

HDFC BANK LTD  
Form 20-F  
September 30, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 20-F**

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended March 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

Commission file number 001-15216

# HDFC BANK LIMITED

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**India**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

**Telephone: 91-22-2490-2934 /or 91-22-2496-1616, Ext. 3473,**

**Email: [sanjay.dongre@hdfcbank.com](mailto:sanjay.dongre@hdfcbank.com),**

**Address: 2nd floor, Process House, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India.**

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

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

**Title of each class**  
**American Depositary Shares, each representing three**

**Name of each exchange on which registered**  
**The New York Stock Exchange**

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

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

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

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

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Equity Shares, as of March 31, 2011 2,326,128,420

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

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

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

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## CROSS REFERENCE SHEET

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**EXCHANGE RATES AND CERTAIN DEFINED TERMS**

In this document, all references to we, us, our, HDFC Bank or the Bank shall mean HDFC Bank Limited or where the context requires also its subsidiaries whose financials are consolidated for accounting purposes. References to the U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to \$ or US\$ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India.

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

References to a particular fiscal year are to our fiscal year ended March 31 of such year.

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

During fiscal 2007 and fiscal 2008 the rupee appreciated against the USD. Strong capital flows ensured that the rupee moved with an upside bias in the period. However, in fiscal year 2009 the trend reversed on account of the sub-prime crisis and global risk aversion that led to a portfolio outflows and ensured that the rupee came under strong pressure in the period. The INR managed to recover somewhat in fiscal 2010 in line with the pickup in the global economy and improvement in global risk appetite. Finally, in fiscal 2011 the rupee was range bound as capital flows just about managed to balance the current account deficit (the high and low during the period was Rs. 47.71 per US\$1 and Rs. 44.11 per US\$ respectively)

The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in The City of New York:

<b>Fiscal Year</b>	<b>Period End<sup>(1)</sup></b>	<b>Average<sup>(1)(2)</sup></b>	<b>High</b>	<b>Low</b>
2007	43.10	45.11	46.83	42.78
2008	40.02	40.13	43.05	38.48
2009	50.87	45.84	51.96	39.73
2010	44.95	47.39	50.48	44.94
2011	44.54	45.49	47.49	43.90

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

(2) Represents the average of the noon buying rate for all days during the period.

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

<b>Month</b>	<b>Period End</b>	<b>Average</b>	<b>High</b>	<b>Low</b>
March 2011	44.54	44.91	45.24	44.54
April 2011	44.24	44.30	44.51	44.00
May 2011	45.04	44.90	45.33	44.27
June 2011	44.59	44.81	45.00	44.59
July 2011	44.20	44.40	44.62	44.03
August 2011	45.79	45.31	46.15	44.06

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Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US\$1.00 = Rs. 44.54 on March 31, 2011. The noon buying rate on September 23, 2011 was Rs. 49.34 per US\$1.00.



**FORWARD-LOOKING STATEMENTS**

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

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

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**BUSINESS****Overview**

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

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2011, we expanded our operations from 535 branches and 1,323 Automated Teller Machines (ATMs) in 228 cities to 1,986 branches and 5,471 ATMs in 996 cities. During the same five years, our customer base grew from 9.6 million customers to 21.9 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 791.0 billion as of March 31, 2006 to Rs. 2,920.2 billion as of March 31, 2011. Our net income has increased from Rs. 9.2 billion for fiscal 2006 to Rs. 41.2 billion for fiscal 2011 at a compounded annual growth rate of 34.9%. Our rapid growth is in part attributable to our acquisition of Centurion Bank of Punjab Limited (CBoP). CBoP was a new generation private sector Indian bank that offered retail, small and medium enterprise and corporate banking products and services, similar to ours. Our shareholders approved the acquisition on March 27, 2008, and it became effective May 23, 2008. As consideration for the acquisition, every 29 equity shares of CBoP were exchanged for one of our equity shares. The primary purpose of the acquisition was to realize potential synergies and growth opportunities. As a result of our acquisition of CBoP, our network increased by 404 branches and 426 ATMs with a geographical spread mainly across areas such as Punjab, Haryana and Kerala. We acquired over two million customers, approximately Rs. 266,834.6 million in assets and assumed approximately Rs. 239,003.1 million in liabilities. The fair value of the net assets we acquired was Rs. 27,831.5 million on the date we acquired CBoP, this resulted in goodwill of Rs. 74,937.9 million. Had the CBoP acquisition taken place at the beginning of fiscals 2008 and 2009, our combined net income would have been Rs. 12,059.5 million and Rs. 14,174.5 million for fiscals 2008 and 2009, respectively (our actual net income was Rs. 13,154.2 million and Rs. 15,104.3 million for fiscals 2008 and 2009, respectively).

Notwithstanding our pace of growth, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2011, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.2% of net customer assets as per Indian Generally Accepted Accounting Principles, or Indian GAAP. In addition, our net customer assets represented 76.7% of our deposits and customer deposits represented 75.2% of our total liabilities and shareholders' equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 52.7% of total deposits for fiscal 2011. These low-cost deposits and the cash float associated with our transactional services, led to an average cost of funds including equity (calculated under Indian GAAP) for fiscal 2011 of 3.8%.

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 and other insurance. HDFC Limited and its subsidiaries owned 23.4% of our outstanding equity shares as of March 31, 2011. Our Chairman and Managing Director were nominated by HDFC Limited and appointed with the approval of our shareholders and the Reserve Bank of India (RBI). Mrs. Renu Karnad, Managing Director of HDFC Limited is a member of our Board of Directors. See also [Principal Shareholders](#). We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited respectively and mutual funds of HDFC Asset Management Company Limited.

We had a cash outflow of approximately Rs. 6.9 billion, Rs. 6.0 billion and Rs. 5.8 billion in fiscals 2009, 2010 and 2011, respectively, principally for property, plant and equipment, including our branch network expansion and our technology and communications infrastructure. We have current plans for aggregate capital expenditures of approximately Rs. 15.1 billion in fiscal 2012. This budgeted amount includes Rs. 3.8 billion to expand our branch and back office network, Rs. 1.0 billion to expand our ATM network, Rs. 0.7 billion to expand our Electronic Data Capture terminal network and Rs. 9.7 billion to upgrade and expand our hardware, data center, network and other systems. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

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

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States for the 2007 ADS offering is Depositary Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022 and that for the 2001, 2005 ADS offerings and Patriot Act information gathering is CT Corporation, 111 Eighth Avenue, New York, NY 10011.

### **Our Competitive Strengths**

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

#### ***We are a leader among Indian banks in our use of technology***

Since our inception, we have made substantial investments in our technology platform and systems, built multiple distribution channels, including an electronically linked branch network, automated telephone banking, internet banking and banking through mobile phones, to offer our customers convenient access to various products. We have implemented ambitious IT-based governance, risk and compliance frameworks based on best practices, standards and other regulatory requirements and have received an International Organization for Standardization ISO27001 certification for all our data centers.

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

We have implemented a malware scanning solution to monitor major customer facing websites through external scanning engines thereby making the websites more secure and fraud-proof. Implementation of a risk management engine for internet transactions has reduced the phishing and man in the middle attacks significantly. We have also implemented a digital certificates based security engine for corporate internet banking customers thereby making their transactions highly secure. Credit and debit cards usage of our customers is secured by powerful proactive risk manager technology solutions which sends rules based SMS alerts as well as prompts customer service representatives to call the customer on detecting abnormal usage behavior. This prevents frauds and minimizes losses to customers, if the card has been stolen and yet to be hot listed.

To ensure the availability of systems round the clock for our customers, we have implemented tools to manage and optimize ever-increasing network traffic. We have also implemented best practices for our datacenters and have optimized energy costs involved in various facets of IT Infrastructure by adopting server and storage virtualization technologies. We have modernized our credit card platform and have introduced latest technology to achieve scalability and competitiveness. The operational efficiency of our retail assets business has been improved by the introduction of imaging technologies. New areas like mobile banking, mobile trading and retail loans via the internet portal and online Initial Public Offering (IPO) application has opened increasing transaction avenues for retail customers and made their lives simpler and more convenient.

Sophisticated automated switch-over and switch-back solutions power our disaster recovery management strategy for key core banking solutions in our data center, improving availability of our services to our customers. With the various initiatives that we have taken using technology, we have been successful in driving the development of innovative product features, reducing operating costs, enhancing customer service delivery and minimizing inherent risks.

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

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

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

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

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

Whether in retail or wholesale banking, we consider ourselves a one-stop shop for our customers' banking needs. Our retail banking products range from almost all kinds of retail loans, deposit products and other products and services such as private banking, depositary accounts, foreign exchange services, distribution of third party products such as insurance and mutual funds, bill payments and sale of precious metals such as gold and silver. In addition we offer our customers broking accounts through our subsidiary HSL. On the wholesale banking side we offer customers working capital loans, term loans, bill collections, letters of credit and guarantees and forex and derivative products. In addition we offer a wide range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We collect taxes for the government and are bankers to issues of equity shares and bonds to the public by corporates. Our wide range of products creates multiple cross-selling opportunities for us and improves our customer retention rates.

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

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

**Our Business Strategy**

Our business strategy emphasizes the following elements:

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

In addition to benefiting from the overall growth in India's economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths. We also aim to increase geographic and market penetration by expanding our branch and ATM networks and increasing our efforts to cross-sell our products.

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

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our ratio of gross non-performing assets to customer assets was 1.0% as of March 31, 2011 and our net non-performing assets amounted to 0.2% of net customer assets as per Indian GAAP. Additionally, we have restructured the payment terms of certain loans. As of March 31, 2011, these represented 0.2% of our gross customer assets. We believe we can maintain strong asset quality appropriate to the loan portfolio composition, while achieving growth.

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

As of March 31, 2011, our average cost of funds (including equity) was 3.8% as per Indian GAAP. We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging on our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing.

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

Our aggregate earnings have grown at a compounded average rate of 34.9% during the five-year period ending March 31, 2011. We intend to maintain our focus on steady earnings growth through conservative risk management techniques and low-cost funding. In addition, we aim not to rely heavily on volatile streams of income such as those from trading and other big ticket fees (such as those from investment banking) so as to maintain a steady earnings growth.

## Our Principal Business Activities

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

	2009		Year ended March 31, 2010 (in millions, except percentages)				2011	
	Retail banking	Rs. 67,089.8	77.9%	Rs. 84,685.7	80.1%	Rs. 122,321.0	US\$ 2,746.3	84.0%
Wholesale banking	15,151.9	17.6%	14,125.6	13.4%	21,151.9	474.9	14.5%	
Treasury operations	3,848.3	4.5%	6,825.8	6.5%	2,122.9	47.7	1.5%	
Net revenue	Rs. 86,090.0	100%	Rs. 105,637.1	100%	Rs. 145,595.8	US\$ 3,268.9	100%	

## Retail Banking

### Overview

We consider ourselves a one-stop shop for the financial needs of upper and middle income individuals. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes, which together account for slightly more than a third of our total retail banking loans. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business.

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

As of March 31, 2011, we had 1,986 branches and 5,471 ATMs in 996 cities. We also provide telephone banking, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to receiving regulatory approvals.

### Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans, credit cards and loans against securities. Our retail loans were 59.4% of our gross loans as of March 31, 2011. Apart from our branches, we use our ATM screens and the internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analyses of the borrowers and the value of the collateral. See Risk Management Credit Risk Retail Credit Risk . We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain instructions to debit the customer's account directly for the making of payments. However, unsecured personal loans are still a greater credit risk for us than our secured loan portfolio because they are not supported by any collateral. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher loan yield since they carry a higher credit risk as compared to secured loans. Also see Risk Factors Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance .

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

	At March 31, 2011 Value (in millions)		% of Total Value
<b>Retail Loans:</b>			
Auto loans	Rs. 257,670.2	US\$ 5,785.1	26.1%
Personal loans / Credit Cards	158,283.2	3,553.7	16.1%
Retail business banking	207,975.5	4,669.4	21.1%
Other Retail Loans	356,215.7	7,997.8	36.1%
Total retail loans	980,144.6	22,006.0	99.4%
Mortgage-backed securities	4,830.5	108.5	0.5%
Asset-backed securities	843.3	18.9	0.1%
<b>Total retail assets</b>	<b>Rs. 985,818.4</b>	<b>US\$ 22,133.4</b>	<b>100.0%</b>

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

#### *Auto Loans*

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

#### *Personal Loans / Credit Cards*

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

We also offer credit cards from the VISA and MasterCard stable, including gold, silver, corporate, platinum, titanium, signature, infinite, regalia, superia and world credit cards. We had approximately 5.1 million cards outstanding as of March 31, 2011, as against 4.5 million as of March 31, 2010.

#### *Retail Business Banking*

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

#### *Other Retail Loans*

##### *Commercial Vehicles and Construction Equipment Finance*

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

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### *Two-Wheeler Loans*

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

### *Loans Against Securities*

We offer loans against equity shares, mutual fund units, bonds issued by the RBI and other securities that are on our approved list. We limit our loans against equity shares to Rs. 2.0 million per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first-priority security interests. The minimum margin for lending against shares is prescribed by the RBI.

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



*Mortgage-backed Securities and Housing Loans*

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

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

After the merger of CBoP with HDFC Bank, the CBoP portfolio of home loans was transferred to HDFC Bank's loan book.

*Asset-backed Securities*

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

*Loan Assignments*

We purchase loan portfolios, generally in India, from other banks, financial institutions and financial companies, which are similar to asset-backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations. Such loans are included within the categories described above based on underlying exposures.

*Sale/Transfer of Receivables*

We enter into assignment transactions from time to time, which are similar to asset-backed securitization transactions through the special purpose entity (SPE) route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. We also securitize our retail loan receivables through independent SPEs. In respect of these transactions, we provide credit enhancements generally in the form of cash collateral/guarantees/interest spreads and/or by subordination of cash flows to senior PTCs. In fiscal 2010 and 2011 we did not sell any performing loans.

## 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 67.1% of our total deposits as of March 31, 2011 as per Indian GAAP. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

	At March 31, 2011				
	Value (in millions)		% of total	Number of accounts (in thousands)	% of total
Savings	Rs. 613,560.6	US\$ 13,775.5	43.8%	13,337	76.6%
Current	225,859.2	5,070.9	16.1%	1,547	8.9%
Time	560,192.3	12,577.3	40.1%	2,534	14.5%
Total	Rs. 1,399,612.1	US\$ 31,423.7	100.0%	17,418	100.0%

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

Savings accounts, which are demand deposits in checking accounts designed primarily for individuals and trusts. These accrue interest at a fixed rate set by the RBI (the rate of interest calculated on the daily average balances in the account was revised from 3.5% per annum to 4.0% per annum with effect from May 3, 2011); see also *Supervision and Regulation* .

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

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

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

## Other Retail Services and Products

### *Debit Cards*

We have 1.2 million debit cards which can be used at ATMs and Point of Sales in India and in other countries across the world.

### *Individual Depository Accounts*

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

### *Mutual Fund Sales*

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

*Insurance*

We have arrangements with HDFC Standard Life Insurance Company and HDFC ERGO General Insurance Company Limited to distribute their life insurance and general insurance products respectively, to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years in some cases while the policy is still in force.

### ***Precious Metals***

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

### ***Investment Advice***

We offer our customers a broad range of investment advice, including advice regarding the purchase of Indian debt, equity shares and mutual funds. We provide our high net worth private banking customers with a personal investment advisor who can consult with them on their individual investment needs.

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

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

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

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees' individual accounts and offer them preferred services, such as preferential loan rates and in some cases lower minimum balance requirements. As of March 31, 2011, these accounts constituted approximately 52.9% of our total retail savings accounts by number and approximately 31.3% of our retail savings deposits by value.

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

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs. 112.8 billion as of March 31, 2011.

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

We purchase foreign currency from and sell foreign currency to retail customers in the form of cash, traveler's checks, demand drafts, foreign exchange cards and other remittances, including services offered in partnership with third parties, such as Western Union. We also carry out foreign currency check collections.

### ***Customers and Marketing***

Our target market for our retail services is comprised of upper and middle income individuals and high net worth customers. We also target small businesses, trusts and non-profit corporations. As of March 31, 2011, around 13% of our retail deposit customers contributed approximately 68% of our retail deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

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

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

## **Wholesale Banking**

### ***Overview***

We provide our corporate and institutional clients a wide array of commercial banking products and transactional services with an emphasis on high quality customer service and relationship management.

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

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

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

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

### ***Commercial Banking Products***

#### ***Commercial Loan Products and Credit Substitutes***

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

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

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

	2009	As of March 31,		2011	2011
		2010	(in millions)		
<b>Gross commercial loans:</b>					
Working capital	Rs. 154,054.9	Rs. 228,276.2	Rs. 295,123.0		US\$ 6,626.0
Term loans	236,597.1	359,680.6	373,482.7		8,385.3
<b>Total commercial loans</b>	<b>Rs. 390,652.0</b>	<b>Rs. 587,956.8</b>	<b>Rs. 668,605.7</b>		<b>US\$ 15,011.3</b>
<b>Credit substitutes:</b>					
Commercial paper	Rs. 961.1	Rs. 197.1	Rs. 11,906.8		US\$ 267.3
Non-convertible debentures	3,262.1	2,279.2	2,584.3		58.0
Preference shares	29.1				
<b>Total credit substitutes</b>	<b>Rs. 4,252.3</b>	<b>Rs. 2,476.3</b>	<b>Rs. 14,491.1</b>		<b>US\$ 325.3</b>
<b>Customer assets</b>	<b>Rs. 394,904.3</b>	<b>Rs. 590,433.1</b>	<b>Rs. 683,096.8</b>		<b>US\$ 15,336.6</b>

While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of March 31, 2011, approximately 72.4% of the aggregate principal amount of our gross wholesale loans was secured by collateral (approximately Rs. 184.8 billion in aggregate principal amount of loans were unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See [Risk Management](#) [Credit Risk](#) [Wholesale Credit Risk](#) .

We price our loans based on a combination of our own cost of funds, market rates, our rating of the customer and the overall revenues from the customer. An individual loan is priced on a fixed or floating rate, the pricing is based on a margin that depends on the credit assessment of the borrower.

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see [Supervision and Regulation](#) [Regulations Relating to Making Loans](#) [Directed Lending](#) .

### *Bill Collection, Documentary Credits and Bank Guarantees*

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

	2009	As of March 31,		2011	2011
		2010	(in millions)		
Bill collection	Rs. 971,231.8	Rs. 1,876,968.0	Rs. 1,968,026.5		US\$ 44,185.6
Documentary credits	357,541.3	319,658.0	429,856.9		9,651.0
Bank guarantees	65,200.6	88,439.1	133,783.9		3,003.7
<b>Total</b>	<b>Rs. 1,393,973.7</b>	<b>Rs. 2,285,065.1</b>	<b>Rs. 2,531,667.3</b>		<b>US\$ 56,840.3</b>

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

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

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

*Foreign Exchange and Derivatives*

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

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. 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 the settlement date, for a specified period from the start date to the maturity date. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2009, 2010 and 2011, together with the fair values on each reporting date:

	2009		2010		2011		2011	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Interest rate swaps and forward rate agreements	Rs. 135,612.0	Rs. (3,059.6)	Rs. 191,878.3	Rs. (1,462.7)	Rs. 168,279.9	Rs. 500.0	US\$ 3,778.2	US\$ 11.2
Forward exchange contracts, currency swaps, currency options and interest rate caps and floors	Rs. 354,385.6	Rs. 20,657.0	Rs. 420,632.2	Rs. 1,565.9	Rs. 454,323.6	Rs. 1,138.4	US\$ 10,200.3	US\$ 25.6
<i>Investment banking</i>								

Under our investment banking services, we currently focus on providing debt and loan syndication as well as private placements as an added offering for our wholesale banking customers.

*Precious Metals*

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

*Wholesale Deposit Products*

As of March 31, 2011, we had wholesale deposits totaling Rs. 686.3 billion, which represented 32.9% of our total deposits as per Indian GAAP. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 1.5 million) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity. See Selected Statistical Information for further information about our total deposits.

**Transactional Services***Cash Management Services*



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We provide cash management services in India. We were among the top three banks in India with respect to managing National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) payments based on statistics published by RBI. Our services make it easier for our corporate customers to expedite inter-city check collections, make payments to their suppliers more efficiently, optimize liquidity and reduce interest costs. In addition to benefiting from the cash float, which reduces our overall cost of funds, we may also earn commissions for these services.

Our primary cash management service is check collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payment system in India, and checks must generally be returned to the city from which written, in order to be cleared. Because of mail delivery delays and the variations in city-based inter-bank clearing practices, check collections can be slow and unpredictable, and can lead to uncertainty and inefficiencies in cash management. We believe, we have a strong position in this area relative to most other participants in this market. Although the public sector banks have extensive branch networks, many of their branches typically are still not electronically linked. The foreign banks are restricted in their ability to expand their branch network.

As of March 31, 2011, over 5,400 wholesale banking clients used our cash management services. These clients include leading Indian private sector companies, public sector undertakings and multinational companies. We also provide these services to most Indian insurance companies, many mutual funds, brokers, financial institutions and various government entities.

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

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

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

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

#### ***Custodial Services***

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

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

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

We are well positioned to offer this service to co-operative banks and foreign banks in light of the structure of the Indian banking industry and our position within it. Co-operative banks are generally restricted to a particular state and foreign banks have limited branch networks. The customers of these banks frequently need services in other areas of the country that their own banks cannot provide. Because of our technology platforms, geographical reach and the electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers. By contrast, although the public sector banks have extensive branch networks and also provide correspondent banking services, many of them have not yet created electronically connected networks and their branches typically operate independently of one another.

**Tax Collections**

We were the first private sector bank to be appointed by the government of India to collect direct taxes. In fiscal 2011, we collected Rs. 989 billion of direct taxes for the government of India. We are also appointed to collect sales, excise and service tax within certain jurisdictions in India. In fiscal 2011, we collected over Rs. 300 billion of such indirect taxes for the government of India and relevant state governments. We earn a fee from each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

**Treasury**

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

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

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

**Foreign Exchange and Derivatives**

We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants, similar to our Wholesale Banking business, where we enter into such transactions with our customers. To support our clients' activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We also engage in proprietary trades of rupee-based interest rate swaps and use them as part of our asset liability management. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. 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 the settlement date, for a specified period from the start date to the maturity date. 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 following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2009, 2010 and 2011, together with the fair values on each reporting date:

	2009		2010		2011		2011	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Interest rate swaps and forward rate agreements	Rs. 1,241,193.2	Rs. 791.0	Rs. 1,830,447.4	Rs. (98.0)	Rs. 1,877,858.9	Rs. (2,449.3)	US\$ 42,161.2	US\$ (55.0)
Forward exchange contracts, currency swaps, currency options and interest rate	Rs. 2,141,088.9	Rs. (11,876.2)	Rs. 2,260,135.8	Rs. 2,597.9	Rs. 2,946,160.8	Rs. 2,002.7	US\$ 66,146.4	US\$ 45.00

caps and  
floors

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

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

### ***Equities Market***

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2011, we had an internal approved limit of Rs. 400 million for secondary market purchases and Rs. 100 million for primary purchases of equity investments for proprietary trading and our exposure as of March 31, 2011 was within the said limits. We set limits on the amount invested in any individual company as well as stop-loss limits.

### ***Distribution Channels***

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

### ***Branches***

As of March 31, 2011, we had an aggregate of 1,986 branches covering 996 cities. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

Almost all of our branches focus exclusively on providing retail services and products, though a few also provide wholesale banking services. The range of products and services available at each branch depends in part on the size and location of the branch.

As part of its branch licensing conditions, the RBI requires that at least 25% of our branches (not including extension counters) be located in semi-urban or rural areas. Additionally 25% of all incremental branches added during the year must be located in unbanked areas. A semi-urban area is defined as a center with a population of greater than 10,000 but less than 100,000 people. A rural area is defined as a center with a population of less than 10,000 people. These population figures relate to the 2001 census conducted by the government of India. As of March 31, 2011, 793 of our branches (not including extension counters) were in such semi-urban or rural areas. Recently the RBI has given a general permission to Scheduled Commercial Banks to open branches in locations having a population lower than 50,000 and in the case of the north eastern states of India including the state of Sikkim without having the need to obtain prior approvals. The banks are directed to report full details of the branches opened in terms of the above general permission. We offer various banking services to our customers through our arrangements with correspondent banks and exchange houses in overseas locations.

We have representative offices in the United Arab Emirates and Kenya and have a wholesale banking branch in Bahrain which commenced operations in September 2008. We have a full service banking branch in Hong Kong which commenced its operation in October 2010. Through this branch, we provide services to Indian corporates and their affiliates to cater to their international banking requirements, as well as to retail customers.

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

As of March 31, 2011, we had a total of 5,471 ATMs, of which 2,749 were located at our branches or extension counters and 2,722 were located off site, including at large residential developments, or on major roads in metropolitan areas.

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

### ***Telephone Banking***

We provide telephone banking services to our customers in 996 cities. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, conduct balance inquiries and order stop payments on checks. In select cities, customers can also engage in financial transactions (such as cash transfers, opening deposits and ordering demand drafts). In certain cities, we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers.

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

Using our mobile banking platform, customers can perform enquiry based non-financial transactions such as balance enquiries, requests for account statements and requests for mini-statements of their transactions etc. We offer our customers the ability to carry out financial transactions from their mobile phone using *ngpay*. Customers can carry out financial transactions, such as transferring funds within and outside the Bank and mobile commerce using their HDFC Bank account by downloading this application on their mobile phones.

### ***Internet Banking***

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

### **Risk Management**

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

### ***Credit Risk***

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

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

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

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

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

We have in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/impaired based on a rating scale of 1 to 10 (1 indicating the best and 10 the worst). We have specific models applicable to each significant segment of wholesale credit (e.g. large corporate, SME manufacturing, SME Services and NBFCs). Each model assesses the overall risk over four major categories industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

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

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

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

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

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

c) *Risk grading*: We do not assume any incremental exposures on borrowers with an internal risk rating of 7 or worse, except on a highly secured basis or as part of a rehabilitation/restructuring plan. Further, we have set quantitative ceilings on aggregate funded plus non-funded exposure (excluding retail assets) specific to each risk rating category.

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

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

The RBI restricts us from lending to companies with which we have any directors in common. Also, the RBI directs a portion of our lending to certain specified sectors (Priority Sector Lending). See Supervision and Regulation Regulations Relating to Making Loans Directed Lending .

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

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

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

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

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

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

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

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

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

Our retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities) in most cases we obtain direct debit instructions or post-dated checks from the customer. It is a criminal offence in India to issue a bad check.

### ***Market Risk***

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

The market variables which affect the valuation of these instruments typically include interest rates, equity prices, commodity prices, exchange rates and volatilities. Any change in the relevant market risk variable has an adverse or favorable impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earning from the upside potential, there is always a possibility of downside risk. Thus, we have to constantly review the positions to ensure that the risk on account of such positions is within our overall risk appetite. Our risk appetite is set through a pre-approved treasury limit, counterparty exposure limit and Asset Liability Management (ALM) limit. The process for monitoring and review of risk exposure is outlined in the risk procedure manual and policies.



Our Board of Directors reviews and approves the policies for the management of market risks by way of risk limits. The risk monitoring committee of the Board of Directors approves market risk policies and procedures and reviews market risk limits of various operating levels. The Board of Directors has delegated the responsibility for ongoing balance sheet market risk management to the asset liability committee. This committee, which is chaired by the Managing Director and includes the heads of the business groups, meets every other week and more often when conditions require. The committee reviews the product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view and decides on future business strategy with respect to interest rates. It reviews and sets funding policy and also reviews developments in the markets and the economy and their impact on the balance sheet and business. Finally, it ensures adherence to ALM market risk limits and decides on the inter-segment transfer pricing policy. The market risk department specifies the risk valuation methodology of various treasury products, formulates procedures for portfolio risk valuation, assesses market risk factors and recommends various market risk controls for various treasury desks. The treasury mid-office is responsible for reporting market risks arising from the treasury desks.

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

The following briefly describes our policies and procedures with respect to asset liability management, liquidity risk, price risk and other risks, such as foreign exchange and equities risks.

#### *Asset Liability Management*

We fund core customer assets, consisting of loans and credit substitutes, with core customer liabilities, consisting principally of deposits. We also transact in the inter-bank market mainly for management of short-term liquidity mismatches.

We maintain a substantial portfolio of liquid, high-quality Indian Government Securities. On a regular basis, we prepare a structural liquidity report in order to analyze our liquidity position. The same is submitted to the RBI on a monthly basis.

We have adopted the gap analysis method to measure interest rate risk. The gap or mismatch risk is measured by calculating gaps over different time intervals as on a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets. An asset or liability is classified as rate sensitive if:

- 1) Within the time interval under consideration, there is a cash flow
- 2) The interest rate resets or reprocesses contractually during the interval
- 3) The RBI changes the interest rates in cases where interest rates are administered
- 4) It is contractually pre-payable or withdrawable before the stated maturity

The interest rate gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. If the Bank has a positive gap ( $RSA > RSL$ ), then it will benefit from rising interest rates. If the Bank has a negative gap ( $RSA < RSL$ ), then it will benefit from declining interest rates. Thus the gap is used as a measure of interest rate sensitivity.

We have set a cumulative gap limit which is obtained by adding individual time bucket-wise gaps in the interest rate sensitive assets and interest rate sensitive liabilities.

The Asset and Liability Committee (ALCO) is responsible for ensuring adherence to the limits set by the Board of Directors for liquidity and Interest Rate Risk. The treasury group is responsible for providing market related inputs, i.e. interest rate, liquidity, and exchange rate scenarios to the ALCO. The treasury group is also responsible for implementing the asset and liability strategies as decided by the ALCO.

Our ALCO addresses the two principal aspects of our asset liability management program as follows:

First, the ALCO monitors the liquidity gap and, at the corporate level, recommends appropriate financing or asset deployment strategies depending on whether the gap is a net asset position or a net liability position, respectively. Operationally, in the short-term, our treasury group implements these recommendations through transactions in the money market.

Second, the ALCO monitors our interest rate gap and, at the corporate level, recommends re-pricing of our asset or liability portfolios. Operationally, in the short-term, our treasury group implements these recommendations by entering into transactions in the money market and interest rate swaps market.

In the longer term, our wholesale banking and retail banking groups implement these recommendations through changes in the interest rates offered by us for different time period categories to either attract or discourage deposits and loans in those time period categories. See Selected Statistical Information for information on our asset-liability gap and the sensitivity of our assets and liabilities to changes in interest rates.

#### *Liquidity Risk*

The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitments and to capitalize on opportunities for business expansion. This includes our ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the treasury group under the direction of the ALCO. The treasury group is responsible for ensuring that we have adequate liquidity, ensuring that our funding mix is appropriate so as to avoid maturity mismatches and price and reinvestment rate risk in case of a maturity gap, and monitoring local markets for the adequacy of funding liquidity.

#### *Price Risk*

Price risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates and exchange rates. Our treasury group is responsible for implementing the price risk management process within the limits approved by the Board of Directors. We measure price risk through a three-stage process, the first part of which is to estimate the sensitivity of the value of a position to changes in market factors to which our business is exposed. We then estimate the volatility of market factors. Finally, we aggregate portfolio risk. We manage price risk principally by establishing limits for our money market activities, foreign exchange activities, interest rate and equities and derivatives activities. In addition, certain limits are also prescribed by the RBI.

We monitor and manage our exchange rate risk through a variety of limits on our foreign exchange activities. The RBI also limits the extent to which we can deviate from a near square position at the end of the day (where sales and purchases of each currency are matched). Our own policies set limits on maximum open positions in any currency during the course of the day as well as on overnight positions. We also have gap limits that address the matching of forward positions in various maturities and for different currencies. In addition, the RBI approves the aggregate gap limit for us. This limit is applied to all currencies. We also have stop-loss limits that require our traders to realize and restrict losses. We evaluate our risk on foreign exchange positions on a daily basis using a value-at-risk model.

We impose position limits on our trading portfolio of marketable securities. These limits, which vary by tenor, restrict the holding of marketable securities of all kinds depending on our expectations about the yield curve. We also impose trading limits such as value-at-risk and stop-loss limits.

Our derivatives risk is managed by the fact that we do not enter into or maintain unmatched positions with respect to non-rupee-based derivatives. Our proprietary derivatives trading is primarily limited to rupee-based interest rate swaps and rupee currency options. We impose trading limits, such as value-at-risk and stop-loss limits.

The day-to-day monitoring and reporting of market risk and counterparty risk limits is carried out independently by the treasury mid-office department. The treasury mid-office department is independent of the treasury group and has a reporting line to the head of credit and market risk.



### ***Operational Risk***

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

#### *Strategies*

Our Operational Risk Framework has been developed and independently reviewed by our risk and control teams. Key steps towards effective operational risk management include identification, assessment, review, control and reporting of key operational risks.

#### *Process and Measurement*

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

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

#### *Risk Reporting*

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

#### *Mitigating*

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

#### *Operational Risk Capital*

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

### **Competition**

We face strong competition in all of our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions.

#### ***Retail Banking***

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

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



### **Wholesale Banking**

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

### **Treasury**

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

### **Employees**

The number of our employees has increased to 55,752 as of March 31, 2011 as compared to 51,888 as of March 31, 2010. Most of our employees are located in India. We consider our relations with our employees to be good. On acquisition, a few employees of CBoP continue to be part of a labor union. These employees represent less than 1% of our total employee strength.

We use incentives in structuring compensation packages and have established a performance-based bonus scheme under which permanent employees have a variable pay component of their salary.

In addition to basic compensation, employees are eligible to participate in our provident fund and other employee benefit plans. The provident fund, to which both we and our employees contribute, is a savings scheme, required by government regulation, under which the fund is required to pay to employees a minimum annual return, which at present is 9.5%. If the return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the fund. We have also set up a superannuation fund to which we contribute defined amounts. We also contribute specified amounts to a pension fund in respect of certain of our erstwhile CBoP employees. In addition, we contribute specified amounts to a gratuity fund set up pursuant to Indian statutory requirements.

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

### **Properties**

Our registered office and corporate headquarters is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. In addition to the corporate office, we have administrative offices in most of the metros and some other major cities in India.

As of March 31, 2011, we had a network consisting of 1,986 branches and 5,471 ATMs, including 2,722 at non-branch locations. These facilities are located throughout India with the exception of two branches which are located in Bahrain and Hong Kong.

### **Legal Proceedings**

We are involved in a number of legal proceedings in the ordinary course of our business. However, we are currently not a party to any proceedings which, if adversely determined, might have a material adverse effect on our financial condition or results of operations.

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## RISK FACTORS

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

### Risks Relating to our Business

*If we are unable to manage our rapid growth, in particular our growth as a result of the merger with CBoP, our operations may suffer and our performance may decline.*

Our asset growth rate has been significantly higher than India's gross domestic product ( GDP ) growth rate as well as the growth rate of the Indian banking industry over the last three fiscal years. For example, our total advances in the three-year period ended March 31, 2011 grew at a compounded annual growth rate of about 31%, as against slightly over 14% for the Indian Banking Industry. This growth rate is partially attributable to our acquisition of CBoP in May 2008. See Business Overview .

Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls such as:

recruiting, training and retaining sufficient skilled personnel;

upgrading and expanding our technology platform;

developing and improving our products and delivery channels;

preserving our asset quality as our geographical presence increases and customer profile changes;

complying with regulatory requirements such as the Know Your Customer ( KYC ) norms; and

maintaining high levels of customer satisfaction.

The growth in our business is partly attributable to the expansion of our branch network. As at March 31, 2008, we had a branch network comprised of 761 branches, which increased to 1,986 as at March 31, 2011. We need to seek permission from the RBI before we can open a branch in a Tier I or Tier II locations (i.e. those with populations greater than 50,000). This permission, among other factors, is dependent on the number of branches that we have opened in un-banked areas of the country as well as in centers with a population below 50,000. Additionally, the RBI considers our performance in the areas of priority sector lending and financial inclusion. If we are unable to perform in a manner satisfactory to the RBI in any of the above areas, it may have an impact on the number of branches we will be able to open and would in turn have an impact on our future growth.

If we fail to properly manage our rapid growth, our operations would suffer and our performance as a whole would be materially adversely affected.

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

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2011, net interest revenue after allowances for credit losses represented 67.8% of our net revenue. Changes in market interest rates affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. An increase in interest rates could result in an increase in interest expense relative to interest revenue if we are not able to increase the rates charged on our loans, which would lead to a reduction in our net interest revenue and net interest margin. Further, an increase in interest rates could negatively affect demand for our loans and credit substitutes. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to 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

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our assets and liabilities may also be different, especially since a portion of our deposits are at rates of interest regulated by the RBI.

Interest rates in India have been gradually rising since the third quarter of fiscal 2011 and continue to rise. There is a possibility that they will rise further due to many factors beyond our control, including the monetary policies of central banks such as the RBI, deregulation of the financial sector, domestic and international inflation, economic and political conditions and other factors. Yields on the Indian government's ten-year bonds were 7.0%, 7.9% and 8.0% as of March 31, 2009, 2010 and 2011 respectively. If interest rates increase and demand for loans is negatively affected, we may not be able to achieve our volume growth, which would adversely affect our net income. Any volatility in interest rates could adversely affect our net income. See Selected Statistical Information Analysis of Changes in Interest Revenue and Interest Expense: Volume and Rate and Selected Statistical Information Yields, Spreads and Margins .



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

Our gross non-performing loans and impaired credit substitutes as per Indian GAAP represented 1.0% of our gross customer assets as of March 31, 2011. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.2% of our net customer assets portfolio as of March 31, 2011. Additionally, we have restructured the payment terms of certain loans. As on March 31, 2011 these represented 0.2% of our gross customer assets. Our management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, remedial management and overall architecture for managing credit risk. In the case of our secured loan portfolio, the frequency of the valuation of collateral may vary based on the nature of the loan and the type of collateral. A decline in the value of collateral or an inappropriate collateral valuation increases the risk in the secured loan portfolio because of inadequate coverage of collateral. We had taken some collateral for approximately 75% of our loan book as of March 31, 2011. Our risk mitigation and risk monitoring techniques may not be accurate or appropriately implemented and we may not be able to anticipate future economic and financial events, leading to an increase in our non-performing loans. See note 11 Loans, in our consolidated financial statements .

Provisions are created by a charge to expense, and represent our estimate for loan losses and risks inherent in the credit portfolio. See Selected Statistical Information Non-Performing Loans . The determination of an appropriate level of loan losses and provisions required inherently involves a degree of subjectivity and requires that we make estimates of current credit risks and future trends, all of which may undergo material changes. Our provisions may not be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a relatively young bank operating in a growing economy and we have yet not experienced a significant and prolonged downturn in the economy.

A number of factors outside of our control affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, domestic or global turmoil, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to regulations requiring us to lend to certain sectors identified by the RBI, or the government of India. These factors coupled with other factors such as volatility in commodity markets and declining business and consumer confidence and decreases in business and consumer spending could impact the operations of our customers and in turn impact their ability to fulfill their obligations towards the loans granted to them by us. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. If our non-performing loans increase, we will be required to increase our provisions, which would result in our net income being less than it otherwise would be and would adversely affect our financial condition.

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

We calculate customer and industry exposure (i.e. the loss we will incur due to the downfall of a customer or an industry) in accordance with the policies established by Indian GAAP and the RBI. In the case of customer exposures, we aggregate the higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds, deposit certificates issued by banks and equity shares). As of March 31, 2011, our largest single customer exposure was Rs. 65.0 billion, representing 22.5% of our capital funds valuation, and our ten largest customer exposures totaled Rs. 326.5 billion, representing 112.8% of our capital funds valuation, in each case as per RBI guidelines based on Indian GAAP figures. None of our ten largest customer exposures were classified as non-performing as on March 31, 2011. However, if any of our ten largest customer exposures were to become non-performing, our net income would decline and, due to the magnitude of the exposures, our ability to meet capital requirements could be jeopardized. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a detailed discussion on customer exposures.

We monitor concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2011, our largest industry concentrations, in each case based on Indian GAAP figures, were as follows: banks and financial institutions 7.5%, wholesale and retail trade 6.1%, road transportation 5.2%. In addition, as of that date 42.3% of the concentration of our exposures was retail (except where otherwise included in the above classification). As of that date, our total non-performing loans and investments based on Indian GAAP figures were concentrated in the following industries: wholesale and retail trade 15.4%, textiles and garments 9.3%, land transport 5.3%, mining and extraction 3.7% and automobile and auto ancillary 1.7%. Because approximately one-half of our loss exposure is retail, a downturn in the retail sector in India would likely have a proportionate impact on our earnings. 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.

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***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, the collateral 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 on March 31, 2011 approximately 75% of our loans were secured by some collateral.

Although there is legislation in place that strengthens the rights of creditors and leads to quicker realization of collateral in the event of a default, we may not be able to realize the full value of the collateral, due to, among other things, delays on our part in taking immediate action, delays in bankruptcy foreclosure proceedings, stock market downturns, defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India. If we are unable to foreclose on our collateral or realize adequate value, our losses will increase and our net income will decline. The RBI has set forth guidelines on Corporate Debt Restructuring (CDR) via the CDR cell. The guidelines envisage that for debt amounts of Rs. 0.1 billion and above, 60% of the creditors by number, in addition to 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining creditors. In situations where we own 20% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt, instead of foreclosure of security or a one-time settlement, which has generally been our practice. See Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commercial Commitments Commercial Commitments .

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

We are highly dependent on our management team, including the efforts of our Chairman, our Managing Director, our Executive Directors and members of our senior management. Our future performance is dependent on the continued service of these persons. We also face a continuing challenge to recruit and retain a sufficient number of skilled personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may restrict our ability to grow and consequently have a material adverse impact on our results of operations and financial position.

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

We offer unsecured personal loans and credit cards to the retail customer segment, including salaried individuals and self-employed professionals. In addition, we offer unsecured loans to small businesses. 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 .

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

The RBI requires a minimum capital adequacy ratio of 9% of our total risk-weighted assets. We adopted the Basel II framework as of March 31, 2009. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 16.2% as of March 31, 2011 as per Basel II. Our ability to support and grow our business would be limited by a declining capital adequacy ratio. While we anticipate accessing the capital markets to offset declines in our capital adequacy ratio, we may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions.

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

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

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

We face strong competition in all areas of our business, and some of our competitors are much larger than we are. We compete directly with the large public sector banks, which generally have much larger customer, asset and deposit bases, larger branch networks and more capital than we do. These banks are becoming more competitive as they improve their customer services and technology. One of the other private sector banks in India is also larger than we are, based on such measurements. In addition, we compete directly with foreign banks, which include some of the largest multinational financial companies in the world. The economies of scale that our larger competitors benefit from make it difficult for us to offer competitive pricing on products and services to retain existing customers and attract new customers so that we can execute our growth strategy successfully. If we are unable to retain and attract new customers, our revenue and net income will decline, which could materially adversely affect our financial condition. See Business Competition .

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

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. Short-term deposits are those with a maturity not exceeding one year. Medium-term deposits are those with a maturity of greater than one year but not exceeding three years. See Selected Statistical Information Funding . However, a portion of our assets have long-term maturities, which sometimes causes funding mismatches. As of March 31, 2011, about 45% of our loans were short-term and about 40% of our loans were medium-term. As of March 31, 2011, about 29% of our deposits were short-term and about 51% of our deposits were medium-term. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position will be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which would result in a decline in our net income and have a material adverse effect on our financial condition.

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

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net revenue. Successive increases in policy rates since February 2010 to date have meant that the ongoing bout of interest rate tightening in India has been faster than many other economies. The RBI has raised key policy rates from 5.25% (repo rate) in April 2010 to 8.25% currently. As a result of certain reserve requirements of the RBI, we are more structurally exposed to interest rate risk than banks in many other countries. See Supervision and Regulation Legal Reserve Requirements. These requirements result in us maintaining (as per extant RBI guidelines currently in force) 24% of our liabilities (computed as per guidelines issued by the RBI) in Government issued bonds and we could be adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. A rise in yields on fixed income securities, including government securities will impact our profitability. The above requirements would also have a negative impact on our net interest income and net interest margins since interest earned on our investments in government issued securities is generally lower than that earned on our other interest earning assets.

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***The development of a well entrenched nationwide inter-bank settlement system would adversely impact our cash float and decrease fees we receive in connection with check collection.***

Currently, there is no well entrenched nationwide payment system in India, and checks must generally be returned to the city from which they were written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, check collections can be slow and unpredictable. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we effectively provide a nationwide collection and disbursement system for our corporate clients. We enjoy cash float and earn fees from these services. In 2005, the RBI introduced the RTGS inter-bank settlement system which facilitates real time settlements primarily between banks. Although we believe our services offer advantages not offered by payment systems currently available, the development of a robust payments system would have an adverse impact on the cash float and fees we have enjoyed from our cash management services, which could materially adversely affect our financial condition.

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

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

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

As per RBI norms, a bank's capital market exposure is limited to 40% of its net worth under Indian GAAP, both on a consolidated and non-consolidated basis. Our capital market exposure as of March 31, 2011 was 28.0% of our net worth on a non-consolidated basis and 28.8% on a consolidated basis. See *Supervision and Regulation - Regulations Relating to Capital Market Exposure Limits*. In the future if we fail to meet these regulatory limits, we may face difficulties in getting other regulatory approvals necessary to conduct business in the normal course, which would have a material adverse effect on our business and operations.

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

Our business is highly dependent on our ability to efficiently and reliably process a high volume of transactions across numerous locations and delivery channels. We place heavy reliance on our technology infrastructure for processing this data and therefore ensuring system security and availability is of paramount importance. Our systemic and operational controls may not be adequate to prevent adverse impact from frauds, errors, hacking and system failures. A significant system breakdown or system failure caused due to intentional or unintentional acts would have an adverse impact on our revenue-generating activities and lead to financial loss. We have established a geographically remote disaster recovery site to support critical applications, and we believe that we will be able to restore data and resume processing. However it may take considerable time to make the system fully operational and achieve complete business resumption using the alternate site. Therefore, in such a scenario, where the primary site is completely unavailable, there may be significant disruption to our operations, which would materially adversely affect our reputation and financial condition.

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

HDFC Limited and its subsidiaries owned 23.4% of our equity as of March 31, 2011. So long as HDFC Limited and its subsidiaries hold at least a 20% equity stake in us, HDFC Limited is entitled to nominate two directors including our Chairman and Managing Director who are not required to retire by rotation to our board, subject to RBI approval. Our current Chairman and Managing Director were nominated by HDFC Limited and appointed with the approval of the shareholders and the RBI. One of our other directors Mrs. Renu Karnad is the Managing Director of HDFC Limited. Accordingly, HDFC Limited can exercise substantial influence over our board and over matters subject to a shareholder vote. Mr. D. M. Sukthankar is the father of our Executive Director Mr. Paresh Sukthankar and serves as an independent director on the board of HDFC Limited. Mr. D. M. Sukthankar has been on the board of HDFC Limited since 1989. Mr. Paresh Sukthankar was one of our early employees and also a part of the initial senior management team. He was appointed as our Executive Director in October 2007. Both are associated with the respective companies in their independent professional capacities and we believe that none is in a position to exercise influence over the other.

There have been reports in the Indian media suggesting that we may merge with HDFC Limited. We consider business combination opportunities as they arise. At present, we are not actively considering a business combination with HDFC Limited. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals. Were such a combination to occur, we cannot predict the impact it would have on our business, growth prospects or the prices of our equity shares and ADSs.

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

HDFC Limited is primarily engaged in financial services, including home loans, property-related lending and deposit products. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life and other insurance and mutual funds. Although we have no agreements with HDFC Limited or any other HDFC group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC group companies and may effectively prevent us from taking advantage of business opportunities. See Related Party Transactions in the 20-Fs for fiscal 2009, 2010 and 2011 for a summary of transactions we have engaged in and strategic investments made with HDFC Limited during fiscal 2009, 2010 and 2011 respectively. Also see Note 27 to our consolidated financial statements. We currently distribute products of HDFC Limited and its group companies. If we forego opportunities because of our relationship with HDFC Limited, it could have a material adverse effect on our financial performance.

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

RBI guidelines prescribe a policy framework for the ownership and governance of private sector banks. The guidelines state that no single entity or group of entities will be permitted to own or control, directly or indirectly, more than 10% of the paid-up capital of a private sector bank without RBI approval. The implementation of such a restriction could discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. The RBI's acknowledgement is required for the acquisition or transfer of a bank's shares, which will increase the aggregate holding (direct and indirect, beneficial or otherwise) of an individual or a group to the equivalent of 5% or more of its total paid-up capital. The RBI, while granting acknowledgement, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests. The RBI has accorded its approval for HDFC Limited to hold more than 10% of our stock. HDFC Limited's substantial stake in us could discourage or prevent another entity from exploring the possibility of a combination with us. These obstacles to potentially synergistic business combinations could have a material adverse effect on our ability to compete effectively with other large banks and consequently our ability to maintain and improve our financial condition.

***We may face increased competition as a result of revised guidelines that relax restrictions on the presence of foreign banks in India and a proposal by the RBI to grant fresh banking licenses for the establishment of new banks in the private sector which could cause us to lose existing business or be unable to compete effectively for new business.***

The Government of India regulates foreign ownership in private sector banks. The total foreign ownership in a private sector bank cannot exceed 74% of its paid-up capital. The RBI on February 28, 2005 released a Roadmap for Presence of Foreign Banks in India and Guidelines on ownership and Governance in Private Sector Banks (the Roadmap).

The Roadmap envisages two phases. During the first phase, between March 2005 and March 2009, foreign banks were permitted to establish their presence in India by way of setting up a wholly-owned banking subsidiary ( WOS ) or converting their existing branches into a WOS. The WOS must have minimum capital of Rs. 3 billion and ensure sound corporate governance.

Initially, equity participation by banks would be permitted only in the private sector banks that are identified by the RBI for restructuring. On an application made by a foreign bank for acquisition of 5% or more in any private bank, the RBI would consider the standing and reputation of the foreign bank and shall permit such acquisition only if it is satisfied that the investment by such foreign bank is in the long-term interest of all the stakeholders of the investee bank.

It was proposed that in the second phase, beginning April 2009, would allow foreign banks to acquire up to 74% of equity capital in private sector banks in India. However, in light of the global financial turmoil and concerns regarding financial strength of banks around the world, the RBI decided to put on hold the second phase of the Roadmap and leave unchanged its policy on the presence of foreign banks in the country. While announcing its annual policy for fiscal 2010 the RBI said that it would continue with the current policy and procedures governing the presence of foreign banks in India. A review will happen once there is greater clarity regarding stability, recovery of the global financial system, and a shared understanding on the regulatory and supervisory architecture around the world. In January 2011, the RBI released a discussion paper on the presence of foreign banks in India, seeking comments and suggestions. Any growth in the presence of foreign banks or in foreign investments in Indian banks may increase the competition that we face and as a result have a material adverse effect on our business. See Restrictions on Foreign Ownership of Indian Securities.

On August 29, 2011 the RBI released draft guidelines for licensing of new banks in the private sector. The key items covered under these draft guidelines as follows: i) Promoters eligible to apply for banking licenses ii) Corporate structure iii) Minimum capital requirements for new banks iv) Foreign shareholding cap v) Corporate governance vi) business model etc. The RBI has called for wider comments and feedback from relevant stakeholders and the public. Final guidelines will be issued and the process of inviting applications for setting up of new banks will be initiated after the RBI has received feedback, comments and suggestions on the draft guidelines, and after certain vital amendments to the Banking Regulation Act are in place.

If the number of banks in the country increase, we will face increased competition in the businesses we operate in. This would have a material adverse effect on our business.

***Delays in obtaining prior RBI approval for opening new branches to increase our infrastructure and expand our reach into different geographical segments will restrict our expansion plans and have a negative impact on our future financial performance by preventing us from realizing anticipated revenue from the new branches.***

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

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

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

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



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

As at March 31, 2008, we had 761 branches. As a result of our acquisition of Centurion Bank of Punjab effective May 23, 2008, our network expanded by over 400 branches while we continued to grow organically by commissioning new branches. As at March 31, 2011, we had 1,986 branches, a significant increase in the number of branches over the last three fiscal years. Some of the newly added branches are currently operating at a lower efficiency level as compared with our established branches. While we believe that the newly added branches will achieve the productivity benchmark set for our entire network over time, the success in achieving our benchmark level of efficiency and productivity will depend on various internal and external factors, some of which are not under our control. The sub-optimal performance of the newly added branches, if continued over an extended period of time, would have a material adverse effect on our profitability.

#### **Risks Relating to Investments in Indian Companies**

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

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. The global slowdown of the financial markets had contributed and may continue to cause a slowdown in the Indian financial and economic environment, with attendant higher unemployment rates and decreases in purchasing power. While the domestic economy started witnessing an overall improvement in the general financial and economic conditions, we have begun to witness a reversal on account of high inflation and higher interest rates. These conditions could result in a prolonged slowdown in the Indian economy, which would adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. In particular, because India depends significantly on imported oil for its energy needs, the Indian economy would be adversely affected by volatile oil prices, consequent inflation and weather conditions adversely affecting agriculture or other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising, while that of the industrial, manufacturing and agricultural sectors is declining. Finally, India faces major challenges in sustaining its growth, which include the need for substantial infrastructure development and improving access to healthcare and education. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net income and total assets.

***Political instability or changes in the government in India could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which would impact our financial results and prospects.***

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators have remained significant. The leadership of India has changed many times since 1996. The current coalition-led central government, which came to power in May 2009, has announced policies and taken initiatives that support the economic liberalization policies that have been pursued by previous central governments. However, we cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization is subject to change and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in our securities are continuously evolving as well. Any significant change in India's economic liberalization and deregulation policies would adversely affect business and economic conditions in India generally and our business in particular.

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

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

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





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**Risks Relating to the ADSs and Equity Shares**

*Historically, our ADSs have traded at a premium to the trading prices of our underlying equity shares, a situation which may not continue.*

Historically, our ADSs have traded on the New York Stock Exchange (the NYSE) at a premium to the trading prices of our underlying equity shares on the Indian stock exchanges, although this premium has declined in recent years. See [Price Range of Our American Depositary Shares and Equity Shares](#) for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization previously represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for investors to trade dollar-denominated securities. Over time, some of the restrictions on issuance of ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. It is possible that in the future our ADSs will not trade at any premium to our equity shares and could even trade at a discount to our equity shares.

*Investors in ADSs will not be able to vote.*

Investors in ADSs will have no voting rights, unlike holders of the equity shares. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the equity shares underlying the ADSs and seek to vote (subject to Indian restrictions on foreign ownership) the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays, additional costs and you may not be able to redeposit the equity shares. For a discussion of the legal restrictions triggered by a withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see [Restrictions on Foreign Ownership of Indian Securities](#) and [Description of American Depositary Shares Voting Rights](#).

*Your ability to withdraw equity shares from the depositary facility is uncertain and may be subject to delays.*

India's restrictions on foreign ownership of Indian companies limit the number of equity shares that may be owned by foreign investors and generally require government approval for foreign investments. Investors who withdraw equity shares from the ADS depositary facility for the purpose of selling such equity shares will be subject to Indian regulatory restrictions on foreign ownership upon withdrawal. The withdrawal process may be subject to delays. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see [Restrictions on Foreign Ownership of Indian Securities](#).

*There is a limited market for the ADSs.*

Although our ADSs are listed and traded on the NYSE, any trading market for our ADSs may not be sustained, and there is no assurance that the present price of our ADSs will correspond to the future price at which our ADSs will trade in the public market. Indian legal restrictions may also limit the supply of ADSs. The only way to add to the supply of ADSs would be through an additional issuance. We cannot guarantee that a market for the ADSs will continue.

*Conditions in the Indian securities market may affect the price or liquidity of our equity shares and ADSs.*

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. Currently prices of securities listed on Indian exchanges are displaying signs of volatility linked among other factors to the uncertainty in the global markets and the rising inflationary and interest rate pressures domestically. The governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Future fluctuations could have a material adverse effect on the price of our equity shares and ADSs.

*Settlement of trades of equity shares on Indian stock exchanges may be subject to delays.*

The equity shares represented by our ADSs are listed on the National Stock Exchange and Bombay Stock Exchange Limited. Settlement on these stock exchanges may be subject to delays and an investor in equity shares withdrawn from the depositary facility upon surrender of ADSs may not be able to settle trades on these stock exchanges in a timely manner.

***You may be unable to exercise preemptive rights available to other shareholders.***

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75.0% of the company's shareholders present and voting at a shareholders' general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for our equity shares underlying our ADSs unless a registration statement under the Securities Act of 1933 (the Securities Act) is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We do not commit to filing a registration statement under those circumstances. If we issue any securities in the future, these securities may be issued to the depository, which may sell these securities in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurance as to the value, if any, the depository would receive upon the sale of these securities. To the extent that investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

***Because the equity shares underlying our ADSs are quoted in rupees in India, you may be subject to potential losses arising out of exchange rate risk on the Indian rupee and risks associated with the conversion of rupee proceeds into foreign currency.***

Fluctuations in the exchange rate between the U.S. dollar and the Indian rupee may affect the value of your investment in our ADSs. Specifically, if the relative value of the Indian rupee to the U.S. dollar declines, each of the following values will also decline:

the U.S. dollar equivalent of the Indian rupee trading price of our equity shares in India and, indirectly, the U.S. dollar trading price of our ADSs in the United States;

the U.S. dollar equivalent of the proceeds that you would receive upon the sale in India of any equity shares that you withdraw from the depository; and

the U.S. dollar equivalent of cash dividends, if any, paid in Indian rupees on the equity shares represented by our ADSs.

***You may not be able to enforce a judgment of a foreign court against us.***

We are a limited liability company incorporated under the laws of India. All of our directors and members of our senior management and some of the experts named in this report are residents of India and almost all of our assets and the assets of these persons are located in India. It may not be possible for investors in our ADSs to effect service of process outside India upon us or our directors and members of our senior management and experts named in the report that are residents of India or to enforce judgments obtained against us or these persons in foreign courts predicated upon the liability provisions of foreign countries, including the civil liability provisions of the federal securities laws of the United States. Moreover, it is unlikely that a court in India would award damages on the same basis as a foreign court if an action were brought in India or that an Indian court would enforce foreign judgments if it viewed the amount of damages as excessive or inconsistent with Indian practice.

***There may be less company information available on Indian securities markets than securities markets in developed countries.***

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. SEBI and the stock exchanges are responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

### PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES

Our ADSs, each representing three equity shares, par value Rs. 2.0 per share, are listed on the NYSE under the symbol **HDB**. Our equity shares, including those underlying the ADSs, are listed on the National Stock Exchange under the symbol **HDFCBANK** and the Bombay Stock Exchange Limited under the code 500180. Our fiscal quarters end on June 30 of each year for the first quarter, September 30 for the second quarter, December 31 for the third quarter and March 31 for the fourth quarter.

#### Trading Prices of Our ADSs on the NYSE

The following table shows:

the reported high and low prices for our ADSs in U.S. dollars on the NYSE; and

the average daily trading volume for our ADSs on the NYSE.

Fiscal	Price per ADS		Average daily ADS trading volume (Number of ADSs)
	High	Low	
<b>2007</b>	U.S.\$ 16.0	U.S.\$ 8.6	1,150,874
<b>2008</b>	29.1	12.7	2,294,535
<b>2009</b>	23.9	9.0	3,459,043
<b>2010</b>			
First Quarter	22.0	11.9	2,785,579
Second Quarter	23.9	17.8	1,753,031
Third Quarter	28.1	21.8	1,633,820
Fourth Quarter	28.2	22.0	1,483,369
<b>2011</b>			
First Quarter	31.3	25.3	1,437,000
Second Quarter	37.2	28.0	1,323,844
Third Quarter	38.3	30.5	1,207,961
Fourth Quarter	34.5	27.8	1,587,185
<b>Most Recent Six Months</b>			
March 2011	34.1	29.7	1,136,478
April 2011	35.6	33.3	958,350
May 2011	34.4	30.6	1,075,048
June 2011	35.6	31.0	1,093,250
July 2011	36.8	34.3	971,000
August 2011	35.4	29.5	1,208,465
September 2011 to date	33.8	27.5	858,875

The shareholders of the Bank at the Annual General Meeting held on 6th July, 2011 approved the subdivision of one equity share of the Bank having a nominal value of Rs. 10/- each into 5 (five) equity shares having a nominal value of Rs. 2/- each. Necessary instructions were issued to JP Morgan Chase Bank, the Depository for the American Depositary Shares (ADSs) to effect the split in the ADSs so as to ensure that the ratio between the ADSs and the underlying equity shares remain 1:3 as on the date prior to the subdivision.

The closing price for our ADSs on the NYSE was US\$ 28.7 per ADS on September 23, 2011.

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

The following table shows:

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

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

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

Fiscal Year	Price per equity share		Price per equity share		Average daily equity share trading volume
	High	Low	High	Low	
<b>2007</b>	Rs. 232.0	Rs. 123.0	U.S.\$ 5.2	U.S.\$ 2.8	2,606,084
<b>2008</b>	357.8	180.3	8.0	4.0	3,037,709
<b>2009</b>	309.6	159.7	7.0	3.6	7,736,578
<b>2010</b>					
First Quarter	311.8	200.0	6.9	4.4	8,014,231
Second Quarter	330.1	272.5	7.3	6.1	5,106,765
Third Quarter	366.7	320.1	8.2	7.1	3,450,820
Fourth Quarter	393.1	313.5	8.7	7.0	4,877,182
<b>2011</b>					
First Quarter	400.3	360.8	9.0	8.1	3,282,369
Second Quarter	499.1	381.5	11.2	8.6	3,891,951
Third Quarter	500.2	432.6	11.2	9.7	3,699,951
Fourth Quarter	478.1	400.6	10.7	9.0	4,789,346
<b>Most Recent Six Months</b>					
March 2011	469.2	427.8	10.5	9.6	4,536,585
April 2011	482.1	459.1	10.8	10.3	4,215,129
May 2011	479.9	444.1	10.8	10.0	3,906,853
June 2011	503.1	459.8	11.3	10.3	3,155,773
July 2011	515.1	486.8	11.6	10.9	2,970,016
August 2011	488.0	439.0	11.0	9.9	3,314,061
September 2011 to date	494.5	456.4	11.1	10.2	3,061,046

The shareholders of the Bank by a special resolution on July 6, 2011, approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 effective as of July 16, 2011. The number of issued and subscribed equity shares increased to 2,326,128,420 shares of par value Rs.2.0 each.

The closing price for our equity shares on the National Stock Exchange was Rs.456.4 per share on September 23, 2011.

As of March 31, 2011, there were 411,464 holders of record of our equity shares, including the shares underlying ADSs and GDRs, of which 143 had registered addresses in the United States and held an aggregate of 126,210 our equity shares representing 0.03% of our shareholders. In our books only, the Depository, J.P. Morgan Chase Bank and Deutsche Bank Trust Company Americas, are the shareholders with respect to equity shares underlying ADSs and GDRs. We are unable to estimate the number of record holders of ADSs and GDRs in the United States and elsewhere.

## DESCRIPTION OF EQUITY SHARES

### The Company

We are registered under Corporate Identity Number (CIN) L65920MH1994PLC080618 with the Registrar of Companies, Maharashtra State, India. Our Articles permit us to engage in a wide variety of activities, including all of the activities in which we currently engage or intend to engage, as well as other activities in which we currently have no intention of engaging.

### Dividends

Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of its shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not increase the dividend amount recommended by the board of directors. Dividends are generally declared as a percentage of par value (on per share basis) and distributed and paid to shareholders. The Companies Act provides that shares of a company of the same class must receive equal dividend treatment.

These distributions and payments are required to be deposited into a separate bank account and paid to shareholders within 30 days of the annual general meeting where the resolution for declaration of dividends is approved.

The Companies Act states that any dividends that remain unpaid or unclaimed after that period are to be transferred to a special bank account. Any money that remains unclaimed for seven years from the date of the transfer is to be transferred by us to a fund created by the Government of India. No claims for the payment of dividends unpaid or unclaimed for a period of seven years shall lie against the fund of the Government of India or against us.

Our Articles authorize our board of directors to declare interim dividends, the amount of which must be deposited in a separate bank account within five days and paid to the shareholders within 30 days of the declaration.

Under the Companies Act, final dividends payable can be paid only in cash to the registered shareholder at a record date fixed prior to the relevant annual general meeting, to his order or to the order of his banker.

Before paying any dividend on our shares, we are required under the Indian Banking Regulation Act to write off all capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred or any other item of expenditure not represented by tangible assets). We are permitted to declare dividends of up to 35.0% of net profit calculated under Indian GAAP without prior RBI approval subject to compliance with certain prescribed requirements. Further, upon compliance with the prescribed requirements, we are also permitted to declare interim dividends subject to the above-mentioned cap computed for the relevant accounting period.

Dividends may only be paid out of our profits for the relevant year and in certain contingencies out of the reserves of the company. Before declaring dividends, we are required, under the Indian Banking Regulation Act, to transfer 25% of the balance of profits of each year to a reserve fund.

### Bonus Shares

In addition to permitting dividends to be paid out of current or retained earnings calculated under Indian GAAP, the Companies Act permits our board of directors, subject to the approval of our shareholders, to distribute to the shareholders, in the form of fully paid-up bonus equity shares, an amount transferred from the capital surplus reserve or legal reserve to stated capital. Bonus equity shares can be distributed only with the prior approval of the RBI. These bonus equity shares must be distributed to shareholders in proportion to the number of equity shares owned by them.

### Preemptive Rights and Issue of Additional Shares

The Companies Act gives shareholders the right to subscribe for new shares in proportion to their existing shareholdings unless otherwise determined by a resolution passed by three-fourths of the shareholders present and voting at a general meeting. Under the Companies Act and our Articles, in the event of an issuance of securities, subject to the limitations set forth above, we must first offer the new shares to the holders of equity shares on a fixed record date. The offer, required to be made by notice, must include:

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the right, exercisable by the shareholders of record, to renounce the shares offered in favor of any other person;

the number of shares offered; and



the period of the offer, which may not be less than 15 days from the date of the offer. If the offer is not accepted, it is deemed to have been declined.

Our board of directors is permitted to distribute equity shares not accepted by existing shareholders in the manner it deems beneficial for us in accordance with our Articles. Holders of ADSs may not be able to participate in any such offer. See [Description of American Depositary Shares](#) [Share Dividends and Other Distributions](#) .

### **General Meetings of Shareholders**

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within six months after the end of each fiscal year. We may convene an extraordinary general meeting when necessary or at the request of a shareholder or shareholders holding on the date of the request at least 10% of our paid up capital. A general meeting is generally convened by our company secretary in accordance with a resolution of the board of directors. Written notice stating the agenda of the meeting must be given at least 21 days prior to the date set for the general meeting to the shareholders whose names are in the register at the record date. Those shareholders who are not registered at the record date do not receive notice of this meeting and are not entitled to attend or vote at this meeting.

The annual general meeting is held in Mumbai, the city in which our registered office is located. General meetings other than the annual general meeting may be held at any location if so determined by a resolution of our board of directors.

### **Voting Rights**

A shareholder has one vote for each equity share and voting may be by a show of hands or on a poll. However, under the Indian Banking Regulation Act, on poll, a shareholder cannot exercise voting rights in excess of 10% of the total voting rights of all shareholders. Unless a poll is demanded by a shareholder, resolutions are adopted at a general meeting by a majority of the shareholders having voting rights present or represented. The quorum for a general meeting is five members personally present. Generally, resolutions may be passed by simple majority of the shareholders present and voting at any general meeting. However, resolutions such as an amendment to the organizational documents, commencement of a new line of business, an issue of additional equity shares without preemptive rights and reductions of share capital, require that the votes cast in favor of the resolution (whether by show of hands or on a poll) are not less than three times the number of votes, if any, cast against the resolution. As provided in our Articles, a shareholder may exercise his voting rights by proxy to be given in the form prescribed by us. This proxy, however, is required to be lodged with us at least 48 hours before the time of the relevant meeting. A shareholder may, by a single power of attorney, grant general power of representation covering several general meetings. A corporate shareholder is also entitled to nominate a representative to attend and vote on its behalf at all general meetings.

The Companies Act provides for the passing of resolutions in relation to certain matters specified by the government of India, by means of a postal ballot.

ADS holders have no voting rights with respect to the deposited shares. See [Description of American Depositary Shares](#) [Voting Rights](#) .

### **Annual Report**

At least 21 days before an annual general meeting, we must circulate either a detailed or abridged version of our Indian GAAP audited financial accounts, together with the Directors' Report and the Auditor's Report, to the shareholders along with a notice convening the annual general meeting. We are also required under the Companies Act to make available upon the request of any shareholder our complete balance sheet and profit and loss account.

Under the Companies Act, we must file with the Registrar of Companies our Indian GAAP balance sheet and profit and loss account within 30 days of the conclusion of the annual general meeting and our annual return within 60 days of the conclusion of that meeting.

### **Register of Shareholders, Record Dates and Transfer of Shares**

The equity shares are in registered form. We maintain a register of our shareholders in Mumbai. We register transfers of equity shares on the register of shareholders upon presentation of certificates in respect of the transfer of equity shares held in physical form together with a transfer deed duly executed by the transferor and transferee. These transfer deeds are subject to stamp duty, which has been fixed at 0.25% of the transfer price.

For the purpose of determining equity shares entitled to annual dividends, the register of shareholders is closed for a period prior to the annual general meeting. The Companies Act and our listing agreements with the stock exchanges permit us, pursuant to a resolution of our board of directors and upon at least 7 days advance notice to the stock exchanges, to set the record date and close the register of shareholders after seven days public notice for not more than 30 days at a time, and for not more than 45 days in a year, in order for us to determine which shareholders are entitled to certain rights pertaining to the equity shares. Trading of equity shares and delivery of certificates in respect of the equity shares may, however, continue after the register of shareholders is closed.

### **Transfer of Shares**

Shares held through depositories are transferred in the form of book entries or in electronic form in accordance with the regulations laid down by the Securities Exchange Board of India ( SEBI ). These regulations provide the regime for the functioning of the depositories and the participants and set out the manner in which the records are to be kept and maintained and the safeguards to be followed in this system. Transfers of beneficial ownership of shares held through a depository are exempt from stamp duty.

SEBI requires that our equity shares for trading and settlement purposes be in book-entry form for all investors, except for transactions that are not made on a stock exchange and transactions that are not required to be reported to the stock exchange. Transfers of equity shares in book-entry form require both the seller and the purchaser of the equity shares to establish accounts with depository participants appointed by depositories established under the Depositories Act, 1996. Charges for opening an account with a depository participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the practice of each depository participant. Upon delivery, the equity shares shall be registered in the name of the relevant depository on our books and this depository shall enter the name of the investor in its records as the beneficial owner. The transfer of beneficial ownership shall be effected through the records of the depository. The beneficial owner shall be entitled to all rights and benefits and subject to all liabilities in respect of his securities held by a depository.

The requirement to hold the equity shares in book-entry form will apply to the ADS holders when the equity shares are withdrawn from the depository facility upon surrender of the ADSs. In order to trade the equity shares in the Indian market, the withdrawing ADS holder will be required to comply with the procedures described above.

Our equity shares are freely transferable, subject only to the provisions of the Companies Act under which, if a transfer of equity shares contravenes the Securities and Exchange Board of India Act, 1992 or the regulations issued under it or the Sick Industrial Companies (Special Provisions) Act, 1985, or any other similar law, the Indian Company Law Board may, on application made by us, a depository incorporated in India, an investor, SEBI or certain other parties, direct a rectification of the register of records. It is a condition of our listing that we transfer equity shares and deliver share certificates duly endorsed for the transfer within one month of the date of lodgment of transfer. If a company without sufficient cause refuses to register a transfer of equity shares within two months from the date on which the instrument of transfer is delivered to the company, the transferee may appeal to the Indian Company Law Board seeking to register the transfer of equity shares. The Indian Company Law Board may, in its discretion, issue an interim order suspending the voting rights attached to the relevant equity shares before completing its investigation of the alleged contravention. Our Articles provide for certain restrictions on the transfer of equity shares, including granting power to the board of directors in certain circumstances, to refuse to register or acknowledge transfer of equity shares or other securities issued by us. Furthermore, the RBI requires us to obtain its approval before registering a transfer of equity shares in favor of a person which together with equity shares already held by him represent more than 5.0% of our share capital.

Our transfer agent, Datamatics Financial Services Limited, is located in Mumbai. Certain foreign exchange control and security regulations apply to the transfer of equity shares by a non-resident or a foreigner. See Restrictions on Foreign Ownership of Indian Securities .

### **Disclosure of Ownership Interest**

The provisions of the Companies Act generally require beneficial owners of equity shares of Indian companies that are not holders of record to declare to the company details of the holder of record and holders of record to declare details of the beneficial owner. While it is unclear whether these provisions apply to holders of an Indian company s ADSs, investors who exchange ADSs for equity shares are subject to this provision. Failure to comply with these provisions would not affect the obligation of a company to register a transfer of equity shares or to pay any dividends to the registered holder of any equity shares in respect of which this declaration has not been made, but any person who fails to make the required declaration may be liable for a fine of up to Rs. 1,000 for each day this failure continues. However, under the Indian Banking Regulation Act, a registered holder of any equity shares, except in certain conditions, shall not be liable to any suit or proceeding on the ground that the title to those equity shares vests in another person.

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

Until recently, the Companies Act did not permit a company to acquire its own equity shares because of the resulting reduction in the company's capital. However, the government of India amended the Companies Act and consequently this reduction in capital is permitted in certain circumstances. The reduction of capital requires compliance with buy-back provisions specified in the Companies Act and by SEBI.

ADS holders will be eligible to participate in a buy-back in certain cases. An ADS holder may acquire equity shares by withdrawing them from the depository facility and then sell those equity shares back to us. ADS holders should note that equity shares withdrawn from the depository facility may only be redeposited into the depository facility under certain circumstances. See Description of American Depositary Shares Deposit, Withdrawal and Cancellation.

There can be no assurance that the equity shares offered by an ADS investor in any buy-back of shares by us will be accepted by us. The position regarding regulatory approvals required for ADS holders to participate in a buy-back is not clear. ADS investors are advised to consult their Indian legal advisers prior to participating in any buy-back by us, including in relation to any regulatory approvals and tax issues relating to the buy-back.

### **Liquidation Rights**

Subject to the rights of depositors, creditors and employees, in the event of our winding up, the holders of the equity shares are entitled to be repaid the amounts of capital paid up or credited as paid up on these equity shares. All surplus assets remaining belong to the holders of the equity shares in proportion to the amount paid up or credited as paid up on these equity shares, respectively, at the commencement of the winding up.

### **Acquisition of the Undertaking by the Government**

Under the Indian Banking Regulation Act, the government may, after consultation with the RBI, in the interest of our depositors or banking policy or better provision of credit generally or to a particular community or area, acquire our banking business. The RBI may acquire our business if it is satisfied that we have failed to comply with the directions given to us by the RBI or that our business is being managed in a manner detrimental to the interest of our depositors. Similarly, the Government of India may also acquire our business based on a report by the RBI.

### **Takeover Code and Listing Agreements**

Under the Securities and Exchange Board of India (Substantial Acquisitions of Shares & Takeovers) Regulations, 1997 (the Takeover Code), upon the acquisition of more than 5% of the outstanding shares or voting rights of a publicly listed Indian company, a purchaser is required to notify the company and the company and the purchaser are required to notify all the stock exchanges on which the shares of such company are listed. Such notification is also required upon acquisition of 10% and 14% of the outstanding shares or voting rights of a publicly listed Indian company. An ADS holder would be subject to these notification requirements.

Upon the acquisition of 15% or more of such shares or voting rights, or a change in control of the company, the purchaser is required to make an open offer to the other shareholders, offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the Takeover Code. Since we are a listed company in India, the provisions of the Takeover Code will apply to us. However, the Takeover Code provides for a specific exemption from this provision to an ADS holder and states that this provision will apply to an ADS holder only once he or she converts the ADSs into the underlying equity shares.

We have entered into listing agreements with each of the Indian stock exchanges on which our equity shares are listed. Each of the listing agreements provides that if a purchase of a listed company's shares results in the purchaser and its affiliates holding more than 5% of the company's outstanding equity shares or voting rights, the purchaser and the company must report its holding to the company and the relevant stock exchanges. The agreements also provide that if an acquisition results in the purchaser and its affiliates holding equity shares representing more than 15% of the voting rights in the company, then the purchaser must, before acquiring such equity shares, make an offer on a uniform basis to all remaining shareholders of the company to acquire equity shares that have at least an additional 20% of the voting rights of the total equity shares of the company at a prescribed price.

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## DESCRIPTION OF AMERICAN DEPOSITARY SHARES

### American Depositary Shares

JPMorgan Chase Bank, N.A., as depositary, issued the American Depositary Shares, or ADSs. Each ADS represents an ownership interest in three equity shares, which we have deposited with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and each ADR holder. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but which it has not distributed directly to an ADR holder. The ADSs are evidenced by what is known as American Depositary Receipts or ADRs. The Shareholders of the Bank at the 17<sup>th</sup> Annual General Meeting held on July 6, 2011 approved the sub division of one (1) equity share of the Bank having a nominal value of Rs. 10.0 each into five (5) equity shares with a nominal value of Rs. 2.0 each. As a result of the same, the Bank issued additional proportionate ADSs and each ADSs represents three (3) underlying equity shares of the Bank.

The depositary's office is located at 4 New York Plaza, 13th Floor, New York, NY 10004.

Investors may hold ADSs either directly or indirectly through their broker or other financial institution. If an investor holds ADSs directly, by having an ADS registered in his name on the books of the depositary, he is an ADR holder. This description assumes that the investor holds his ADSs directly. If an investor holds the ADSs through his broker or financial institution nominee, he must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. Investors should consult with their broker or financial institution to find out what these procedures are.

Because the depositary's nominee will actually be the registered owner of the shares, investors must rely on it to exercise the rights of a shareholder on their behalf. The obligations of the depositary and its agents are set out in the deposit agreement. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to investors. For more complete information, investors should read the entire deposit agreement and the form of ADR which contains the terms of the ADSs. Investors can read a copy of the deposit agreement which was filed as an exhibit to the registration statement on Form F-1 we filed on July 12, 2001. Investors may also obtain a copy of the deposit agreement at the Securities and Exchange Commission Office, Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

### Share Dividends and Other Distributions

We may make various types of distributions with respect to our securities. The depositary has agreed to pay to the investor the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its expenses. The investor will receive these distributions in proportion to the number of underlying shares that the investor's ADSs represent.

To the extent the depositary is legally permitted, it will deliver such distributions to ADR holders in proportion to their interests in the following manner:

#### *Cash*

The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution if this is practicable and can be done in a reasonable manner. The depositary will attempt to distribute this cash in a practicable manner, and may deduct any taxes required to be withheld, any expenses of converting foreign currency and transferring funds to the United States and other expenses and adjustments. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, investors may lose some or all of the value of the distribution.

#### *Shares*

In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. The depositary will sell any shares which would result in fractional ADSs and distribute the net proceeds to the ADR holders entitled to them.

#### *Rights to Receive Additional Shares*

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In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute the rights, the depositary may arrange for ADR holders to instruct the depositary as to the exercise of the rights. However, if we do not furnish that evidence or if the depositary determines it is not practical to distribute the rights, the depositary may:

sell the rights, if practicable, and distribute the net proceeds as cash, or

allow the rights to lapse, in which case ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

***Other Distributions***

In the case of a distribution of securities or property other than those described above, the depositary may either:

distribute such securities or property in any manner it deems equitable and practicable,

to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash, or

hold the distributed property, in which case the ADSs will also represent the distributed property.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents (fractional cents will be withheld without liability for interest and added to future cash distributions).

The depositary may choose any practical method of distribution for any specific ADR holder, including the distribution of foreign currency, securities or property, or it may retain those items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.

We cannot assure investors that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or that any of such transactions can be completed within a specified time period.

**Deposit, Withdrawal and Cancellation**

The depositary issues ADSs upon the deposit of shares or evidence of rights to receive shares with the custodian.

Except for shares that we deposit, no shares may be deposited by persons located in India, residents of India or for, or on the account of, such persons. Under current Indian laws and regulations, the depositary cannot accept deposits of outstanding shares and issue ADRs evidencing ADSs representing such shares without prior approval of the Government of India. However, an investor who surrenders an ADS and withdraws shares may be permitted to redeposit those shares in the depositary facility in exchange for ADSs and the depositary may accept deposits of outstanding shares purchased by a non-resident of India on the local stock exchange and issue ADSs representing those shares. However, in each case, the number of shares re-deposited or deposited cannot exceed the number represented by ADSs converted into underlying shares.

Shares deposited in the future with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made. Only the following may be deposited with the depositary or custodian:

shares issued as a free distribution in respect of deposited securities;

shares subscribed for or acquired by holders from us through the exercise of rights distributed by us to such persons in respect of shares; and

securities issued by us as a result of any change in par value, subdivision, consolidation and other reclassification of deposited securities or otherwise.

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We will inform the depositary if any of the shares permitted to be deposited do not rank *paripassu* with the shares issued in any offering and the depositary will arrange for the ADSs issuable with respect to such shares to be differentiated from those issued in such offering until such time as they rank *paripassu* with the shares issued in such offering.

The custodian will hold all deposited shares for the account of the depository. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as deposited securities.

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depository and any taxes or other fees or charges owing, the depository will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which such person is entitled. Certificated ADRs will be delivered at the depository's principal New York office or any other location that it may designate as its transfer office.

When an investor turns in his ADRs at the depository's office, the depository will, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions, deliver the underlying shares in dematerialized form, for which the ADS holder will be required to open an account with a depository participant of the National Securities Depository Limited or Central Depository Services (India) Limited to hold and sell the shares in dematerialized form upon payment of customary fees and expenses. See "Description of Equity Shares" Transfer of Shares.

The depository may only restrict the withdrawal of deposited securities in connection with:

temporary delays caused by closing the Bank's transfer books or those of the depository or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends;

the payment of fees, taxes and similar charges; or

compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### **Voting Rights**

Investors who hold ADRs have no voting rights with respect to the deposited equity shares. The depository will abstain from exercising the voting rights of the deposited equity shares. The RBI examined the matter relating to the exercise of voting rights by the depository and issued a circular dated February 5, 2007 pursuant to which the Bank furnished to the RBI a copy of its agreement with the depository. We have given an undertaking to the RBI stating that we will not recognize voting by the depository if the vote given by the depository is in contravention of its agreement with us and that we or the depository will not bring about any change in our depository agreement without the prior approval of the RBI.

Equity shares which have been withdrawn from the depository facility and transferred on our register of shareholders to a person other than the depository or its nominee may be voted by that person. However, such shareholders may not receive sufficient advance notice of shareholder meetings to enable them to withdraw the underlying shares and vote at such meetings.

### **Record Dates**

The depository may fix record dates for the determination of the ADR holders who will be entitled to receive a dividend, distribution or rights, subject to the provisions of the deposit agreement.

### **Reports and Other Communications**

The depository will make available for inspection by ADR holders any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. We will furnish these communications in English.

Additionally, if we make any written communications generally available to holders of our shares, including the depository or the custodian, and the depository or the custodian actually receives those written communications, the depository will mail copies of them, or, at its option, summaries of them to ADR holders.





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

J.P. Morgan Chase Bank, N.A., as the depository for our ADSs, collects fees for the issuance and cancellation of ADSs from the holders of our ADSs, or intermediaries acting on their behalf, against the deposit or withdrawal of ordinary shares in the custodian account. The depository also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

Category	Depository actions	Associated fee
(a) Depositing or substituting the underlying shares	Issuing ADSs upon deposits of shares, including deposits and issuances in respect of share distributions, stock splits, rights, mergers, exchanges of securities or any other transaction or event or other distribution affecting the ADSs or the deposited shares.	U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new shares deposited.
(b) Receiving or distributing dividends	Distribution of dividends.	U.S.\$0.02 or less per ADSs (U.S.\$2.00 per 100 ADSs).
(c) Selling or exercising rights	Distribution or sale of securities.	U.S.\$5.00 for each 100 ADSs (or portion thereof), the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities.
(d) Withdrawing an underlying security	Acceptance of ADSs surrendered for withdrawal of deposited shares.	U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the shares withdrawn.
(e) Transferring, splitting or grouping receipts	Transferring, combining or grouping of depository receipts.	U.S.\$1.50 per ADS.
(f) General depository services, particularly those charged on an annual basis.	Other services performed by the depository in administering the ADSs.	U.S.\$0.01 per ADS (or portion thereof) not more than once each calendar year.
(g) Other	Expenses incurred on behalf of holders in connection with:  compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;  the depository's or its custodian's compliance with applicable law, rule or regulation;  stock transfer or other taxes and other governmental charges;  cable, telex, facsimile transmission/delivery;  expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); or  any other charge payable by depository or its agents.	The amount of such expenses incurred by the Depository.

As provided in the Deposit Agreement, the Depository may charge fees for making cash and other distributions to holders by deducting fees from distributable amounts or by selling a portion of the distributable property. The Depository may generally refuse to provide services until its fees for those services are paid.

**Fees Paid by the Depositary to us****Direct Payments**

The depositary has agreed to reimburse certain reasonable expenses related to our ADS program incurred by us in connection with the program. Under certain circumstances, including termination of our ADS program prior to June 14, 2016, we may be required to repay to the depositary amounts reimbursed in prior periods.

The table below sets forth the types of expenses that the Depositary has reimbursed us during fiscal 2011.

Category	Amount reimbursed
Legal, accounting fees and other expenses incurred in connection with our ADR program	U.S.\$ 780,150.0

**Payment of Taxes**

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may:

deduct the amount thereof from any cash distributions, or

sell deposited securities and deduct the amount owing from the net proceeds of such sale.

In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities (except under limited circumstances mandated by securities regulations). If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled to them.

**Reclassifications, Recapitalizations and Mergers**

If we take certain actions that affect the deposited securities, including (1) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (2) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

amend the form of ADR;

distribute additional or amended ADRs;

distribute cash, securities or other property it has received in connection with such actions;

sell any securities or property received and distribute the proceeds as cash; or

take no action.

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If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

### **Amendment and Termination**

We may agree with the depositary to amend the deposit agreement and the ADSs without the consent of ADR holders for any reason. ADR holders must be given at least 30 days notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or affects any substantial existing right of ADR holders. If an ADR holder continues to hold an ADR or ADRs after being notified of these changes, the ADR holder is deemed to agree to such amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair an ADR holder's right to surrender its ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the deposit agreement or the ADS to be amended, the Bank and the depositary may make the necessary amendments, which could take effect before an ADR holder receives notice thereof.

The depositary may terminate the deposit agreement by giving the ADR holders at least 30 days prior notice, and it must do so at our request. After termination, the depositary's only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making those sales, the depositary shall have no obligations except to account for such proceeds and other cash. The depositary will not be required to invest such proceeds or pay interest on them.

#### **Limitations on Obligations and Liability to ADR Holders**

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary nor any such agent will be liable if:

a change in law or regulation governing any deposited securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the deposit agreement or the ADRs provide shall be done or performed by it;

it exercises or fails to exercise discretion under the deposit agreement or the ADR;

it takes any action or inaction in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information;

it performs its obligations without gross negligence or bad faith; or

it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as we require.

The depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote.

The depositary may own and deal in deposited securities and ADSs.

#### **Disclosure of Interest in ADSs**

From time to time we may request ADR holders and beneficial owners of ADSs to provide information as to:

the capacity in which they own or owned ADSs;

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the identity of any other persons then or previously interested in such ADSs; and

the nature of such interest and various other matters.

Investors in ADSs agree to provide any information requested by us or the depositary pursuant to the deposit agreement. The depositary has agreed to use reasonable efforts to comply with written instructions received from us requesting that it forward any such requests to investors in ADSs and other holders and beneficial owners and to forward to us any responses to such requests to the extent permitted by applicable law.

We may restrict transfers of the shares where any such transfer might result in ownership of shares in contravention of, or exceeding the limits under, the governmental approval which we received from the Indian government in connection with any offering, applicable law or our organizational documents. We may also instruct ADR holders that we are restricting the transfers of ADSs where such a transfer may result in the total number of shares represented by the ADSs beneficially owned by ADR holders contravening or exceeding the limits under the applicable law or our organizational documents. We reserve the right to instruct ADR holders to deliver their ADSs for cancellation and withdrawal of the shares underlying such ADSs.

### **Requirements for Depositary Actions**

We, the depositary or the custodian may refuse to:

issue, register or transfer an ADR or ADRs;

effect a split-up or combination of ADRs;

deliver distributions on any such ADRs; or

permit the withdrawal of deposited securities (unless the deposit agreement provides otherwise), until the following conditions have been met:

the holder has paid all taxes, governmental charges and fees and expenses as required in the deposit agreement;

the holder has provided the depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and

the holder has complied with such regulations as the depositary may establish under the deposit agreement.

The depositary may also suspend the issuance of ADSs, the deposit of shares, the registration, transfer, split-up or combination of ADRs, or the withdrawal of deposited securities (unless the deposit agreement provides otherwise), if the register for ADRs or any deposited securities is closed or if we or the depositary decide it is advisable to do so.

### **Books of Depositary**

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs. ADR holders may inspect the depositary's designated records at its office during regular business hours.

The depositary will maintain facilities to record and process the registration, registration of transfer, combination and split of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

### **Pre-release of ADSs**

The depositary may issue ADSs prior to the deposit with the custodian of shares (or rights to receive shares). This is called a pre-release of the ADSs. A pre-release is closed out as soon as the underlying shares (or other ADSs) are delivered to the depositary. The depositary may pre-release ADSs only if:

the depositary has received collateral for the full market value of the pre-released ADSs; and

each recipient of pre-released ADSs agrees in writing that he or she:

owns the underlying shares;

assigns all rights in such shares to the depositary;

holds such shares for the account of the depositary; and

will deliver such shares to the custodian as soon as practicable, and promptly if the depositary so demands.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time (excluding those evidenced by pre-released ADSs). However, the depositary may change or disregard such limit from time to time as it deems appropriate. The depositary may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof.

#### **The Depositary**

JPMorgan Chase Bank, N.A., a national banking association organized under the laws of the United States, is a commercial bank offering a wide range of banking and trust services to its customers in the New York metropolitan area, throughout the United States and around the world.



**DIVIDEND POLICY**

We have paid dividends every year since fiscal 1997. The following table sets forth, for the periods indicated, the dividend per equity share and the total amount of dividends declared on the equity shares, both exclusive of dividend tax. All dividends were paid in rupees.

Relating to Fiscal Year	Dividend per equity share		Total amount of dividends declared <sup>(1)</sup> (in millions)	
	Rs.	US\$	Rs.	US\$
2007	1.40	0.031	2,235.7	50.2
2008	1.70	0.038	3,012.7	67.6
2009	2.00	0.045	4,253.8	95.5
2010	2.40	0.054	5,492.9	123.3
2011	3.30	0.074	7,676.2	172.3

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

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. The number of issued and subscribed equity shares increased to 2,326,128,420 shares of par value Rs.2.0 each. All share/ADS and per share/ADS data have been retroactively restated to reflect the effect of stock split. 1 ADS continues to represent 3 shares.

Our dividends are generally declared and paid in the fiscal year following the year to which they relate. Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not to increase the dividend amount recommended by the board of directors.

Effective April 1, 2007, we pay a 15.0% direct tax in respect of dividends paid by us. In addition, we pay a 10.0% surcharge (effective April 1, 2011 the said surcharge was reduced to 5.0%) on 15.0% direct tax and a 3.0% add-on tax on such 15.0% direct tax including surcharge. These are direct taxes paid by us; these taxes are not payable by shareholders and are not withheld or deducted from the dividend payments set forth above. The tax rates imposed on us in respect of dividends paid in prior periods varied.

Future dividends will depend on our revenues, cash flows, financial condition (including capital position) and other factors. ADS holders will be entitled to receive dividends payable in respect of the equity shares represented by ADSs. Cash dividends in respect of the equity shares represented by ADSs will be paid to the depositary in Indian rupees and, except in certain instances will be converted by the depositary into U.S. dollars. The depositary will distribute these proceeds to ADS holders. The equity shares represented by ADSs will rank equally with all other equity shares in respect of dividends.

For a description of regulation of dividends, see Supervision and Regulation Special Provisions of the Banking Regulation Act Restrictions on Payment of Dividends.

### SELECTED FINANCIAL AND OTHER DATA

The following table sets forth our selected financial and operating data. Our selected income statement data for the fiscal years ended March 31, 2009, 2010 and 2011 and the selected balance sheet data as of March 31, 2010 and 2011 are derived from our audited financial statements included in this report together with the report of Deloitte Haskins & Sells, independent registered public accounting firm. Our selected balance sheet data as of March 31, 2007, March 31, 2008, March 31, 2009 and selected income data for the years ended March 31, 2007 and March 31, 2008 are derived from our audited financial statements not included in this report. For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2011 have been translated into U.S. dollars at the rate on such date of Rs. 44.54 per US\$1.00.

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. The number of issued and subscribed equity shares increased to 2,326,128,420 shares of par value Rs.2.0 each. All share/ADS and per share/ADS data have been retroactively restated to reflect the effect of stock split. 1 ADS continues to represent 3 shares.

You should read the following data with the more detailed information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements. Footnotes to the following data appear below the final table. We acquired Centurion Bank of Punjab effective May 23, 2008. The selected financial and other data is presented accordingly.

	2007	2008	Year ended March 31, 2009 2010		2011	2011
			(in millions, except per equity share data and ADS data)			
<b>Selected income statement data:</b>						
Interest and dividend revenue	Rs. 70,061.6	Rs. 104,249.7	Rs. 158,996.8	Rs. 158,651.3	Rs. 202,252.0	US\$ 4,540.8
Interest expense	33,145.1	49,414.0	86,114.9	77,720.0	93,849.7	2,107.2
Net interest revenue	36,916.5	54,835.7	72,881.9	80,931.3	108,402.3	2,433.6
Provisions for credit losses, net	8,250.3	13,367.7	20,394.9	18,193.9	9,621.9	216.0
Net interest revenue after provisions for credit losses	28,666.2	41,468.0	52,487.0	62,737.4	98,780.4	2,217.6
Non-interest revenue, net	14,999.7	20,346.6	33,603.0	42,899.7	46,815.4	1,051.1
Net revenue	43,665.9	61,814.6	86,090.0	105,637.1	145,595.8	3,268.7
Non-interest expense	27,426.1	42,261.8	63,154.9	68,410.9	82,370.2	1,849.2
Income before income tax expense	16,239.8	19,552.8	22,935.1	37,226.2	63,225.6	1,419.5
Income tax expense	5,142.9	6,307.6	7,737.4	12,338.4	21,698.3	487.2
Net income before noncontrolling interest	11,096.9	13,245.2	15,197.7	24,887.8	41,527.3	932.3
Less: Net income attributable to noncontrolling interest	57.2	91.0	93.4	317.1	330.4	7.4
Net income attributable to HDFC Bank Limited	Rs. 11,039.7	Rs. 13,154.2	Rs. 15,104.3	Rs. 24,570.7	Rs. 41,196.9	US\$ 924.9
<b>Per equity share data:</b>						
Earnings per equity share, basic	Rs. 7.02	Rs. 7.65	Rs. 7.28	Rs. 11.26	Rs. 17.84	US\$ 0.40
Earnings per equity share, diluted	6.92	7.55	7.24	11.12	17.59	0.39
Dividends per share	1.40	1.70	2.00	2.40	3.30	0.07
Book value <sup>(1)</sup>	41.02	67.29	117.30	133.52	148.96	3.34
<b>Equity share data:</b>						

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Equity shares outstanding at end of period		1,597.0	1,772.2	2,126.9	2,288.7	2,326.1	2,326.1
Weighted average equity shares outstanding basic		1,573.0	1,720.1	2,075.0	2,182.0	2,309.0	2,309.0
Weighted average equity shares outstanding diluted		1,595.5	1,742.1	2,085.5	2,209.0	2,341.9	2,341.9
<b>ADS data (where 1 ADS represents 3 shares):</b>							
Earnings per ADS	basic	21.06	22.94	21.84	33.78	53.52	1.20
Earnings per ADS	diluted	20.76	22.65	21.72	33.36	52.77	1.17

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	2007	2008	As of March 31, 2009 2010 (in millions)		2011	2011
<b>Selected balance sheet data:</b>						
Cash and cash equivalents	Rs. 80,546.4	Rs. 147,208.0	Rs. 171,224.4	Rs. 297,558.5	Rs. 288,902.1	US\$ 6,486.4
Term placements <sup>(2)</sup>	12,815.8	5,917.6	34,473.2	58,166.3	102,049.4	2,291.2
Loans, net of allowance	536,730.9	715,345.3	986,495.0	1,297,180.4	1,622,856.0	36,435.9
Investments:						
Investments held for trading	4,284.1	113,557.8	35,386.2	28,158.8	38,216.9	858.0
Investments available for sale	304,241.1	419,008.8	508,106.3	481,398.8	628,704.9	14,115.5
Investments held to maturity <sup>(3)</sup>						
Total	308,525.2	532,566.6	543,492.5	509,557.6	666,921.8	14,973.5
<b>Total assets</b>	Rs. 1,013,185.9	Rs. 1,507,988.9	Rs. 2,020,744.8	Rs. 2,416,520.4	Rs. 2,920,236.3	US\$ 65,564.1
Long-term debt	33,601.5	32,832.4	68,452.2	75,854.4	93,287.2	2,094.5
Short-term borrowings	95,472.4	129,330.3	26,383.6	98,165.0	76,686.7	1,721.7
Total deposits	682,348.0	1,005,910.1	1,426,288.6	1,672,400.3	2,082,129.0	46,747.4
Of which:						
Interest-bearing deposits	484,542.9	718,646.9	1,142,281.9	1,301,046.0	1,619,283.6	36,355.7
Non-interest bearing deposits	197,805.1	287,263.2	284,006.7	371,354.3	462,845.4	10,391.7
<b>Total liabilities</b>	947,356.2	1,388,281.6	1,770,691.7	2,110,066.2	2,572,406.5	57,754.9
Noncontrolling interest	321.6	462.0	555.4	872.5	1,338.1	30.0
Total HDFC Bank Limited						
Shareholders equity	65,508.1	119,245.3	249,497.7	305,581.7	346,491.7	7,779.2
<b>Total liabilities and shareholders equity</b>	Rs. 1,013,185.9	Rs. 1,507,988.9	Rs. 2,020,744.8	Rs. 2,416,520.4	Rs. 2,920,236.3	US\$ 65,564.1

	2007	2008	Year ended March 31, 2009 2010 (in millions)		2011	2011
<b>Period average <sup>(4)</sup></b>						
Interest-earning assets	Rs. 841,352.1	Rs. 1,077,606.7	Rs. 1,579,423.9	Rs. 1,756,963.3	Rs. 2,237,281.0	US\$ 50,230.8
Loans, net of allowance	467,362.5	641,422.4	992,040.0	1,106,474.4	1,507,942.8	33,855.9
Total assets	885,171.5	1,251,281.2	1,917,502.6	2,095,543.0	2,585,236.0	58,043.0
Interest-bearing deposits	491,948.4	661,884.6	1,114,880.3	1,202,813.6	1,504,552.3	33,779.8
Non-interest bearing deposits	170,468.2	247,083.6	248,822.0	295,675.6	361,184.3	8,109.2
Total deposits	662,416.6	908,968.2	1,363,702.3	1,498,489.2	1,865,736.6	41,889.0
Interest-bearing liabilities	594,152.0	763,617.7	1,253,236.8	1,325,841.7	1,707,823.0	38,343.6
Long-term debt	26,812.5	32,218.4	43,493.5	72,433.5	101,241.4	2,273.0
Short-term borrowings	75,391.1	69,514.7	94,863.0	50,594.6	102,029.3	2,290.7
Total liabilities	826,187.9	1,149,483.2	1,696,255.7	1,825,399.3	2,265,574.5	50,866.1
Total shareholders equity	58,983.6	101,797.9	221,246.9	270,143.7	319,661.5	7,177.0

	As of or for the year ended March 31,				
	2007	2008	2009	2010	2011
	(in percentage)				
<b>Profitability:</b>					
Net income attributable to HDFC Bank Limited as a percentage of:					
Average total assets	1.2	1.1	0.8	1.2	1.6
Average total shareholders' equity	18.7	13.0	6.8	9.1	12.9
Dividend payout ratio <sup>(5)</sup>	20.3	22.9	28.2	22.4	18.6
Spread <sup>(6)</sup>	4.0	4.8	4.3	4.2	4.5
Net interest margin <sup>(7)</sup>	4.4	5.1	4.6	4.6	4.8
Cost-to-net revenue ratio <sup>(8)</sup>	62.8	68.4	73.4	64.8	56.6
Cost-to-average assets ratio <sup>(9)</sup>	3.1	3.4	3.3	3.3	3.2
<b>Capital:</b>					
Total capital adequacy ratio <sup>(10)</sup>	13.08	13.60	15.69	17.44	16.22
Tier 1 capital adequacy ratio <sup>(10)</sup>	8.57	10.30	10.58	13.26	12.23
Tier 2 capital adequacy ratio <sup>(10)</sup>	4.51	3.30	5.11	4.18	3.99
Average total shareholders' equity as a percentage of average total assets	6.7	8.1	11.6	12.9	12.4
<b>Asset quality:</b>					
Gross non-performing customer assets as a percentage of gross customer assets <sup>(11)</sup>	1.2	1.2	1.9	1.5	1.2
Net non-performing customer assets as a percentage of net customer assets <sup>(11)</sup>	0.4	0.4	0.6	0.4	0.3
Total allowance for credit losses as a percentage of gross non-performing credit assets	128.1	144.2	125.5	123.3	125.3

- 1) Represents the difference between total assets and total liabilities, divided by the number of shares outstanding at the end of each reporting period.
- 2) Includes placements with banks and financial institutions with original maturities of greater than three months.
- 3) Under Indian GAAP transfer from an HTM portfolio to an AFS portfolio is permitted by RBI regulations once every year and the Bank has made transfers in accordance with these regulations. However, the Bank has not established an HTM portfolio under US GAAP.
- 4) Average balances are the average of daily outstanding amounts. Average figures are unaudited.
- 5) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends declared each year are typically paid in the following fiscal year. See Dividend Policy.
- 6) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts and cash floats from transactional services.
- 7) Represents the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, the net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, the net interest margin is less than the spread.
- 8) Represents the ratio of non-interest expense to the sum of net interest revenue after provision for credit losses and non-interest revenue.
- 9) Represents the ratio of non-interest expense to average total assets.
- 10) Tier 1 and Tier 2 capital adequacy ratios are computed in accordance with the guidelines of the RBI, based on the financial statements prepared in accordance with the Indian GAAP up to March 31, 2008 as per Basel I guidelines and as of March 31, 2009, 2010 and 2011 as per Basel II guidelines. See 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. All amounts presented in this section are in accordance with U.S. GAAP, other than capital adequacy ratios, and are audited, except for average amounts. Footnotes appear at the end of each related section of tables.

**Average Balance Sheet**

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest revenue and expense amounts, resulting in the presentation of the average yields and cost for each period. The average balance is the daily average of balances outstanding. The average yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. The average balances of loans include non-performing loans and are net of allowance for credit losses. We have not recalculated tax-exempt income on a tax-equivalent basis.

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	2009			Year ended March 31, 2010			2011		
	Average balance	Interest revenue/ expense	Average yield/ cost	Average balance  (in millions, except percentages)	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense	Average yield/ cost
<b>Assets:</b>									
Interest-earning assets:									
Cash equivalents	Rs. 35,407.4	Rs. 1,434.7	4.1%	Rs. 26,923.5	Rs. 732.9	2.7%	Rs. 26,126.2	Rs. 1,247.4	4.8%
Term placements	25,020.3	1,261.4	5.0	37,059.7	1,804.1	4.9	73,259.0	3,531.3	4.8
Investments available for sale:									
Tax free <sup>(1)</sup>	5,731.8	232.1	4.0	2,942.2	170.5	5.8	2,634.5	176.0	6.7
Taxable	481,193.9	35,404.8	7.4	488,450.4	33,134.1	6.8	566,631.7	40,563.8	7.2
Investments held to maturity									
Investments held for trading	40,030.5	3,382.3	8.4	95,113.1	4,445.2	4.7	60,686.8	3,013.8	5.0
Loans, net:									
Retail loans	579,838.1	73,874.5	12.7	615,331.2	79,462.0	12.9	798,519.8	97,085.0	12.2
Wholesale loans	412,201.9	43,407.0	10.5	491,143.2	38,902.5	7.9	709,423.0	56,634.7	8.0
Total interest-earning assets:	Rs. 1,579,423.9	Rs. 158,996.8	10.1%	Rs. 1,756,963.3	Rs. 158,651.3	9.0%	Rs. 2,237,281.0	Rs. 202,252.0	9.0%
Non-interest-earning assets:									
Cash	122,664.9			113,018.5			154,829.0		
Property and equipment	15,862.3			19,890.9			22,431.5		
Other assets	199,551.5			205,670.3			170,694.5		
Total non-interest earning assets	338,078.7			338,579.7			347,955.0		
Total assets	Rs. 1,917,502.6	Rs. 158,996.8	8.3%	Rs. 2,095,543.0	Rs. 158,651.3	7.6%	Rs. 2,585,236.0	Rs. 202,252.0	7.8%
<b>Liabilities:</b>									
Interest-bearing liabilities:									
Savings account deposits	Rs. 314,433.5	Rs. 8,463.5	2.7%	Rs. 414,444.4	Rs. 11,431.1	2.8%	Rs. 562,258.1	Rs. 19,662.0	3.5%
Time deposits	800,446.8	68,284.6	8.5	788,369.2	58,422.9	7.4	942,294.2	60,554.3	6.4
Short-term borrowings <sup>(2)</sup>	94,863.0	5,876.5	6.2	50,594.6	1,813.4	3.6	102,029.3	5,408.5	5.3
Long-term debt	43,493.5	3,490.3	8.0	72,433.5	6,052.6	8.4	101,241.4	8,224.9	8.1
Total interest-bearing liabilities	Rs. 1,253,236.8	Rs. 86,114.9	6.9%	Rs. 1,325,841.7	Rs. 77,720.0	5.9%	Rs. 1,707,823.0	Rs. 93,849.7	5.5%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits <sup>(3)</sup>									
	248,822.0			295,675.6			361,184.3		
Other liabilities	194,196.9			203,882.0			196,567.2		
Total non-interest-bearing liabilities	443,018.9			499,557.6			557,751.5		
Total liabilities	Rs. 1,696,255.7	Rs. 86,114.9	5.1%	Rs. 1,825,399.3	Rs. 77,720.0	4.3%	Rs. 2,265,574.5	Rs. 93,849.7	4.1%
Total shareholders equity	221,246.9			270,143.7			319,661.5		
	Rs. 1,917,502.6	Rs. 86,114.9	4.5%	Rs. 2,095,543.0	Rs. 77,720.0	3.7%	Rs. 2,585,236.0	Rs. 93,849.7	3.6%

Total liabilities and  
shareholders' equity

- 1) Yields on tax free securities are not on a tax equivalent basis.
- 2) Includes securities sold under repurchase agreements.
- 3) Includes current accounts and cash floats from transactional services.



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

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

	Fiscal 2010 vs. Fiscal 2009 Increase (decrease) <sup>(1)</sup> due to			Fiscal 2011 vs. Fiscal 2010 Increase (decrease) <sup>(1)</sup> due to		
	Net change	Change in average volume	Change in average rate (in millions)	Net change	Change in average volume	Change in average rate
<b>Interest revenue:</b>						
Cash equivalents	Rs. (701.8)	Rs. (164.6)	Rs. (537.2)	Rs. 514.5	Rs. 214.8	Rs. 299.7
Term placements	542.7	607.0	(64.3)	1,727.2	1,762.2	(35.0)
<b>Investments available for sale:</b>						
Tax free	(61.6)	(113.0)	51.4	5.5	(17.8)	23.3
Taxable	(2,270.7)	533.9	(2,804.6)	7,429.7	5,303.4	2,126.3
<b>Investments held to maturity</b>						
Investments held for trading	1,062.9	4,654.1	(3,591.2)	(1,431.4)	(1,608.9)	177.5
<b>Loans, net:</b>						
Retail loans	5,587.5	4,522.0	1,065.5	17,623.0	23,656.4	(6,033.4)
Wholesale loans	(4,504.5)	8,312.9	(12,817.4)	17,732.2	17,289.5	442.7
<b>Total interest-earning assets</b>	<b>Rs. (345.5)</b>	<b>Rs. 18,352.3</b>	<b>Rs. (18,697.8)</b>	<b>Rs. 43,600.7</b>	<b>Rs. 46,599.6</b>	<b>Rs. (2,998.9)</b>
<b>Interest expense:</b>						
Savings account deposits	Rs. 2,967.6	Rs. 2,692.0	Rs. 275.6	Rs. 8,230.9	Rs. 4,077.0	Rs. 4,153.9
Time deposits	(9,861.7)	(1,030.3)	(8,831.4)	2,131.4	11,406.8	(9,275.4)
Short-term borrowings	(4,063.1)	(2,742.3)	(1,320.8)	3,595.1	1,843.5	1751.6
Long-term debt	2,562.3	2,322.4	239.9	2,172.3	2,407.2	(234.9)
<b>Total interest-bearing liabilities</b>	<b>Rs. (8,394.9)</b>	<b>Rs. 1,241.8</b>	<b>Rs. (9,636.7)</b>	<b>Rs. 16,129.7</b>	<b>Rs. 19,734.5</b>	<b>Rs. (3,604.8)</b>
<b>Net interest revenue</b>	<b>Rs. 8,049.4</b>	<b>Rs. 17,110.5</b>	<b>Rs. (9,061.1)</b>	<b>Rs. 27,471.0</b>	<b>Rs. 26,865.1</b>	<b>Rs. 605.9</b>

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

## Yields, Spreads and Margins

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

	2009	Year ended March 31, 2010		2011
		(in millions, except percentages)		
Interest revenue	Rs. 158,996.8	Rs. 158,651.3	Rs. 202,252.0	
Average interest-earning assets	1,579,423.9	1,756,963.3	2,237,281.0	
Interest expense	86,114.9	77,720.0	93,849.7	
Average interest-bearing liabilities	1,253,236.8	1,325,841.7	1,707,823.0	
Average total assets	1,917,502.6	2,095,543.0	2,585,236.0	
Average interest-earning assets as a percentage of average total assets	82.4%	83.8%	86.5%	
Average interest-bearing liabilities as a percentage of average total assets	65.4%	63.3%	66.1%	
Average interest-earning assets as a percentage of average interest-bearing liabilities	126.0%	132.5%	131.0%	
Yield	10.1%	9.0%	9.0%	
Cost of funds <sup>(1)</sup>	5.1%	4.3%	4.1%	
Spread <sup>(2)</sup>	4.3%	4.2%	4.5%	
Net interest margin <sup>(3)</sup>	4.6%	4.6%	4.8%	

- 1) Excludes total shareholders' equity.
- 2) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. The yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts and cash floats from transactional services.
- 3) The net interest margin is the ratio of net interest revenue to average interest-earning assets. The difference in the net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, the net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, the net interest margin is less than the spread.

## Returns on Equity and Assets

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

	2009	Year ended March 31, 2010		2011
		(in millions, except percentages)		
Net income	Rs. 15,104.3	Rs. 24,570.7	Rs. 41,196.9	
Average total assets	1,917,502.6	2,095,543.0	2,585,236.0	
Average total shareholders' equity	221,246.9	270,143.7	319,661.5	
Net income as a percentage of average total assets	0.8%	1.2%	1.6%	
Net income as a percentage of average total shareholders' equity	6.8%	9.1%	12.9%	
Average total shareholders' equity as a percentage of average total assets	11.5%	12.9%	12.4%	
Dividend payout-ratio	28.2%	22.4%	18.6%	



**Investment Portfolio**

**Available for Sale Investments**

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

	2009			At March 31, 2010			2011					
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain (in millions)	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized Loss	Fair Value
Government securities	Rs. 461,558.7	Rs. 13,467.8	Rs. 676.9	Rs. 474,349.6	Rs. 470,083.7	Rs. 2,752.3	Rs. 3,079.7	Rs. 469,756.3	Rs. 587,670.4	Rs. 114.9	Rs. 8,773.1	Rs. 579,018.4
Other debt securities	20,989.5	104.7	3.6	21,090.6	3,980.7	110.4		4,091.1	43,394.0	151.2	111.3	43,435.9
Total debt securities	Rs. 482,548.2	Rs. 13,572.5	Rs. 680.5	Rs. 495,440.2	Rs. 474,064.4	Rs. 2,862.7	Rs. 3,079.7	Rs. 473,847.4	Rs. 631,064.4	Rs. 266.1	Rs. 8,884.4	Rs. 622,444.3
Non-debt securities	12,679.4	221.4	234.7	12,666.1	7,474.4	113.2	36.2	7,551.4	5,982.7	288.4	12.3	6,252.8
Total	Rs. 495,227.6	Rs. 13,793.9	Rs. 915.2	Rs. 508,106.3	Rs. 481,538.8	Rs. 2,975.9	Rs. 3,115.9	Rs. 481,398.8	Rs. 637,047.1	Rs. 554.5	Rs. 8,896.7	Rs. 628,707.1

**Held to Maturity Investments**

As of March 31, 2009, 2010 and 2011, the Bank had no investments held to maturity.

**Held for Trading Investments**

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

	2009			At March 31, 2010			2011					
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain (in millions)	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Government securities	Rs. 34,833.3	Rs. 3.3	Rs. 108.8	Rs. 34,727.8	Rs. 20,867.9	Rs. 1.0	Rs. 8.0	Rs. 20,860.9	Rs. 14,222.6	Rs. 63.5	Rs. 0.3	Rs. 14,285.8
Other debt securities	606.3	4.6		610.9	7,189.2	40.7	0.6	7,229.3	23,856.8	71.5	0.1	23,928.2
Total debt securities	Rs. 35,439.6	Rs. 7.9	Rs. 108.8	Rs. 35,338.7	Rs. 28,057.1	Rs. 41.7	Rs. 8.6	Rs. 28,090.2	Rs. 38,079.4	Rs. 135.0	Rs. 0.4	Rs. 38,214.0
Non-debt securities	44.8	2.8	0.1	47.5	69.7	0.4	1.5	68.6	3.0		0.1	2.9

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Total	Rs. 35,484.4	Rs. 10.7	Rs. 108.9	Rs. 35,386.2	Rs. 28,126.8	Rs. 42.1	Rs. 10.1	Rs. 28,158.8	Rs. 38,082.4	Rs. 135.0	Rs. 0.5	Rs. 38,216.9
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**Residual Maturity Profile**

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

	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	At March 31, 2011 (in millions, except percentages)							
Government securities	Rs. 118,835.8	7.3%	Rs. 296,558.2	7.8%	Rs. 105,190.9	8.0%	Rs. 58,427.3	8.2%
Other debt securities	40,938.7	7.2	2,242.4	10.0	252.8	10.6		
Total debt securities, fair value	Rs. 159,774.5	7.3%	Rs. 298,800.6	7.8%	Rs. 105,443.7	8.0%	Rs. 58,427.3	8.2%
Total amortized cost	Rs. 159,965.7		Rs. 303,746.0		Rs. 107,600.0		Rs. 59,752.7	

**Funding**

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were approximately 67% of total deposits as of March 31, 2010 and March 31, 2011. Wholesale banking deposits represented approximately 33% of total deposits as of March 31, 2010 and March 31, 2011.

**Total Deposits**

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of the daily balance for the relevant period) of savings deposits was 2.7% in fiscal 2009, 2.8% in fiscal 2010 and 3.5% in fiscal 2011. The average cost of time deposits was 8.5% in fiscal 2009, 7.4% in fiscal 2010 and 6.4% in fiscal 2011. The average deposits for the periods set forth are as follows:

	2009		Year ended March 31, 2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
Current deposits <sup>(1)</sup>	Rs. 248,822.0	18.2%	Rs. 295,675.6	19.7%	Rs. 361,184.3	19.4%
Savings deposits	314,433.5	23.1	414,444.4	27.7	562,258.1	30.1
Time deposits	800,446.8	58.7	788,369.2	52.6	942,294.2	50.5
Total	Rs. 1,363,702.3	100.0%	Rs. 1,498,489.2	100.0%	Rs. 1,865,736.6	100.0%

1) Includes current accounts and cash floats from transactional services.

As of March 31, 2011, individual time deposits in excess of Rs. 0.1 million had a balance to maturity profile as follows:

At March 31, 2011 (in millions)			
Up to three months	Three to six months	Six to twelve months	More than one year
Rs. 329,340.1	Rs. 119,951.8	Rs. 216,660.9	Rs. 206,288.4

Balance to maturity for deposits exceeding  
Rs. 0.1 million each

**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,		
	2009	2010	2011
	(in millions, except percentages)		
Period end	Rs. 27,237.0	Rs. 98,165.0	Rs. 136,686.7
Average balance during the period	Rs. 94,863.0	Rs. 50,594.6	Rs. 102,029.3
Maximum outstanding	Rs. 197,578.3	Rs. 141,802.3	Rs. 255,927.6
Average interest rate during the period <sup>(1)</sup>	6.2%	3.6%	5.3%
Average interest rate at period end <sup>(2)</sup>	2.3%	4.6%	5.5%

- 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, 2009, 2010 and 2011.



**Subordinated Debt**

We also obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier 1 or Tier 2 risk-based capital under the RBI's guidelines for assessing capital adequacy. Subordinated debt (Lower Tier 2 capital), Upper Tier 2 capital and Innovative Perpetual Debt Instruments outstanding as on March 31, 2011 are Rs. 33.31 billion (previous year: Rs. 33.92 billion), Rs. 38.62 billion (previous year: Rs. 27.60 billion), and Rs. 2.00 billion (previous year: Rs. 2.00 billion), respectively. The breakup of the same is shown hereunder:

Type	Currency	Year of issue	Year of maturity	Average tenor (years)	Interest rate (%)	Year of call	Step-up rate (%)	Face value (Rupees in billions)
Lower Tier 2	INR	2003-04	2014-15	10.3	5.90			3.95
Lower Tier 2	INR	2003-04	2017-18	13.3	6.00			0.05
Lower Tier 2	INR	2005-06	2015-16	9.6	7.50			4.14
Lower Tier 2	INR	2005-06	2015-16	9.3	7.75			2.31
Lower Tier 2	INR	2005-06	2015-16	9.7	8.25			2.57
Lower Tier 2	INR	2005-06	2015-16	9.9	8.60			3.00
Lower Tier 2	INR	2006-07	2016-17	10.0	8.45			1.69
Upper Tier 2	INR	2006-07	2021-22	15.0	8.80	2016-17	9.55	3.00
Lower Tier 2	INR	2006-07	2016-17	10.0	9.10			2.41
Upper Tier 2	INR	2006-07	2021-22	15.0	9.20	2016-17	9.95	3.00
Perpetual Debt	INR	2006-07			9.92	2016-17	10.92	2.00
Upper Tier 2	INR	2006-07	2021-22	15.0	8.95	2016-17	9.7	0.36
Upper Tier 2	USD	2006-07	2021-22	15.1	LIBOR+1.2	2016-17	LIBOR+2.2	4.46
Lower Tier 2	INR	2008-09	2018-19	10.0	10.70			11.50
Upper Tier 2	INR	2008-09	2023-24	15.0	10.85	2018-19	11.35	5.78
Lower Tier 2	INR	2008-09	2018-19	10.0	9.75			1.50
Upper Tier 2	INR	2008-09	2023-24	15.0	9.95	2018-19	10.45	2.00
Upper Tier 2	INR	2008-09	2023-24	15.0	9.85	2018-19	10.35	7.97
Upper Tier 2	INR	2007-08	2022-23	15.0	10.84	2017-18	14.34	1.00
Lower Tier 2	INR	2004-05	2014-15	9.9	7.05			0.15
Lower Tier 2	INR	2004-05	2014-15	9.3	8.75			0.04
Lower Tier 2	INR	2003-04	2011-12	7.3	7.10			0.002
Upper Tier 2	INR	2010-11	2025-26	15.0	8.7	2020-21	9.20	11.05

The Upper Tier 2 U.S. dollar debt depicted in the table above is for an amount of US \$100 million raised during fiscal 2007 carrying an interest rate of Libor + 1.20%. In the table above, the rupee equivalent is based on the translation rate of Rs. 44.60 = US \$1.00. We have a right to redeem certain of the issuances as noted above under year of call. If not called, the interest rate increases to the step-up rate.

**Asset Liability Gap**

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

	As of March 31, 2011 <sup>(1)</sup>								Total
	0-28 Days	29-90 days	91-180 days	6-12 months	Total within one year (in millions, except percentages)	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	
Cash and cash equivalents <sup>(2)(3)</sup>	171,642.5	10,517.8	9,254.1	4,596.4	196,010.8	65,164.5	14,232.1	13,494.7	288,902.1
Term placements	1,214.4	2,803.4	5,051.9	6,754.5	15,824.2	31,059.9	14,409.2	40,756.1	102,049.4
Investments held for trading <sup>(4)</sup>	32,232.7	5,984.2			38,216.9				38,216.9
Investments available for sale <sup>(5)(6)</sup>	143,661.7	44,921.1	36,853.3	37,614.1	263,050.3	242,917.1	57,054.8	65,682.7	628,704.9
Securities purchased under agreement to resell									
Loans, net <sup>(7)(8)</sup>	142,298.1	217,211.0	167,418.9	196,457.6	723,385.6	647,658.7	120,064.7	131,747.0	1,622,856.0
Accrued interest receivable	19,752.6				19,752.6				19,752.6
Other assets	23,822.3				23,822.3	82,990.4			106,812.7
<b>Total financial assets</b>	<b>534,624.4</b>	<b>281,437.5</b>	<b>218,578.2</b>	<b>245,422.6</b>	<b>1,280,062.7</b>	<b>1,069,790.6</b>	<b>205,760.8</b>	<b>251,680.5</b>	<b>2,807,294.6</b>
Deposits <sup>(9)(10)</sup>	233,741.7	195,587.2	104,573.0	75,780.6	609,682.5	1,055,527.2	214,446.9	202,472.4	2,082,129.0
Debt <sup>(11)</sup>	24,395.2	17,171.8	37,186.4	3,716.0	82,469.4	11,267.8	16,297.0	59,939.7	169,973.9
Securities Sold under repurchase agreements	60,000.0				60,000.0				60,000.0
Other Liabilities <sup>(12)(13)</sup>	83,517.6	2,785.0	945.0		87,247.6	165,453.0		7,603.0	260,303.6
<b>Total financial liabilities</b>	<b>401,654.5</b>	<b>215,544.0</b>	<b>142,704.4</b>	<b>79,496.6</b>	<b>839,399.5</b>	<b>1,232,248.0</b>	<b>230,743.9</b>	<b>270,015.1</b>	<b>2,572,406.5</b>
<b>Asset/Liability Gap</b>	<b>132,969.9</b>	<b>65,893.5</b>	<b>75,873.8</b>	<b>165,926.0</b>	<b>440,663.2</b>	<b>(162,457.4)</b>	<b>(24,983.1)</b>	<b>(18,334.6)</b>	<b>234,888.1</b>
<b>Cumulative gap</b>	<b>132,969.9</b>	<b>198,863.4</b>	<b>274,737.2</b>	<b>440,663.2</b>	<b>440,663.2</b>	<b>278,205.8</b>	<b>253,222.7</b>	<b>234,888.1</b>	<b>234,888.1</b>

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Cumulative gap as a percentage of total financial assets	24.9%	24.4%	26.6%	34.4%	34.4%	11.8%	9.9%	8.4%	8.4%
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- 1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.
- 2) Cash on hand is classified in the 0-28 days category.
- 3) Cash and cash equivalents include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances as part of the applicable maturity categories on a basis proportionate to the classification of related deposits.
- 4) Securities in the trading book are classified based on the expected time of realization for such investments.
- 5) Securities held towards satisfying the statutory liquidity requirement prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.
- 6) Shares and units of open-ended mutual funds in the available-for-sale investment portfolio are classified in the greater than five years category.
- 7) Includes net non-performing loans which are classified in the Over 3 years to 5 years and Over 5 years categories.
- 8) Ambiguous maturity overdrafts are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such advances.

- 9) Non-maturity deposits are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.
  - 10) Time deposits under Rs. 50 million are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits taking into account rollovers and premature withdrawals. The rest have been classified under various maturity categories based on the residual maturity.
  - 11) Includes short-term borrowings and long-term debt.
  - 12) Cash floats are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such floats.
  - 13) Includes accrued interest payable classified in the 0-28 days category.
- For further information on how we manage our asset liability risk, see Business Market Risk.

**Loan Portfolio and Credit Substitutes**

As of March 31, 2011, our gross loan portfolio amounted to Rs. 1,648.8 billion. As of that date, our gross credit substitutes outstanding were Rs. 14.5 billion and represented credit substitutes outstanding. Almost all of our gross loans and credit substitutes are to borrowers in India and over 90% are denominated in rupees. For a description of our retail and wholesale loan products, see Business Retail Banking Retail Loans and Other Asset Products and Business Wholesale Banking Commercial Banking Products Commercial Loan Products and Credit Substitutes.

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

	2007	2008	At March 31, 2009 (in millions)	2010	2011
Retail loans	Rs. 318,606.1	Rs. 441,312.4	Rs. 620,393.9	Rs. 732,984.2	Rs. 980,144.6
Wholesale loans	226,139.3	286,768.9	390,652.0	587,956.8	668,605.7
Gross loans	Rs. 544,745.4	Rs. 728,081.3	Rs. 1,011,045.9	Rs. 1,320,941.0	Rs. 1,648,750.3
Credit substitutes (at fair value)	6,759.0	5,046.9	4,252.3	2,476.3	14,491.1
Gross loans plus credit substitutes	Rs. 551,504.4	Rs. 733,128.2	Rs. 1,015,298.2	Rs. 1,323,417.3	Rs. 1,663,241.4

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

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

	At March 31, 2011		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
Retail loans	Rs. 335,089.0	Rs. 547,772.1	Rs. 97,283.5
Wholesale loans	395,454.3	230,991.7	42,159.7
Gross loans	Rs. 730,543.3	Rs. 778,763.8	Rs. 139,443.2
Credit substitutes	12,559.3	1,931.8	
Gross loans and credit substitutes	Rs. 743,102.6	Rs. 780,695.6	Rs. 139,443.2

	At March 31, 2011		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
<b>Interest rate classification of loans by maturity:</b>			
Variable rates	Rs. 88,667.3	Rs. 289,133.6	Rs. 51,516.1
Fixed rates	641,876.0	489,630.2	87,927.1
Gross loans	Rs. 730,543.3	Rs. 778,763.8	Rs. 139,443.2

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Interest rate classification of credit substitutes by maturity:			
Variable rates	Rs.	Rs.	Rs.
Fixed rates	12,559.3	1,931.8	
Gross credit substitutes	Rs. 12,559.3	Rs. 1,931.8	Rs.
Interest rate classification of loans and credit substitutes by maturity:			
Variable rates	Rs. 88,667.3	Rs. 289,133.6	Rs. 51,516.1
Fixed rates	654,435.3	491,562.0	87,927.1
Gross loans and credit substitutes	Rs. 743,102.6	Rs. 780,695.6	Rs. 139,443.2

**Concentration of Loans and Credit Substitutes**

Pursuant to the guidelines of the RBI, our exposure to individual borrowers is limited to 15% of our capital funds (as defined by RBI and calculated under Indian GAAP), and our exposure to a group of companies under the same management is limited to 40% of our capital funds. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and up to 10% in respect of group borrowers. We may, in exceptional circumstances, with the approval of our board of directors, consider enhancement of exposure to a borrower by a further 5% of capital funds. See Supervision and Regulation Credit Exposure Limits.

The following table sets forth, for the periods indicated, our gross loans and fair value of credit substitutes outstanding by the borrower's industry or economic activity and as a percentage of our gross loans and fair value of credit substitutes (where such percentage exceeds 2.0% of the total). We do not consider retail loans a specific industry for this purpose. However, retail business banking loans are classified in the appropriate categories below and loans to commercial vehicle operators are included in land transport below.

	2007		2008		At March 31, 2009 (in millions, except percentages)		2010		2011	
Trade	Rs. 26,404.9	4.8%	Rs. 41,119.1	5.6%	Rs. 31,943.8	3.1%	Rs. 71,084.9	5.4%	Rs. 107,152.2	6.4%
Land transport	61,407.3	11.1	54,454.9	7.4	53,270.5	5.3	59,080.3	4.5	91,140.0	5.5
Automotive manufacturers	26,165.0	4.7	27,201.1	3.7	38,991.6	3.8	73,833.6	5.6	79,226.6	4.8
Non-Banking Financial Companies /Financial Intermediaries					40,681.5	4.0	53,802.5	4.1	56,852.9	3.3
Activities allied to agriculture	27,237.3	4.9	52,169.8	7.1	32,492.8	3.2	31,493.6	2.4	49,024.3	2.9
Banks and Financial Institutions							37,590.1	2.8	45,070.1	2.7
Real Estate & Property Services							27,051.3	2.0	39,964.8	2.4
Iron and Steel									39,203.3	2.4
Power									36,646.8	2.2
Food Processing	13,586.0	2.5	16,967.3	2.3					34,458.0	2.1
Fertilizers	12,284.8	2.2	15,023.9	2.1	27,445.3	2.7	54,830.1	4.1	34,157.5	2.1
Housing Finance Companies							35,697.6	2.7		
Petroleum & Petroleum Products					26,437.3	2.6				
Engineering	13,010.8	2.4	15,662.0	2.1						
Others (including unclassified retail)	371,408.3	67.4	510,530.1	69.7	764,035.4	75.3	878,953.3	66.4	1,050,344.9	63.2
<b>Total</b>	<b>Rs. 551,504.4</b>	<b>100%</b>	<b>Rs. 733,128.2</b>	<b>100%</b>	<b>Rs. 1,015,298.2</b>	<b>100%</b>	<b>Rs. 1,323,417.3</b>	<b>100.0%</b>	<b>Rs. 1,663,241.4</b>	<b>100.0%</b>

As of March 31, 2011, our 10 largest exposures totaled approximately Rs. 326.5 billion and represented 112.8% of our capital funds as per RBI guidelines based on Indian GAAP figures. The largest group of companies under the same management control accounted for 29.4% of our capital funds as on March 31, 2011 as per Indian GAAP.

**Directed Lending**

The RBI has established guidelines requiring Indian banks to lend 40% of their net bank credit to certain sectors called priority sectors. Priority sectors include small-scale industries, agricultural and agriculture-based sectors, food, housing, small business enterprises and certain other priority sectors deemed weaker by the RBI. See Supervision and Regulation.

We are required to comply with the priority sector lending requirements as of the last reporting Friday of each fiscal year, a date specified by the RBI for reporting. Apart from our loans to the sectors outlined above, we may invest in bonds of specified institutions and mortgage-backed securitized paper to meet our mandated lending requirements. Any shortfall in the amount required to be lent to the priority sectors may be required to be deposited with Indian development banks like the National Bank for Agriculture and Rural Development and the Small Industries

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Development Bank of India. These deposits have a maturity of up to twelve years and carry interest rates lower than market rates. With a view to rationalizing the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers or other priority sector borrowers, the RBI has stipulated that subsequent to fiscal 2007, fresh investments by banks in specified institutions shall not be eligible for classification under priority sector lending. The RBI has issued revised guidelines to be followed by banks with effect from April 1, 2007. See Supervision and Regulation for further details.



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

	2007	2008	At March 31, 2009 (in millions)	2010	2011
<b>Directed lending:</b>					
Agriculture	Rs. 70,712.7	Rs. 70,214.0	Rs. 105,459.5	Rs. 155,383.0	Rs. 204,506.2
Small scale industries	19,229.9	79,809.0	108,932.2	181,739.6	222,933.8
Other	87,738.6	25,285.1	85,736.7	107,206.0	123,550.0
<b>Total directed lending</b>	<b>Rs. 177,681.2</b>	<b>Rs. 175,308.1</b>	<b>Rs. 300,128.4</b>	<b>Rs. 444,328.6</b>	<b>Rs. 550,990.0</b>

**Non-Performing Loans**

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

As of March 31, 2011, our gross non-performing loans as a percentage of gross loan assets was 1.3 % and our gross non-performing loans net of specific valuation allowances as a percentage of net loan assets was 0.3%. We have made total valuation allowances for 125.3% of gross non-performing loans. These allowances are based on the expected realization of cash flows from these assets and from the underlying collateral. All of our non-performing loans are rupee-denominated. Non-performing loans to the directed lending sector were 0.3% of gross loans.

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

	2007	2008	As of March 31, 2009 (in millions, except percentages)	2010	2011
<b>Non-performing loans:</b>					
Retail loans	Rs. 4,785.7	Rs. 7,446.1	Rs. 14,957.7	Rs. 13,038.0	Rs. 11,159.5
Wholesale loans	1,469.9	1,383.2	4,599.8	6,224.9	9,502.9
<b>Gross non-performing loans</b>	<b>Rs. 6,255.6</b>	<b>Rs. 8,829.3</b>	<b>Rs. 19,557.5</b>	<b>Rs. 19,262.9</b>	<b>Rs. 20,662.4</b>
Specific valuation allowances	Rs. 4,224.2	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,820.3	Rs. 16,089.8
Unallocated valuation allowances	3,790.3	6,894.4	11,330.3	9,940.3	9,804.5
Non-performing loans net of specific valuation allowance	2,031.4	2,987.7	6,336.9	5,442.6	4,572.6
Gross loan assets	544,745.4	728,081.3	1,011,045.9	1,320,941.0	1,648,750.3
Net loan assets	Rs. 536,730.9	Rs. 715,345.3	Rs. 986,495.0	Rs. 1,297,180.4	Rs. 1,622,856.0
Gross non-performing loans as a percentage of gross loans	1.1%	1.2%	1.9%	1.5%	1.3%
Non-performing loans net of specific valuation allowance as a percentage of net loan assets	0.4%	0.4%	0.6%	0.4%	0.3%
Specific valuation allowance as a percentage of gross non-performing loans	67.5%	66.2%	67.6%	71.7%	77.9%
Total valuation allowance as a percentage of gross non-performing loans	128.1%	144.2%	125.5%	123.3%	125.3%



**Recognition of Non-Performing Loans**

We classify our loan portfolio into loans that are performing and loans that are non-performing or impaired. We consider a loan to be performing when no principal or interest payment is one quarter or more past due and where we expect to recover all amounts due to us. We have categorized our gross loans based on their performance status as follows:

	2007	2008	At March 31, 2009 (in millions)	2010	2011
Performing	Rs. 538,489.8	Rs. 719,252.0	Rs. 991,488.4	Rs. 1,301,678.10	Rs. 1,628,087.9
Non-performing or impaired:					
On accrual status				1,078.5	3,938.0
On non-accrual status	6,255.6	8,829.3	19,557.5	18,184.4	16,724.4
Total non-performing or impaired	6,255.6	8,829.3	19,557.5	19,262.9	20,662.4
Total	Rs. 544,745.4	Rs. 728,081.3	Rs. 1,011,045.9	Rs. 1,320,941.0	Rs. 1,648,750.3

Interest income from loans is recognized on an accrual basis when earned, except with respect to loans placed on non-accrual status, for which interest income is recognized when received. We make specific allowances for all loans on non-accrual status based on the loss we expect to incur for each such loan.

In the case of wholesale loans, we also identify loans as non-performing or impaired even when principal or interest payments are less than one quarter past due but where we believe recovery of all principal and interest amounts is doubtful. We make specific and unallocated allowances for these loans based on our estimate of losses inherent in the loan portfolio.

Our methodology for determining specific and unallocated allowances is discussed separately below for each category of loans.

**Retail Loans**

We establish a specific allowance on our retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan-to-value ratios. The loans are charged off against allowances at defined delinquency levels.

We also make unallocated allowances for our retail loans by product type. Our retail loan portfolios comprised of groups of large numbers of small value homogeneous loans. We establish an unallocated allowance for loans in each product group based on our estimate of the expected amount of losses inherent in such product. In making such estimates, among other factors considered, we stratify such loans based on the number of days past due and take into account historical losses for such products, the nature of security available and loan-to-value ratios.

**Wholesale Loans**

We make specific allowances for credit losses for all wholesale loans on non-accrual status. We also make specific allowances for wholesale loans that are on accrual status when we consider these loans to be impaired despite being less than one quarter past due.

We identify wholesale loans on accrual status as being impaired based on our assessment of each wholesale banking customer, taking into account quantitative and qualitative factors such as payment status, adverse situations that may affect the borrower's ability to repay, the value of any collateral held, our view of the industry and general economic conditions.

Impairment is measured for each non-performing wholesale banking customer for the aggregate of all wholesale loans made to that customer. We establish a specific allowance for the difference between the carrying value of the loan and the present value of expected future cash flows including the net realizable value of any collateral, discounted at the loan's effective interest rate. We do not establish a specific allowance for loans where the fair value of any collateral we hold exceeds the outstanding loan balance.

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 classified as labeled and closely monitored for deterioration. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including

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the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. We also have an unallocated allowance for performing loans, based on the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate our wholesale unallocated allowance based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

**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.

	2007			2008			2009			2010			2011	
	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans
	(Rupees in millions, except percentages)													
	Rs.	Rs.		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
and	6,851.7	219.8	3.2	10,429.4	219.8	2.1	11,773.3	448.3	3.8	13,836.8	788.6	5.7	17,285.3	1,410.0
n										4,254.5	1.3		7,963.0	505.0
aries							40,425.2	11.2	0.0				54,241.0	2,147.0
l														
uticals	3,538.4	32.3	0.9	5,670.1						14,725.3	383.5	2.6	10,756.5	373.0
l paper														
							3,707.4	67.8	1.8	7,210.8	165.3	2.3	6,083.7	156.0
essing	13,586.0	3.4		16,967.3	8.0		18,808.9	783.5	4.2	23,567.9	801.6	3.4	34,458.0	878.0
	26,364.3	150.6	0.6	41,075.6	12.8		31,896.3	1,741.1	5.5	70,886.1	2,252.8	3.2	107,152.2	2,616.0
ances														
wise	265,649.8	4,520.7	1.7	360,322.0	6,231.2	1.7	507,274.0	13,789.6	2.7	557,204.8	12,179.3	2.2	751,084.6	10,267.0
sport	61,407.3	266.7	0.4	54,454.9	1,226.9	2.3	53,270.5	1,182.3	2.2	59,080.3	858.7	1.5	91,140.0	891.0
ng	12,912.7	174.0	1.3	15,023.9	41.5	0.3	17,529.4	17.8	0.1	21,106.9	118.1	0.6	23,846.4	224.0
gems														
ry				1,223.3	129.1	10.6	7,922.7	129.0	1.6	11,369.0	129.1	1.1	14,714.9	129.0
steel							12,462.9	179.8	1.4	20,337.2	165.4	0.8	39,203.3	207.0
eous														
	10,343.9	108.2	1.0	15,764.0	116.5	0.7	40,999.8	92.1	0.2	46,379.9	115.2	0.2	33,930.2	178.0
allied														
ture	27,237.3	5.7		27,201.1	23.9	0.1	32,492.8	165.2	0.5	31,493.6	262.1	0.8	49,024.3	256.0
							10,377.8	620.2	6.0	6,376.5	59.2	0.9	14,564.7	59.0
iles	26,165.0	642.9	2.5	52,169.8	642.9	1.2				73,784.3	9.4		76,336.1	266.0
inance														
es							16,675.0	99.3	0.6	35,697.6	73.3	0.2	21,160.6	50.0
							9,109.4	146.7	1.6				32,409.1	21.0
te &														
										27,051.3	18.4	0.1	39,964.8	18.0
s							27,445.3	0.1					34,157.5	2.0
r														
s										2,396.8	189.5	7.9		
ion										8,980.0	553.8	6.2		
and														
										10,455.0	129.1	1.2		
										2,302.1	9.2	0.4		
ure of														
ducts	9,264.4	114.8	1.2	15,184.5	114.8	0.8	6,716.6	69.5	1.0					



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Industry	2007			2008			2009			2010			2011		
	Gross Loans	Non performing loans	% of industry	Gross Loans	Non performing loans	% of industry	Gross Loans	Non performing loans	% of industry	Gross Loans	Non performing loans	% of industry	Gross Loans	Non performing loans	% of industry
(Rupees in millions, except percentages)															
Information Technology							4,700.8	14.0	0.3						
Electricity generation				2910.6	45.2	1.6									
Computer Software	751.5	7.6	1.0	1,428.4	7.6	0.5									
Glass and glass products	2,468.4	9.1	0.4	2,465.0	9.1	0.4									
<b>Total</b>	<b>6,255.6</b>			<b>8,829.3</b>			<b>19,557.5</b>			<b>19,262.9</b>			<b>20,662.4</b>		
Specific allowance for credit losses	4,224.2			5,841.6			13,220.6			13,820.3			16,089.8		
Non-performing loans, net	2,031.4			2,987.7			6,336.9			5,442.6			4,572.6		

As of March 31, 2011, our gross non-performing loans as a percentage of gross loans in the respective industries was the highest in Textiles, Mining & Extractions and NBFC / Financial Intermediaries.

**Textiles**

The performance of players in this industry continued to be affected by high competition from China and Bangladesh and slow sales in the branded garments (retailing) sector. The industry is partly export-driven, it was significantly impacted by decline in demand especially from the US and European markets. The trend is expected to continue over the short term, with operating margins of export-oriented players especially in the ready-made garments segment declining due to increase in raw material costs and slack overseas demand.

**Mining and Extractions**

Despite the economic slowdown in fiscal 2009, the industry had witnessed healthy revenue growth due to a strong order book of its players. Also, the operating margins improved due to cautious bidding for low-margin highly competitive Build-Operate-Transfer (BOT) projects and an increased focus on high-margin segments like power, irrigation, roads, etc. Revenues are expected to grow over the short term due to comfortable order book positions and expected increase in fresh orders. However, net margins could be curtailed due to the increasing input costs and finance charges on the back of increased borrowings to support the growth in activity levels.

**NBFC / Financial Intermediaries**

The problem exposure in the NBFC (non-banking finance companies) sector pertains to the microfinance (MFI) segment. The MFI sector got significantly impacted due to a bill passed by a leading State Government in India imposing several restrictions on the conduct of microfinance business in the State. The performance of MFIs operating in the State has been badly affected resulting in a significant dip in the recovery. This development has impacted the banking industry in India as a whole including our Bank. The trend of deterioration of the portfolio quality in the State is expected to continue until such time as a central regulation (the proposed MFI Bill) is approved by the Indian Parliament.

**Top Ten Non-Performing Loans**

As of March 31, 2011, we had 110 wholesale non-performing loans outstanding. Our top ten non-performing loans represented 30.7% of our gross non-performing loans and 0.4% of our gross loan portfolio.

The following table sets forth information regarding our ten largest non-performing loans. The table also sets forth the range of our share in the collateral for different types of facilities along with our weighted average 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.

At March 31, 2011							
Industry	Type of banking arrangement	Gross principal outstanding (in millions)	Principal outstanding net of allowance for credit losses	Collateral-our share		Currently servicing all interest payments	
				Range	Weighted average share of collateral value		
				(in percentages)	(in percentages)		
Borrower 1	Wholesale / Retail Trade	Multiple	Rs. 1,487.7	Rs.	11.9% to 19.0%	*	No
Borrower 2	NBFC / Financial Intermediaries	Consortium	783.3	192.7			Yes
Borrower 3	NBFC / Financial Intermediaries	Multiple	733.3	33.8			Yes
Borrower 4	Food and Beverage	Consortium	665.3	609.5	2.3% to 57.4%	31.9%	No
Borrower 5	Wholesale / Retail Trade	Consortium	571.7	208.8	5.8% to 100%	7.9%	No
Borrower 6	NBFC / Financial Intermediaries	Consortium	561.0	125.8			Yes
Borrower 7	Mining and Minerals	Multiple	504.4	18.2	5.0%	5.0%	No



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Borrower 8	Drugs and Pharmaceuticals	Consortium	373.2	313.4	5.7%	5.7%	Yes
Borrower 9	Textiles & Garments	Multiple	362.5	18.3	10.8%	10.8%	No
Borrower 10	Textiles & Garments	Consortium	309.3	87.0	7.3%	7.3%	No
			Rs. 6,351.7	Rs. 1,607.5			

\* Collateral value determined to be Nil

**Interest Foregone**

Interest foregone is the interest due on non-performing loans that has not been accrued in our books of accounts. The following table sets forth the outstanding amount of interest foregone on existing non-performing loans as of the respective dates.

<b>Interest foregone</b>	<b>(in millions)</b>
March 31, 2009	Rs. 365.6
March 31, 2010	1,540.1
March 31, 2011	2,179.8

**Restructuring of Non-Performing Loans**

Our non-performing loans are restructured on a case-by-case basis after our management has determined that restructuring is the best means of maximizing realization of the loan. These loans continue to be on a non-accrual basis and are reclassified as performing loans only after sustained performance under the loan's renegotiated terms for a period of at least one year.

Pursuant to recently enacted regulations creating a system of Corporate Debt Restructuring, we may also be involuntarily required to restructure loans if decided by at least 60% of the number of lenders, holding at least 75% of the debt, in a consortium in which we participate.

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

	<b>2007</b>	<b>2008</b>	<b>At March 31,</b>		<b>2011</b>
			<b>2009</b>	<b>2010</b>	
			<b>(in millions, except percentages)</b>		
Gross restructured loans	Rs.	Rs.	Rs. 685.7	Rs. 1,810.0	Rs. 2,123.0
Allowance for credit losses			685.7	742.2	1,061.9
<b>Net restructured loan</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs. 1,067.8</b>	<b>Rs. 1,061.1</b>
Gross restructured loans as a percentage of gross non-performing loans			3.5%	9.4%	10.3%
Net restructured loans as a percentage of net non-performing loans				19.6%	23.2%

If there is a failure to meet payment or other terms of a restructured loan, it may be considered a failed restructuring, in which case it is no longer classified as a restructured loan.

**Non-Performing Loan Strategy**

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

**Allowance for Credit Losses on Loans**

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

	2007	2008	For the years ended March 31, 2009		2010	2011
			(in millions)			
Specific allowance for credit losses at the beginning of the period	Rs. 3,204.6	Rs. 4,224.2	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,220.6	Rs. 13,820.3
Additions to allowance for credit losses for the period including on acquisition of CBoP:						
Retail	6,969.0	10,317.8	21,063.6	18,147.6	18,147.6	21,275.3
Wholesale	11.8	44.0	5,812.9	2,827.8	2,827.8	4,122.8
Less allowances no longer required on account of recoveries	(72.1)	(98.2)	(245.7)	(1,391.5)	(1,391.5)	(11,282.8)
Allowance no longer required on account of write-offs	(5,889.1)	(8,646.2)	(19,251.8)	(18,984.2)	(18,984.2)	(11,845.8)
Specific allowance for credit losses at the end of period	Rs. 4,224.2	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,820.3	Rs. 13,820.3	Rs. 16,089.8
Unallocated allowance for credit losses at the beginning of the period	Rs. 2,448.7	Rs. 3,790.3	Rs. 6,894.4	Rs. 11,330.3	Rs. 11,330.3	Rs. 9,940.3
Additions during the period	1,341.6	3,104.1	4,435.9	(1,390.0)	(1,390.0)	(135.8)
Unallocated allowance for credit losses at the end of the period	Rs. 3,790.3	Rs. 6,894.4	Rs. 11,330.3	Rs. 9,940.3	Rs. 9,940.3	Rs. 9,804.5
Total allowance for credit losses at the beginning of the period	Rs. 5,653.3	Rs. 8,014.5	Rs. 12,736.0	Rs. 24,550.9	Rs. 24,550.9	Rs. 23,760.6
Allowance no longer required on account of write-offs	(5,889.1)	(8,646.2)	(19,251.8)	(18,984.2)	(18,984.2)	(11,845.8)
Net addition to total allowance for the period charged to expense	8,250.3	13,367.7	31,066.7	18,193.9	18,193.9	13,979.5
Total allowance for credit losses at the end of the period	Rs. 8,014.5	Rs. 12,736.0	Rs. 24,550.9	Rs. 23,760.6	Rs. 23,760.6	Rs. 25,894.3

Allowances no longer required on account of recoveries and net addition to total allowance for the period charged to expense for fiscal 2011 does not include the recoveries against write off cases amounting to Rs 4,357.6 million.

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

	2007	2008	As of March 31, 2009		2010	2011
			(in millions)			
<b>Wholesale</b>						
Allocated	Rs. 1,456.7	Rs. 1,368.6	Rs. 3,806.1	Rs. 4,610.8	Rs. 4,610.8	Rs. 7,577.5
Unallocated	626.9	491.4	814.0	985.4	985.4	1,447.5
Subtotal	2,083.6	1,860.0	4,620.1	5,596.2	5,596.2	9,025.0
<b>Retail</b>						
Allocated	2,767.5	4,473.0	9,414.5	9,209.5	9,209.5	8,512.3

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Unallocated	3,163.4	6,403.0	10,516.3	8,954.9	8,357.0
Subtotal	5,930.9	10,876.0	19,930.8	18,164.4	16,869.3
Allowance for credit losses	Rs. 8,014.5	Rs. 12,736.0	Rs. 24,550.9	Rs. 23,760.6	Rs. 25,894.3

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

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

**Introduction****Overview**

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

In the five years ended March 31, 2011, our customer base grew from 9.6 million customers to 21.9 million customers. Our merger with Centurion Bank of Punjab Ltd. (CBoP) became effective on May 23, 2008. Accordingly, our financial condition at March 31, 2009 and our results of operations for the year then ended reflect our merger with CBoP. The figures for fiscal 2009 reflect the operations of the merged entity for the 313 day period ended March 31, 2009 and are hence not comparable with fiscal 2010. See [Merger of Centurion Bank of Punjab](#) for a discussion of the merger.

Our revenue consists of interest and dividend revenue as well as non-interest revenue. Our interest and dividend revenue is primarily generated by interest on loans, dividends from securities and other activities. We offer a range of loans to retail customers and offer working capital and term loans to corporate customers. The primary components of our securities portfolio are statutory liquidity ratio investments, credit substitutes and other investments. Statutory liquidity ratio investments principally consist of Government of India treasury securities. Credit substitutes, principally consisting of our investments in commercial paper, debentures and preference shares issued by corporations, are part of the financing products we provide to our customers. Other investments include asset-backed securities, mortgage-backed securities, deposit certificates issued by banks as well as equity securities and units of mutual funds. Interest revenue from other activities consists primarily of interest on our placements made to comply with the extant Reserve Bank of India guidelines on shortfall in directed lending sub-limits and interest from inter-bank loans.

Two important measures of our results of operations are net interest revenue, which is equal to our interest and dividend revenue net of interest expense, and net interest revenue after allowance for credit losses. Interest expense includes interest on deposits as well as on borrowings. Our interest revenue and expense are affected by fluctuations in interest rates as well as volume of activity. Our interest expense is also affected by the extent to which we fund our activities with low-interest and non-interest bearing deposits (including the float on transactional services), and the extent to which we rely on borrowings. Our allowance for credit losses is comprised of specific and unallocated allowances for loan loss. Impairments of credit substitutes are not included in our loan-loss provision, but are reflected in our earnings as realized losses.

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

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

Our non-interest expense includes expenses for salaries and staff benefits, premises and equipment, depreciation and amortization, administrative and other expenses and amortization of intangible assets. The costs of outsourcing back office and other functions are included in administrative and other expenses.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. For India, the RBI estimates the GDP growth at 8.0% for fiscal 2012 against an average growth rate of around 8.6% over the last few years.

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

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

### **Critical Accounting Policies**

We have set forth below some of our critical accounting policies under U.S. GAAP. Readers 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 different consequences under Indian and U.S. GAAP.

#### *Allowance for Loan Losses*

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

#### *Retail Loans*

We establish specific and unallocated allowances for our retail loans. We establish a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan-to-value ratios. The loans are charged off against allowances at defined delinquency levels. We also establish unallocated allowances for each of our retail loan products. Our methodology for calculation of unallocated allowances for our retail lending book is based on a flow-rate model with an observation period of the last 12 to 36 months.

Our flow rate model reflects any recent deterioration that might have occurred due to either macro-economic changes or any other changes specific to the product or segment. We do not enter into any risk mitigation transactions such as insurance arrangements, credit default agreements or credit derivatives for our retail loans. More than half of our retail exposures are through standard fixed rate equated monthly installment based repayments, where the customer repays the loan amount gradually over the tenor of the loan. We also have some exposures through overdraft facilities and through credit cards. Most of our mortgage loans are based on floating rates of interest and exclude product offerings which may have option adjustable rate mortgage products, high loan to value mortgages or junior liens. Our exposures are primarily to the prime retail segment and we do not extend loans to what would be regarded as the sub-prime segment in the Indian market context. A majority of our mortgages are at loan-to-values (LTVs) of below 75%.

The estimation for allowances is done separately for each significant product of our retail lending book. Usually, we have separate products for facilities or customer profiles. In fiscal 2009, we accelerated the charge-off for certain of our unsecured facilities, to recognize upfront the deterioration in loans that are on a non-accrual status.

We have witnessed a decrease in delinquent loans recently in some of our retail products. This decrease is largely attributable to an overall favorable economic environment in India vis- à-vis the stress seen during the economic slow down in fiscal 2009.

#### *Wholesale Loans*

We evaluate our wholesale loan portfolio on a periodic basis and grade our accounts considering both qualitative and quantitative criteria using a credit risk grading system. Although we believe our grading and surveillance process is comprehensive, it is inherently subjective as it is based on information we have available and requires us to exercise judgment in determining a borrower's grading and therefore may not be accurate in all cases. Our internal grading is updated minimum annually. Our lending in the wholesale business is largely predicated on the cash flows emanating from the business of the borrower and to a lesser degree on the potential recovery out of any collateral that may be obtained.



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

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on surveillance and closely monitored for deterioration. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

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

#### ***Interest Accrual and Revenue Recognition***

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

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

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment, provided the amounts are collectible.

Dividends from investments are recognized when declared.

Realized gains and losses on sales of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided.

#### ***Valuation of Investments***

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

Securities that are held principally for resale in the near term are classified as held for trading ( HFT ), with changes in fair value recorded in earnings.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity ( HTM ).

Securities with fair values that are not classified as held to maturity or held for trading are classified as available for sale ( AFS ). Unrealized gains and losses on such securities, net of applicable taxes, are reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity.



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

We conduct a review each year to identify and evaluate investments that have indications of possible impairment. An investment in an equity or debt security is impaired if its fair value falls below its cost and the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer and whether we intend to sell or will be required to sell the security until the forecasted recovery. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. We do not recognize impairment for debt securities if the cause of the decline is related solely to interest rate increases and where we do not have an intent to sell and we will not be required to sell the security until the forecasted recovery. Additional disclosures have been provided on impairment status in Note 7 and Note 9 and on concentrations of credit risk in Note 13 of the Financial Statements.

#### ***Business combination***

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. Moreover the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of a bank's interest and the acquiree's net fair value of identifiable assets and liabilities is recognized as goodwill. Our acquisition of CBoP was accounted for in accordance with SFAS No. 141, Business combinations, which was the then applicable accounting standard.

#### ***Goodwill and other intangibles***

Goodwill arising from a business combination is not amortized but is tested for impairment in accordance with FASB ASC 350-20 Goodwill. Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards. We examined our goodwill that had arisen on acquisition of CBoP for possible impairment as of March 31, 2011. The results of the first step of the impairment test showed no indication of impairment. Accordingly we did not perform the second step of the impairment test.

Intangible assets consist of our branch network, representing contractual and non-contractual customer relationships, customer list, core deposit intangibles and favorable leases. These are amortized over their estimated useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

	Useful lives (years)	Amortization method
Branch network	6	Straight-line
Customer lists	2	Straight-line
Core deposit	5	Straight-line
Favorable leases	15	Straight-line

For intangible assets subject to amortization, impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.



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**Fair Value Measurements**

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

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

the size of transactions occurring in an active market;

the level of bid-ask spreads;

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

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

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

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

Level 2 inputs are inputs that are observable either directly or indirectly but do not qualify as Level 1 inputs. We generally classify derivative contracts and investments in debt securities, 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 32, Fair Value Measurement for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

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As of March 31, 2011, our Level 3 instruments measured at fair value excluding investments carried at cost of Rs. 587.9 million was nil.

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

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

### ***Income Tax***

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

Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Under FASB ASC 740, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

### ***Recently issued accounting pronouncements not yet effective***

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

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

In May 2011, FASB issued ASU 2011-04 Fair Value Measurement which amends the fair value accounting guidance. The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments will be effective for interim or annual periods beginning on or after December 15, 2011. The Bank is currently assessing the impact of this guidance on the consolidated financial position and results of operations.

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

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

**Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010****Net Interest Revenue after Allowance for Credit Losses**

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

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

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

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

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

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

### ***Interest Expense***

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

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

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

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

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

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



**Non-Interest Revenue**

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

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

\* Not meaningful

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

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

Income from foreign exchange and derivative transactions were driven primarily by spreads on customer transactions based on trade flows and hedging needs of our customers. These revenues were distributed across our corporate and retail customer segments for plain vanilla foreign exchange products and across our corporate customer segment for derivative products. During fiscal 2010, the bank had lower fair value adjustments on certain foreign currency derivative exposures reflective of the lower credit spreads in 2010. The lower fair value adjustments increased the income levels in fiscal 2010.

**Non- Interest Expense**

Our non-interest expense was comprised of the following:

	Year ended March 31,				2010 % of net revenues	2011 % of net revenues
	2010	2011	Increase/ (decrease)	% Increase/ (decrease)		
	(in millions, except percentages)					
Salaries and staff benefits	Rs. 31,665.9	Rs. 37,865.6	Rs. 6,199.7	19.6%	30.0%	26.0%
Premises and equipment	11,033.2	12,419.8	1,386.6	12.6	10.4	8.5

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Depreciation and amortization	4,133.7	5,138.6	1,004.9	24.3	3.9	3.5
Administrative and other	17,808.6	24,387.6	6,579.0	36.9	16.9	16.8
Amortization of intangibles	3,769.5	2,558.6	(1,210.9)	(32.1)	3.6	1.8
Total non-interest expense	Rs. 68,410.9	Rs. 82,370.2	Rs. 13,959.3	20.4%	64.8%	56.6%

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

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

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

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

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

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

We continued to amortize the intangible assets that were acquired on the merger of CBoP branch network representing contractual and non-contractual customer relationships, customer list, core deposit intangible and favorable leases over their estimated remaining useful life. This amortization resulted in a charge of Rs. 2.6 billion in fiscal 2011 as compared to Rs. 3.8 billion in fiscal 2010.

### ***Income Tax***

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

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2010 and 2011:

	<b>Years ended March 31,</b>	
	<b>2010</b>	<b>2011</b>
Effective statutory income tax rate	33.99%	33.22%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	3.27	1.79
Income exempt from taxes	(4.11)	(1.03)
Other, net	(0.01)	0.17
Effect of change in statutory tax rate		0.17
Annual effective income tax rate	33.14%	34.32%

### ***Net Income***

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

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

During the year ended March 31, 2009, the Reserve Bank of India accorded its consent to the Scheme of Amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited. Pursuant to the order of amalgamation, the operations of both banks were merged with effect from May 23, 2008. Accordingly, the figures for fiscal 2009 reflect the operations of the merged entity for the 313 day period ended March 31, 2009 and are hence not comparable with fiscal 2010. The amalgamation was accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations .

**Net Interest Revenue after Allowance for Credit Losses**

Our net interest revenue after allowance for credit losses increased by 19.5% from Rs. 52.5 billion in fiscal 2009 to Rs. 62.7 billion in fiscal 2010. Our net interest margin remained stable at 4.6% in fiscal 2010. The following table sets out the components of net interest revenue after allowance for credit losses:

	Year ended March 31,		Increase/ (decrease)	%
	2009	2010 (in millions, except percentages)		
Interest on loans	Rs. 117,281.5	Rs. 118,364.5	Rs. 1,083.0	0.9%
Interest on securities, including dividends and interest on trading assets	39,019.2	37,749.8	(1,269.4)	(3.3)
Other interest revenue	2,696.1	2,537.0	(159.1)	(5.9)
<b>Total interest and dividend revenue</b>	<b>158,996.8</b>	<b>158,651.3</b>	<b>(345.5)</b>	<b>(0.2)</b>
Interest on deposits	76,748.1	69,854.0	(6,894.1)	(9.0)
Interest on short-term borrowings	5,799.6	1,420.4	(4,379.2)	(75.5)
Interest on long term debt	3,490.3	6,052.6	2,562.3	73.4
Other interest expense	76.9	393.0	316.1	411.1
<b>Total interest expense</b>	<b>86,114.9</b>	<b>77,720.0</b>	<b>(8,394.9)</b>	<b>(9.7)</b>
<b>Net interest revenue</b>	<b>Rs. 72,881.9</b>	<b>Rs. 80,931.3</b>	<b>Rs. 8,049.4</b>	<b>11.0</b>
Less: Allowance for credit losses:				
Retail	18,277.5	16,586.2	(1,691.3)	(9.3)
Wholesale	2,117.4	1,607.7	(509.7)	(24.1)
<b>Total</b>	<b>Rs. 20,394.9</b>	<b>Rs. 18,193.9</b>	<b>Rs. (2,201.0)</b>	<b>(10.8)</b>
<b>Net interest revenue after allowance for credit losses</b>	<b>Rs. 52,487.0</b>	<b>Rs. 62,737.4</b>	<b>Rs. 10,250.4</b>	<b>19.5%</b>

**Interest and Dividend Revenue**

Interest income on loans increased marginally by 0.9%. Our average volume of retail loans increased by 6.1% from Rs. 579.8 billion in fiscal 2009 to Rs. 615.3 billion in fiscal 2010. The retail loan book acquired on the acquisition of CBoP ran down during the year and subdued economic conditions in the first quarter of fiscal 2010 coupled with enhanced credit underwriting standards resulted in moderating the growth in volumes of our personal loans and credit cards. Our average volume of wholesale loans increased by 19.2% from Rs. 412.2 billion in fiscal 2009 to Rs. 491.1 billion in fiscal 2010.

Average volumes of our total loan book increased by 11.5% from Rs. 992.0 billion in fiscal 2009 to Rs. 1,106.5 billion in fiscal 2010. Income from the increase in average volumes of our loans was off-set by a decline in yields from an average of 11.8% in fiscal 2009 to 10.7% in fiscal 2010. Loan yields decreased as a result of the general decrease in interest rates in the banking system due to excess liquidity conditions. The wholesale loan yields decreased from 10.5% in fiscal 2009 to 7.9% in fiscal 2010 whereas the retail loan yields remained relatively stable at 12.9% in fiscal 2010 as compared to 12.7% in fiscal 2009 largely due to a moderated growth in volumes in the unsecured retail loans portfolio.

Interest on securities, including dividends, decreased by 3.3% from Rs. 39.0 billion in fiscal 2009 to Rs. 37.7 billion in fiscal 2010 due to a decrease in yields from 7.4% in fiscal 2009 to 6.4% in fiscal 2010.

Other interest revenue decreased by 5.9% for fiscal 2010 compared to fiscal 2009 mainly due to a decrease in earnings from interbank funds since in fiscal 2009 we had relatively higher surplus funds during the liquidity crisis which we then lent in the interbank market. This was partially offset by an increase in interest from our placements with the central government bodies. These placements are made to comply with the extant Reserve Bank of India guidelines on shortfalls in directed lending sub-limits.



**Interest Expense**

Our interest expense on deposits decreased by 9.0% from Rs. 76.7 billion in fiscal 2009 to Rs. 69.9 billion in fiscal 2010. Our average cost of deposits decreased from 5.6% in fiscal 2009 to 4.7% in fiscal 2010 as a result of an increase in the proportion of average current and savings account balances to average total deposits from 41.3% to 47.4%. In addition, there was a decrease in the average cost of time deposits from 8.5% in fiscal 2009 to 7.4% in fiscal 2010. The high cost deposit book of CBoP and the time deposits raised in the second and third quarter of fiscal 2009 also matured or were re-priced. There was an increase in the average volume of our current and savings accounts from Rs. 563.3 billion in fiscal 2009 to Rs. 710.1 billion in fiscal 2010 and a decrease in the average volume of our time deposits from Rs. 800.4 billion in fiscal 2009 to Rs. 788.4 billion in fiscal 2010.

Our interest expense on short-term borrowings decreased by 75.5% from Rs. 5.8 billion in fiscal 2009 to Rs. 1.4 billion in fiscal 2010 mainly on account of a decline in our cost of short-term borrowings from 6.2% in fiscal 2009 to 3.6% in fiscal 2010 added to the fact that our average volumes of short-term borrowings declined by 46.7% from 94.9 billion in fiscal 2009. Our interest expense on long-term debt increased by 73.4%. This is largely attributable to lower and upper tier II debt capital we raised in the second half of fiscal 2009. Our average volumes of long term-debt increased from Rs. 43.5 billion in fiscal 2009 to Rs. 72.4 billion in fiscal 2010.

**Allowance for Credit Losses**

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses decreased by 10.8% from Rs. 20.4 billion in fiscal 2009 to Rs. 18.2 billion in fiscal 2010.

Fiscal 2010 witnessed an improvement in the liquidity position and an overall favorable economic environment vis-à-vis the stress seen due to the financial crises the economy faced in the previous year. This period of relatively easy liquidity and improved borrower repayment capacity were the primary drivers in bettering our collections. There was also a run-down of over Rs. 17 billion in the retail loan book acquired from CBoP. These factors were largely attributable for the decline of 9.3% in the retail loan loss allowance which decreased from Rs. 18.3 billion in fiscal 2009 to Rs. 16.6 billion in fiscal 2010 and 24.1% in the wholesale loan loss allowance which decreased from Rs. 2.1 billion in fiscal 2009 to Rs. 1.6 billion in fiscal 2010.

**Non-Interest Revenue**

Our non-interest revenue increased by 27.7% from Rs. 33.6 billion in fiscal 2009 to Rs. 42.9 billion in fiscal 2010. The following table sets forth the components of our non-interest revenue:

	Year ended March 31,			%
	2009	2010	Increase/ (decrease)	
	(in millions, except percentages)			Increase/ (decrease)
Fees and commissions	Rs. 25,672.1	Rs. 30,469.3	Rs. 4,797.2	18.7%
Realized gains on AFS securities	2,827.5	4,129.4	1,301.9	46.0
Trading securities gains, net	1,114.2	100.2	(1,014.0)	(91.0)
Foreign exchange transactions	4,703.9	5,091.6	387.7	8.2
Derivatives	(2,063.8)	2,911.0	4,974.8	*
Other	1,349.1	198.2	(1,150.9)	(85.3)
<b>Total non-interest revenue</b>	<b>Rs. 33,603.0</b>	<b>Rs. 42,899.7</b>	<b>Rs. 9,296.7</b>	<b>27.7%</b>

\* Not meaningful

Fees and commissions increased by 18.7%; those generated by the retail segment increased by 22.5% while those generated by the wholesale segment decreased by 0.9%. The increase in those generated by the retail segment was primarily because of a growth in service and processing fees and charges on retail asset products. Such fees and charges were primarily comprised of charges on check returns, processing fees on new loans and foreclosure charges. There was an increase in credit card fees due to higher late payment charges and interchange income. Our fees from the sourcing of home loans increased considerably. Fees and commissions earned from our wholesale segment decreased mainly on

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account of a drop in our loan processing and placement fees which was partially off-set by higher processing fees on our custodial services.

Realized gains on AFS securities and trading securities were primarily from the sale of government securities. These gains were crystallized as market yields lowered.

Income from foreign exchange and derivative transactions were driven primarily by spreads on customer transactions based on trade flows and hedging needs of our customers. These revenues were distributed across our corporate and retail customer segments for plain vanilla foreign exchange products and across our corporate customer segment for derivative products. We also had lower fair value adjustments during fiscal 2010 as compared to fiscal 2009 reflective of the lower credit spreads and relatively stable economic environment in fiscal 2010.

**Non- Interest Expense**

Our non-interest expense was comprised of the following:

	2009	2010	Year ended March 31,		2009 % of net revenues	2010 % of net revenues
			Increase/ (decrease)	Increase/ (decrease)		
			(in millions, except percentages)			
Salaries and staff benefits	Rs. 29,169.0	Rs. 31,665.9	Rs. 2,496.9	8.6%	33.9%	30.0%
Premises and equipment	8,650.7	11,033.2	2,382.5	27.5	10.0	10.4
Depreciation and amortization	3,731.4	4,133.7	402.3	10.8	4.3	3.9
Administrative and other	18,332.8	17,808.6	(524.2)	(2.9)	21.4	16.9
Amortization of intangibles	3,271.0	3,769.5	498.5	15.2	3.8	3.6
Total non-interest expense	Rs. 63,154.9	Rs. 68,410.9	Rs. 5,256.0	8.3%	73.4%	64.8%

Total non-interest expense increased by 8.3% from Rs. 63.2 billion in fiscal 2009 to Rs. 68.4 billion in fiscal 2010. As a percentage of our net revenues, non-interest expense was 64.8% in fiscal 2010 as compared to 73.4% in fiscal 2009.

As of March 31, 2010 we had 1,725 branches and 4,232 ATMs across 779 locations, which increased from 1,413 branches and 3,295 ATMs across 528 locations as of March 31, 2009. This led to an overall increase in our non-interest expense.

Salaries and staff benefits increased by 8.6% from Rs. 29.2 billion in fiscal 2009 to Rs. 31.7 billion in fiscal 2010. This increase was primarily attributable to charges on account of stock based compensation. Fringe Benefit Tax ( FBT ) on Employee Stock Options was payable on all stock options that were exercised on or after April 1, 2007. However, the Government of India in Finance (No. 2) Act 2009 dated August 19, 2009 withdrew FBT with effect from April 1, 2009. This modification led to a charge of Rs. 1.2 billion during fiscal 2010. Salaries and staff benefits other than stock based compensation increased marginally by 3.9% as we realized increased efficiencies on the acquisition of CBoP.

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

Depreciation and amortization expenses increased due to the increase in the branch network/ATMs and higher spending on technology and infrastructure to support our growth.

Administrative and other expenses decreased primarily on account of a reduction in our marketing costs.

We continued to amortize the intangible assets that were acquired on the merger of CBoP customer relationships, a branch network, core deposits and favorable leases over their estimated remaining useful life. This amortization resulted in a charge of Rs. 3.8 billion for fiscal 2010 as compared to Rs. 3.3 billion in fiscal 2009.

**Income Tax**

Our income tax expense increased by 59.5% from Rs. 7.7 billion in fiscal 2009 to Rs. 12.3 billion in fiscal 2010. Our effective tax rate was 33.7% in fiscal 2009 and 33.1% in fiscal 2010. The effective tax rate was lower in fiscal 2010 primarily on account of higher tax-free income from our investments in mutual fund units.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2009 and 2010:

	Years ended March 31,	
	2009	2010
Effective statutory income tax rate	33.99%	33.99%



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Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	3.16	3.27
Income exempt from taxes	(3.68)	(4.11)
Other, net	(0.27)	(0.01)
Annual effective income tax rate	33.74%	33.14%

***Net Income***

As a result of the foregoing factors, our net income after taxes increased by 62.7% from Rs. 15.1 billion in fiscal 2009 to Rs. 24.6 billion in fiscal 2010.

## Liquidity and Capital Resources

Our growth over the last three years has been financed by a combination of cash generated from operations, increases in our customer deposits, borrowings and new issuances of equity capital and other securities qualifying as Tier 1 or Tier 2 capital.

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

	2009	Year ended March 31, 2010 (in millions)	2011
<b>Cash Flows from Operating Activities:</b>			
Net income before non-controlling interest	Rs. 15,197.7	Rs. 24,887.8	Rs. 41,527.3
Non cash adjustments to net income	31,630.8	33,134.4	25,509.8
Net change in other assets and liabilities	79,347.9	51,042.2	(16,920.5)
<b>Net cash provided/(used) by operating activities</b>	<b>Rs. 126,176.4</b>	<b>Rs. 109,064.4</b>	<b>Rs. 50,116.6</b>
<b>Cash Flows from Investing Activities:</b>			
Net change in term placements	(19,236.9)	(23,646.0)	(43,925.1)
Net change in investments	(18,522.4)	13,846.8	(157,060.9)
Net change in repurchase options and reverse repurchase options	(67,091.5)	5,497.2	80,000.0
Proceeds from loans securitized	22,595.0		
Loans purchased net of repayments	(34,937.0)	(48,911.4)	(36,828.9)
Increase in loans originated, net of principal collections	(129,660.7)	(284,839.6)	(303,115.8)
Net additions to property and equipment	(6,762.9)	(5,854.8)	(5,745.3)
Cash acquired on merger - net	20,567.5		
<b>Net cash used in investing activities</b>	<b>Rs. (233,048.9)</b>	<b>Rs. (343,907.8)</b>	<b>Rs. (466,676.0)</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase in deposits	212,222.8	246,365.0	409,794.4
Net increase/(decrease) in short-term borrowings	(102,832.5)	70,763.3	(21,185.6)
Proceeds from issuance of shares by subsidiaries to non-controlling interest			113.7
Net increase/(decrease) in long-term debt	20,225.9	9,264.2	17,375.3
Proceeds from issuance of equity shares for options exercised	794.0	5,559.7	8,281.6
Proceeds from issuance of equity shares/warrants/equity shares on exercise of warrants	4,009.2	36,080.5	
Payment of dividends and dividend tax	(3,530.5)	(4,985.8)	(6,440.9)
<b>Net cash provided by financing activities</b>	<b>Rs. 130,888.9</b>	<b>Rs. 363,046.9</b>	<b>Rs. 407,938.5</b>
Effect of exchange rate changes on cash and cash equivalents		(1,869.4)	(35.5)
Net change in cash and cash equivalents	24,016.4	126,334.1	(8,656.4)
Cash and cash equivalents, beginning of year	147,208.0	171,224.4	297,558.5
<b>Cash and cash equivalents, end of year</b>	<b>Rs. 171,224.4</b>	<b>Rs. 297,558.5</b>	<b>Rs. 288,902.1</b>

### *Cash Flows from Operating Activities*

Our net cash provided/used by operating activities reflects our net income, adjustments for tax and non-cash charges such as depreciation and amortization, as well as changes in other assets and liabilities. Our net cash provided by operating activities decreased during fiscal 2011 from Rs. 109.1 billion to Rs. 50.1 billion. This was mainly due to higher cash flows in fiscal 2010 as compared to fiscal 2011 as a result of increase in bills payable.

*Cash Flows from Investing Activities*

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. The increase in loans originated and purchased, net of principal collections and repayments, was Rs. 339.9 billion in fiscal 2011 and Rs. 333.8 billion in fiscal 2010 primarily on account of an increase in our retail loan portfolio. Increase in investments in fiscal 2011 was Rs. 157.1 billion primarily on account of an increase in available- for- sale debt securities.

**Cash Flows from Financing Activities**

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. The increase in deposits is attributable to the overall expansion of our business. Our total deposits increased by 24.5% from Rs. 1,672.4 billion in fiscal 2010 to Rs. 2,082.1 billion in fiscal 2011. Savings account deposits at Rs. 634.5 billion and current account deposits at Rs. 462.9 billion together accounted for approximately 52.7% of total deposits as of March 31, 2011. There was a 22.7% increase in our time deposits from Rs. 802.4 billion in fiscal 2010 to Rs. 984.8 billion in fiscal 2011.

Our short-term borrowings decreased by Rs. 21.5 billion from Rs. 98.2 billion in fiscal 2010 to Rs. 76.7 billion in fiscal 2011. There was an increase in long-term debt from Rs. 75.9 billion in fiscal 2010 to Rs. 93.3 billion in fiscal 2011 primarily due to borrowings from refinance institutions and the upper tier II debt capital we raised in the first half of fiscal 2011.

**Financial Condition****Assets**

The following table sets forth the principal components of our assets as of March 31, 2010 and March 31, 2011:

	As of March 31,			%
	2010	2011	Increase/ (decrease)	Increase/ (decrease)
		(in millions except percentages)		
Cash and cash equivalents	Rs. 297,558.5	Rs. 288,902.1	Rs. (8,656.4)	(2.9)%
Term placements	58,166.3	102,049.4	43,883.1	75.4
Investments held for trading	28,158.8	38,216.9	10,058.1	35.7
Investments available for sale	481,398.8	628,704.9	147,306.1	30.6
Securities purchased under agreements to resell	20,000.0		(20,000)	(100)
Loans, net	1,297,180.4	1,622,856.0	325,675.6	25.1
Accrued interest receivable	13,767.3	19,752.6	5,985.3	43.5
Property and equipment	22,302.8	22,881.2	578.4	2.6
Intangibles	8,961.5	6,402.9	(2,558.6)	(28.6)
Goodwill	74,937.9	74,937.9		
Other assets	114,088.1	115,532.4	1,444.3	1.3
<b>Total assets</b>	<b>Rs. 2,416,520.4</b>	<b>Rs. 2,920,236.3</b>	<b>Rs. 503,715.9</b>	<b>20.8%</b>

Our total assets increased by 20.8 % to Rs. 2,920.2 billion in fiscal 2011 from Rs. 2,416.5 billion in fiscal 2010.

Cash and cash equivalents include currency on hand as well as demand deposits with banks or financial institutions. We are also required to maintain cash balances with the Reserve Bank of India to meet our cash reserve ratio requirement. We are required to maintain a specific percentage of our demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system.

Term placements consist of placements with banks and financial institutions in the ordinary course of business. These have original maturities for periods ranging between three months and seven years. Term placements have increased on account of our placements with central government bodies. These placements are made to comply with the extant Reserve Bank of India guidelines on shortfalls in priority sector lending sub-limits and account for over 90% of such placements as of March 31, 2011.

Securities held under the trading portfolio are for trading purposes and are generally sold within 90 days from purchase. Investments held for trading increased by 35.7% from Rs. 28.2 billion as of March 31, 2010 to Rs. 38.2 billion as of March 31, 2011, primarily on account of investments in deposit certificates issued by banks.

Investments available for sale increased by 30.6%, primarily on account of an increase in investments in Government of India securities for SLR requirements.



Net loans increased due to an increase in both our retail and wholesale lending. Our outstanding gross retail loan portfolio increased by 33.7% from Rs. 733.0 billion as of March 31, 2010 to Rs. 980.1 billion as of March 31, 2011. Secured loans were the key drivers of the increase in the retail loan book. We originate home loans under an arrangement with HDFC Limited. During the year we purchased from HDFC Limited over Rs. 43 billion of AAA credit enhanced home loans. This growth in the retail loans was complemented by an increase of 13.7% in the gross wholesale loan book from Rs. 588.0 billion to Rs. 668.6 billion on account of an increase in facilities given to our customers to meet their working capital requirements as well as an increase in our term loan portfolio.

Our distribution network grew from 1,725 branches and 4,232 ATMs as of March 31, 2010 to 1,986 branches and 5,471 ATMs as of March 31, 2011. This expansion led to an increase of 2.6% in net property and equipment.

We acquired branch network representing contractual and non contractual customer relationships, customer list, core deposits and favorable leases as identified intangible assets on account of our acquisition of CBoP. These intangibles amounted to Rs. 16.0 billion as of the date of acquisition. We have amortized these intangibles over their estimated remaining useful life, resulting in a charge of Rs. 3.8 billion and Rs. 2.6 billion for fiscals 2010 and 2011, respectively. Consequently, these intangibles were carried at an amortized value of Rs. 6.4 billion as of March 31, 2011.

We paid a purchase consideration of Rs. 102.8 billion to acquire the net assets of CBoP at a fair value of Rs. 27.8 billion, thereby recognizing unidentified intangibles (goodwill) of Rs. 74.9 billion during fiscal 2009. The primary purpose of the acquisition was to realize potential synergies, growth opportunities and cost savings from combining our businesses. These anticipated synergies contributed to a purchase price that resulted in the recognition of goodwill. The said goodwill has not been impaired as of March 31, 2011 and has been carried forward at the same value as that at the acquisition date.

Other assets increased by 1.3% from Rs. 114.1 billion as of March 31, 2010 to Rs. 115.5 billion as of March 31, 2011.

#### **Liabilities and Shareholders Equity**

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2010 and March 31, 2011:

	As of March 31,			
	2010	2011	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
<b>Liabilities</b>				
Interest bearing deposits	Rs. 1,301,046.0	Rs. 1,619,283.6	Rs. 318,237.6	24.5%
Non-interest bearing deposits	371,354.3	462,845.4	91,491.1	24.6
Total deposits	1,672,400.3	2,082,129.0	409,728.7	24.5
Securities sold under repurchase agreements		60,000.0	60,000.0	*
Short-term borrowings	98,165.0	76,686.7	(21,478.3)	(21.9)
Accrued interest payable	19,964.2	27,746.0	7,781.8	39.0
Long-term debt	75,854.4	93,287.2	17,432.8	23.0
Accrued expenses and other liabilities	243,682.3	232,557.6	(11,124.7)	(4.6)
Total liabilities	2,110,066.2	2,572,406.5	462,340.3	21.9
Non-controlling interest in subsidiaries	872.5	1,338.1	465.6	53.4
HDFC Bank Limited shareholders equity	305,581.7	346,491.7	40,910.0	13.4
Total liabilities and shareholders equity	Rs. 2,416,520.4	Rs. 2,920,236.3	Rs. 503,715.9	20.8%

\* Not meaningful

Our total liabilities increased by 21.9% from Rs. 2,110.0 billion in fiscal 2010 to Rs. 2,572.4 billion in fiscal 2011. The increase in our interest-bearing deposits was on account of an increase in savings deposits and in time deposits. Savings account deposits increased by 27.2%

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from Rs. 498.7 billion as of March 31, 2010 to Rs. 634.5 billion as of March 31, 2011. Time deposits increased by 22.7% from Rs. 802.4 billion as of March 31, 2010 to Rs. 984.8 billion as of March 31, 2011. Our continued efforts to raise low-cost funds resulted in an increase in our non-interest bearing deposits by 24.6% from Rs. 371.4 billion in fiscal 2010 to Rs. 462.8 billion in fiscal 2011. Of our total deposits as of March 31, 2011, retail deposits accounted for approximately 67% and wholesale deposits accounted for the balance.

Most of our funding requirements are met through short-term and medium-term funding sources. Of our total non-equity sources of funding as of March 31, 2011, deposits accounted for 80.9%, short-term borrowings accounted for 3.0% and long-term debt accounted for 3.6%. Our short-term borrowings, which were primarily comprised of money market borrowings, decreased by Rs. 21.5 billion in fiscal 2011 as compared to fiscal 2010. Securities sold under repurchase agreements were Rs. 60.0 billion as of March 31, 2011 on account of our borrowing under the liquidity adjustment facility that is offered by the Reserve Bank of India. The borrowing was against our investments in government securities that we held in excess of the statutory liquidity requirements.

Long-term debt increased by 23.0% in fiscal 2011 primarily on account of an issue of subordinated debt qualifying for Upper Tier II capital of Rs. 11.1 billion.

Accrued expenses and other liabilities decreased by 4.6% from Rs. 243.7 billion to Rs. 232.6 billion primarily because of lower bills payable and remittances in transit.

Shareholders' equity increased primarily due to an increase in the retained earnings and additional paid-in capital on account of the exercise of stock options by employees. This was partially offset by an increase of Rs. 5.6 billion in unrealized loss on available for sale securities.

### Capital

We are a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on our financial position. As per RBI's prudential norms on capital adequacy under the Basel I framework (Basel I), we are required to maintain a capital to risk-weighted asset ratio of a minimum of 9%, for both credit risk and market risk. RBI has also issued its prudential guidelines on Capital Adequacy and Market Discipline Implementation of the New Capital Adequacy Framework (Basel II). We migrated to the new framework effective March 31, 2009. Under Basel II guidelines, we are required to maintain a minimum capital to risk-weighted asset ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier 1 capital ratio of 6%. Further, the minimum capital maintained by us as of March 31, 2011 is subject to a prudential floor, which is the higher of the following amounts:

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

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

	2010		Basel I 2011		2011		Basel II 2011		2011			
Tier 1 capital	Rs.	205,488.5	Rs.	237,704.1	US\$	5,336.9	Rs.	205,488.5	Rs.	237,183.5	US\$	5,325.2
Tier 2 capital		64,919.4		77,438.1		1,738.6		64,919.4		77,438.1		1,738.6
<b>Total capital</b>	<b>Rs.</b>	<b>270,407.9</b>	<b>Rs.</b>	<b>315,142.2</b>	<b>US\$</b>	<b>7,075.5</b>	<b>Rs.</b>	<b>270,407.9</b>	<b>Rs.</b>	<b>314,621.6</b>	<b>US\$</b>	<b>7,063.8</b>
Total risk weighted assets and contingents	Rs.	1,643,327.7	Rs.	2,057,206.2	US\$	46,187.8	Rs.	1,549,830.1	Rs.	1,939,602.6	US\$	43,547.4
<b>Capital ratios of the Bank:</b>												
Tier 1		12.50%		11.56%				13.26%		12.23%		
Total capital		16.45%		15.32%				17.44%		16.22%		
<b>Minimum capital ratios required by the RBI:</b>												
Tier 1		4.50%		4.50%				6.00%		6.00%		
Total capital		9.00%		9.00%				9.00%		9.00%		

### Capital Expenditure



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Our capital expenditures consist principally of expenditures relating to our branch network expansion, as well as investments in our technology and communications infrastructure.

We have current plans for aggregate capital expenditures of approximately Rs. 15.1 billion in fiscal 2012. This budgeted amount includes Rs. 3.8 billion to expand our branch and back office network, Rs. 1.0 billion to expand our ATM network, Rs. 0.7 billion to expand our Electronic Data Capture terminal network and Rs. 9.7 billion to upgrade and expand our hardware, data center, network and other systems. We may use these budgeted amounts for other purposes depending on, among other factors, the business environment prevailing at the time; consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

### Financial Instruments and Off-Balance Sheet Arrangements

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

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

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

We earn profit on customer transactions by way of a margin as a mark-up over the inter-bank exchange or interest rate. We earn profit on inter-bank transactions by way of a spread between the purchase rate and the sale rate. These profits are recorded as income from foreign exchange and derivative transactions. The RBI imposes limits on our ability to hold overnight positions in foreign exchange and derivatives. See Business Treasury Foreign Exchange and Derivatives . The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and derivative contracts as of March 31, 2011, together with the fair values on each reporting date.

	Notional	Gross Assets	Gross Liabilities	Net Fair Value
	(In millions)			
Interest rate derivatives	Rs. 2,045,524.2	Rs. 18,885.7	Rs. 20,835.1	Rs. (1,949.4)
Forward rate agreements	614.6	0.6	0.5	0.1
Currency options	358,206.1	5,448.6	5,840.6	(392.0)
Currency swaps	35,368.4	927.5	726.3	201.2
Forward exchange contracts	3,006,909.9	50,331.2	46,999.3	3,331.9
Total	Rs. 5,446,623.2	Rs. 75,593.6	Rs. 74,401.8	Rs. 1,191.8

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

**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 toward a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The nominal values of guarantees and documentary credits for the dates set forth below were as follows:

	As of March 31,	
	2010	2011
	(in millions)	
Bank guarantees:		
Financial guarantees	Rs. 58,053.1	Rs. 62,104.7
Performance guarantees	40,808.9	54,857.1
Documentary credits	128,152.6	154,406.1
<b>Total</b>	<b>Rs. 227,014.6</b>	<b>Rs. 271,367.9</b>

Guarantees and documentary credits outstanding increased by 19.5% to Rs. 271.4 billion as of March 31, 2011, principally due to general growth in our wholesale banking business and to meet our clients' trade requirements.

**Loan Sanction Letters**

In some cases we issue sanction letters to customers indicating our intent to provide new loans. The amount of loans referred to in these letters that have not yet been made was Rs. 518.5 billion as of March 31, 2011. On request, we disburse these loans subject to the customer's creditworthiness at that time and at interest rates in effect on the date the loans are made. We are not obligated to make these loans, and the sanctions are subject to periodic review. See also Note 23 to our audited financial statements included elsewhere in this report.

**Contractual Obligations and Commercial Commitments****Contractual Obligations**

	Total	Payments due by period, as of March 31, 2011			
		Less than 1 year	1-3 years (in millions)	3-5 years	After 5 years
Subordinated debt	Rs. 73,930.5	Rs. 2.0	Rs. 16,160.0	Rs. 57,768.5	
Other long term debt	19,356.7	4,925.1	11,510.4	750.0	2,171.2
Operating leases <sup>(a)</sup>	25,450.9	4,378.9	8,008.4	6,749.6	6,314.0
Short-term borrowings	76,686.7	76,686.7			
Securities sold under repurchase agreements	60,000.0	60,000.0			
Unconditional purchase obligations <sup>(b)</sup>	3,551.2	3,551.2			
<b>Total</b>	<b>Rs. 258,976.0</b>	<b>Rs. 149,543.9</b>	<b>Rs. 19,518.8</b>	<b>Rs. 23,659.6</b>	<b>Rs. 66,253.7</b>

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

(b) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2011. See Note 26 Commitments and contingencies.

**Commercial Commitments**

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

We have recognized a liability of Rs. 742.2 million as of March 31, 2011 as required by FASB ASC 460.10. Based on historical trends and as required by FASB ASC 450, we have recognized a liability of Rs. 394.1 million as of March 31, 2011.

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

The residual maturities of the above obligations as of March 31, 2011 are set forth in the following table:

	Total amounts committed	Amount of commitment expiration per period			
		Less than 1 year	1-3 years (in millions)	3-5 years	Over 5 years
Documentary credits	Rs. 154,406.1	Rs. 150,620.3	Rs. 3,785.6	Rs.	Rs. 0.2
Guarantees	116,961.8	82,544.2	25,764.3	3,243.6	5,409.7
Derivatives*	5,446,623.2	4,208,247.1	752,859.3	445,656.9	39,859.9
Total	Rs. 5,717,991.1	Rs. 4,441,411.6	Rs. 782,409.2	Rs. 448,900.5	Rs. 45,269.8

\* Denotes notional principal amounts.

***Extent of dependence on single customer exposures***

Our exposure to a borrower is subject to the regulatory limits established by the RBI from time to time, or specific approval by RBI. The exposure-ceiling limit for a single borrower is 15% of our capital funds. This limit may be exceeded by an additional 5% (i.e. up to 20%) provided the additional credit exposure is on account of infrastructure or by an additional 10% (i.e. up to 25%) provided the credit exposure is to oil companies to whom bonds have been issued by the Government of India. In addition to the above exposure limit, we may, in exceptional circumstances, with the approval of the Board, consider increasing our exposure to a borrower up to an additional 5% of the capital funds. Our exposure to a single NBFC or NBFC-asset financing companies (AFC) should not exceed 10.0% or 15.0% respectively, of our capital funds. We may however, assume exposures on a single NBFC or NBFC-AFC up to 15.0% or 20.0% respectively, if it is on account of funds on lent by the NBFC or NBFC-AFC to the infrastructure sector. Our exposure to infrastructure finance companies (IFC) should not exceed 15.0% of our capital funds. However, this may be exceeded by an additional 5% (i.e. up to 20%) if the same is on account of funds on lent by the IFC to the infrastructure sector.

Our exposures to our ten largest borrowers as of March 31, 2011, computed as per RBI guidelines, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures as per Indian GAAP were as follows. None of these exposures were impaired as of March 31, 2011:

Borrower	Borrower Industry	March 31, 2011			Total Exposure
		Funded Exposure Rs. in million	Non-Funded Exposure	Total Exposure	
Borrower 1	Banks and Financial Institutions	Rs. 65,030.5	Rs.	Rs. 65,030.5	US\$ 1,460.0
Borrower 2	Coal & Petroleum Products	33,579.5	24,000	57,579.5	1,292.8
Borrower 3	NBFC / Financial Intermediaries	30,000.0		30,000.0	673.6
Borrower 4	NBFC / Financial Intermediaries	30,000.0		30,000.0	673.6
Borrower 5	NBFC / Financial Intermediaries	30,000.0		30,000.0	673.6
Borrower 6	NBFC / Financial Intermediaries	25,000.0		25,000.0	561.3
Borrower 7	Coal & Petroleum Products	14,376.4	10,439.1	24,815.5	557.2
Borrower 8	Coal & Petroleum Products	1,209.1	21,672.2	22,881.3	513.7
Borrower 9	Non-ferrous Metals	418.9	20,813.5	21,232.4	476.7
Borrower 10	NBFC / Financial Intermediaries	20,000.0		20,000.0	US\$ 449.0

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As of March 31, 2011, our exposure to eighteen borrowers was more than 5 percent of our capital funds, which was mainly comprised of large credit facilities to these borrowers. Of the total exposure to these borrowers, approximately 57 percent was secured by collateral.

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Our top single customer exposure is to a financial institution that was established by an act passed by the Indian Parliament for agricultural and rural development. Our exposure to the said organization is in the nature of placements made to comply with the extant Reserve Bank of India guidelines on shortfall in directed lending sub-limits. The regulatory ceiling prescribed by RBI is not applicable to exposures to this organization.

There were no exposures that exceeded the regulatory ceiling established by RBI.

## MANAGEMENT

### Directors and Senior Management

Our Memorandum and Articles of Association (the "Articles") provide that until otherwise determined by a general meeting of shareholders, the number of our directors shall not be less than 3 or more than 15, excluding directors appointed pursuant to the terms of issued debt. Our board of directors consisted of ten members as of March 31, 2011.

As per the Indian Companies Act, 1956 (the "Companies Act"), at least two-thirds of our directors are required to retire by rotation, with one-third of these retiring at each annual general meeting. However, any retiring director may be re-appointed by resolution of the shareholders.

Under the terms of our organizational documents, HDFC Limited has a right to nominate two directors who are not required to retire by rotation, so long as HDFC Limited, its subsidiaries or any other company promoted by HDFC Limited either singly or in the aggregate holds not less than 20% of our paid-up equity share capital. The two directors so nominated by HDFC Limited currently are the Chairman and the Managing Director.

The Banking Regulation Act requires that not less than 51% of the board members shall have special knowledge or practical experience in one or more of the following areas: accounting, finance, agriculture and rural economy, banking, co-operation, economics, law, small scale industry and any other matter the RBI may specify. Out of these, not less than two directors shall have specialized knowledge or practical experience in agriculture and the rural economy, co-operation or small-scale industry. Mr. Ashim Samanta has specialized knowledge and experience in small-scale industry. Dr. Pandit Palande has specialized knowledge and experience in the agricultural sector.



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

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

Our Board of Directors, as of March 31, 2011, was comprised of:

Name	Position	Age
Mr. C.M Vasudev	Chairman	67
Mr. Aditya Puri	Managing Director	60
Mr. Harish Engineer	Executive Director	62
Mr. Paresh Sukthankar	Executive Director	48
Mr. Anami N Roy <sup>1</sup>	Non-Executive Director	61
Mr. Ashim Samanta	Non-Executive Director	56
Mr. Bobby Parikh <sup>2</sup>	Non-Executive Director	47
Dr. Pandit Palande	Non-Executive Director	49
Mr. Partho Datta <sup>3</sup>	Non-Executive Director	63
Mrs. Renu Karnad <sup>4</sup>	Non-Executive Director	58

<sup>1</sup> Mr. Anami N Roy was appointed a director on the Board of the Bank effective January 27, 2011

<sup>2</sup> Mr. Bobby Parikh was re-appointed a director on the Board of the Bank effective January 27, 2011

<sup>3</sup> Mr. Partho Datta was appointed a director on the Board of the Bank effective September 30, 2010

<sup>4</sup> Mrs. Renu Karnad was re-appointed a director on the Board of the Bank effective January 27, 2011

The following are brief biographies of our directors:

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

Mr. Vasudev