
	(In millions)									
Non-interest revenue-Fees and commissions	Rs. 2,074.5	Rs. 10,356.4	Rs. 12,430.9	Rs. 2,642.7	Rs. 14,913.5	Rs. 17,556.2	Rs. 2,829.7	Rs. 14,558.3	Rs. 17,388.0	US$ 251.4
Interest and Dividend revenue	—	37.2	37.2	132.8	1,396.9	1,529.7	352.0	1,549.7	1,901.7	27.5
Interest expense-Deposits	(55.7)	(117.7)	(173.4)	(59.6)	(115.9)	(175.5)	(54.9)	(138.0)	(192.9)	(2.8)
Non-interest expense-Administrative and other	(3,405.7)	(1,582.2)	(4,987.9)	(4,031.9)	(2,266.8)	(6,298.7)	(4,838.3)	(2,841.7)	(7,680.0)	(111.0)
Non-interest expense-Premises and equipment	(25.3)	(7.7)	(33.0)	(19.8)	(7.6)	(27.4)	(31.2)	(6.1)	(37.3)	(0.5)

Other transactions with the Bank's principal owner are as follows:

During the years ended March 31, 2018 and March 31, 2019, the Bank purchased loans from the principal owner aggregating Rs. 56,239.4 million and Rs. 239,824.2 million, respectively. Dividends paid to the principal owner during the years ended March 31, 2018 and March 31, 2019 were Rs. 4,325.3 million and Rs. 5,111.7 million, respectively. The Bank also enters into foreign exchange and derivative transactions with its principal owner. The notional principal amount and the mark-to-market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2019 was Rs. 58,655.0 million (previous year Rs. 59,721.4 million) and Rs. 143.1 million (previous year Rs. 87.7 million), respectively. During the fiscal year ended March 31, 2019, the Bank subscribed to debt securities of Rs. 6,850.0 million (previous year Rs. 21,050.0 million) issued by the principal owner. During the fiscal year ended March 31, 2019, the Bank issued Guarantees on behalf of its Principal owner and Others for Rs. 3.7 million (previous year Rs. 2.5 million) and for Rs. 1,127.4 million (previous year Rs. 857.4 million), respectively.

For contributions made to provident funds and pension funds set up by the Bank, see note 23 – Retirement benefits.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

29. Earnings per equity share

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of nil were excluded from the calculation of diluted earnings per share for the years ended March 31, 2018 and March 31, 2019, respectively, as these were anti-dilutive.

	As of March 31,		
	2017	2018	2019
Weighted average number of equity shares used in computing basic earnings per equity share	2,544,333,609	2,580,538,505	2,680,034,029
Effect of potential equity shares for stock options outstanding	31,017,917	33,400,121	26,792,948
Weighted average number of equity shares used in computing diluted earnings per equity share	2,575,351,526	2,613,938,626	2,706,826,977

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

	Fiscal years ended March 31,			
	2017	2018	2019	2019
Basic earnings per share	Rs. 55.23	Rs. 69.18	Rs. 82.13	US$1.19
Effect of potential equity shares for stock options outstanding	0.66	0.89	0.82	0.01
Diluted earnings per share	Rs. 54.57	Rs. 68.29	Rs. 81.31	US$1.18
Basic earnings per ADS	Rs.165.69	Rs.207.54	Rs.246.39	US$3.57
Effect of potential equity shares for stock options outstanding	1.98	2.67	2.46	0.03
Diluted earnings per ADS	Rs.163.71	Rs.204.87	Rs.243.93	US$3.54

Dividends

Any dividends declared by the Bank are based on the profit available for distribution as reported in the statutory financial statements of the Bank prepared in accordance with Indian GAAP. Additionally, the Banking Regulation Act and related regulations require the Bank to transfer 25% of its Indian GAAP profit after-tax to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval. As per the RBI guidelines, the dividend payout (excluding dividend tax) for March 31, 2019 cannot exceed 35% of net income of Rs. 210,781.6 million as calculated under Indian GAAP. Accordingly, the net income reported in these financial statements may not be fully distributable in that year. Dividends declared for the years ended March 31, 2017, March 31, 2018 and March 31, 2019 were Rs. 11.0, Rs. 13.0 and Rs. 15.0 per equity share, respectively.

30. Subsidiaries

HDB Financial Services Limited (“HDBFSL”) is a non-deposit taking non-banking finance company and a subsidiary of the Bank. As at March 31, 2019, HDFC Bank Ltd. and its subsidiaries effectively hold 96.1% (previous year 96.4%). The financial statements of HDBFSL are consolidated.

On December 1, 2016, Atlas Documentary Facilitators Company Private Limited (“ADFC”) and its subsidiary HBL Global Private Limited (“HBL”) amalgamated with HDBFSL. ADFC specializes in back office processing and the Bank regularly transacts business with ADFC. As of the date of amalgamation the Bank effectively held 59.0% equity interests of ADFC and consolidated its financial statements. HBL provides direct sales support for certain products of the Bank. As of date of amalgamation ADFC held 98.0% of its equity and the financial statements of HBL were consolidated.

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In terms of the scheme of amalgamation HDBFSL issued 7,540,515 equity shares of Rs. 10 each to ADFC equity shareholders (in the ratio of 16.75 HDBFSL equity shares of Rs. 10 each for every 1 (one) equity share of Rs. 10/- of ADFC) and it also issued 20,470 HDBFSL equity shares of Rs. 10 each to HBL equity shareholders (in the ratio of 102.35 HDBFSL equity shares of Rs. 10 each for every 1 (one) equity share of Rs. 10 of HBL). In terms of the scheme of amalgamation it was agreed that the "effective date" of the amalgamation would be the date or the last of the dates on which the certified copies of the orders passed by the High Court of Judicature at Bombay and the High Court of Judicature at Gujarat, approving the scheme, are filed by each of the Transferor Companies (viz. ADFC and HBL) and the Transferee Company (viz. HDBFSL) with the respective Registrar of Companies (ROC). Accordingly, December 1, 2016 is determined as the "Effective Date" of the Scheme of Amalgamation between ADFC and HBL with HDBFSL being the last of the dates on which the certified copy of the Bombay High Court order approving the Scheme was filed with the ROC by the transferor companies.

The amalgamation did not have a material impact on the Bank's financial condition and results of operation since the financial statements of the three named companies i.e., HDBFSL, ADFC and HBL were hitherto also consolidated by the Bank.

HDFC Securities Ltd. ("HSL") offers trading facilities in a range of equity, fixed income and derivative products to its clients. As at March 31, 2019 the Bank holds a 97.6% (previous year 97.9%) effective equity interest. The financial statements of HSL are consolidated.

31. Investments in Affiliates

The Bank frequently partners with other HDFC group companies when making investments. The Bank currently has one strategic investment in which HDFC group companies are co-investors. Without the prior approval of the RBI, the Bank cannot hold more than a 30% equity stake in another company. The following is a list of investments in affiliates as at March 31, 2019:

Company*	Type of Business	HDFC Bank Limited and Subsidiaries Investment (In millions)	HDFC Bank Limited and Subsidiaries Ownership	Total HDFC Group Ownership
Softcell Technologies Limited ("Softcell")	Business-to-business software services	Rs. 30.3	14.0%	26.0%

* Computer Age Management Services Private Limited ("CAMS") is no longer accounted for under the equity method of accounting. The total HDFC Group Ownership in this strategic investment is 12.5% of which HDFC Bank Limited and Subsidiary Ownership is 6.5%.

* International Asset Reconstruction Company Private Limited ("IARC") is no longer accounted for under the equity method of accounting. The total HDFC Bank Limited Ownership in this investment is 19.2%. There are no investments in this company either by the Bank's subsidiaries or any other group companies.

The holdings in the above-mentioned companies are accounted for under the equity method of accounting. The increase/(decrease) in the carrying value in these companies was Rs. (2.3) million in fiscal March 31, 2019 (previous year Rs. 156.0 million). This is included under non-interest revenue—other, net.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

32. Fair value measurement

FASB Accounting Standards Codification "ASC" 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level of input	Definition
Level 1	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the positions that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for sale debt securities: Available for sale debt securities are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. A reduction in the estimated cash flows of these instruments will adversely impact the value of these securities. A change in the timing of these estimated cash flows will also impact the value of these securities.

Trading securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2018 and March 31, 2019.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Trading account securities	Rs. 167,513.9	Rs. 3,652.4	Rs. 163,861.5	Rs. —
Securities Available-for-Sale	2,221,443.3	4,009.7	2,198,899.0	18,534.6
Equity securities* #	559.3	559.3	—	—
Total	Rs.2,389,516.5	Rs. 8,221.4	Rs. 2,362,760.5	Rs.18,534.6

The following table summarizes investments measured at fair value on a recurring basis as of March 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Trading account securities	Rs. 265,516.1	Rs. 1,999.6	Rs. 263,516.5	Rs. —
Securities Available-for-Sale	2,633,348.4	34,807.2	2,559,728.3	38,812.9
Equity securities* #	11,024.0	2,390.1	8,633.9	—
Total	Rs. 2,909,888.5	Rs. 39,196.9	Rs. 2,831,878.7	Rs. 38,812.9
Total	US$ 42,074.7	US$ 566.7	US$ 40,946.8	US$ 561.2

* Effective April 1, 2018, the Bank adopted ASU 2016-01 (See note 2(w)(ii) to the Consolidated Financial Statements for additional details).

\# Equity securities classified within other assets.

Available-for-Sale securities aggregating to Rs. 0.1 billion and classified as Level 1 as of March 31, 2018 were transferred to Level 2 during fiscal 2019.The following table summarizes, certain additional information about changes in the fair value of Level 3 assets pertaining to instruments carried at fair value for the years ended March 31, 2018 and March 31, 2019:

Particulars	As of March 31, 2018 (in millions)
Beginning balance at April 1, 2017	Rs. 21,899.1
Total gains or losses (realized/unrealized)	
-Included in net income	—
-Included in other comprehensive income	(76.9)
Purchases/additions	13,110.3
Sales	—
Issuances	—
Settlements	(16,397.9)
Transfers in Level 3	—
Transfers out of Level 3	—
Foreign currency translation adjustment	—
Ending balance at March 31, 2018	Rs. 18,534.6
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs —

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Particulars	As of March 31, 2019 (In millions)
Beginning balance at April 1, 2018	Rs. 18,534.6
Total gains or losses (realized/unrealized)	
-Included in net income	—
-Included in other comprehensive income	355.9
Purchases/additions	42,885.7
Sales	—
Issuances	—
Settlements	(22,963.3)
Transfers in Level 3	—
Transfers out of Level 3	—
Foreign currency translation adjustment	—
Ending balance at March 31, 2019	Rs. 38,812.9
Total amount of gains or (losses) included in net income attributable to change in unrealized gains or (losses) relating to assets still held at reporting date	Rs —

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Derivative assets	Rs.50,836.3	Rs. —	Rs. 50,836.3	Rs. —
Derivative liabilities	Rs.56,124.7	Rs. —	Rs. 56,124.7	Rs. —

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Derivative assets	Rs.132,524.1	Rs. —	Rs. 132,524.1	Rs. —
Derivative liabilities	Rs.128,449.0	Rs. —	Rs. 128,449.0	Rs. —

HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

33. Subsequent events

In the meeting of Board of Directors of the Bank held on April 20, 2019, the Board recommended a dividend of Rs. 15.0 per share, which has been subsequently approved by the shareholders for payment in their Annual General Meeting, held on July 12, 2019. The amount of such dividend aggregated to Rs. 40,992.2 million.

By an ordinary resolution on July 12, 2019, the shareholders of the Bank approved a sub division (stock split) of equity shares to reduce the face value of each equity share from Rs. 2.0 to Rs. 1.0 per share. The Board of Directors in their meeting held on July 20, 2019 fixed the record date as September 20, 2019, the effective date.

In the meeting of Board of Directors of the Bank held on July 20, 2019, the Board has declared a special interim dividend of Rs. 5.00 per share to commemorate 25 years of HDFC Bank's operations and fixed the record date as August 2, 2019.

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