

HDFC BANK LTD  
Form 6-K  
January 28, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934**  
**For the month of January 2015**  
**Commission File Number 001-15216**

**HDFC BANK LIMITED**  
**(Translation of registrant's name into English)**

**HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai. 400 013, India**  
**(Address of principal executive office)**

Edgar Filing: HDFC BANK LTD - Form 6-K

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): Yes  No

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): Yes  No

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HDFC BANK LIMITED**

(Registrant)

Date: January 28, 2015

By /s/ Sashidhar Jagdishan

Name: Sashidhar Jagdishan

Title: Chief Financial Officer

**Table of Contents**

EXHIBIT INDEX

The following documents (bearing the exhibit number listed below) are furnished herewith and are made a part of this Report pursuant to the General Instructions for Form 6-K.

Exhibit I

Description

Financial Statements of HDFC Bank Limited prepared in accordance with US GAAP as of and for the six month periods ended September 30, 2013 and 2014.

101 The following financial information from HDFC Bank Ltd. on Form 6-K for the six months periods ended September 30, 2013 and 2014 formatted in XBRL: (i) Condensed consolidated statements of income, (ii) Condensed consolidated statements of comprehensive income, (iii) Condensed consolidated balance sheets, (iv) Condensed consolidated statements of shareholders' equity, (v) Condensed consolidated statements of cash flows, and (vi) Notes to condensed consolidated financial statements.

---

**Table of Contents**

**Exhibit I**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b>Consolidated Financial Statements of HDFC Bank Limited and its Subsidiaries:</b>	
<u>Condensed consolidated balance sheets as of March 31, 2014 and September 30, 2014</u>	F-2
<u>Condensed consolidated statements of income for the six-months periods ended September 30, 2013 and 2014</u>	F-3
<u>Condensed consolidated statements of comprehensive income for the six-months periods ended September 30, 2013 and 2014</u>	F-4
<u>Condensed consolidated statements of cash flows for the six-months periods ended September 30, 2013 and 2014</u>	F-5
<u>Condensed consolidated statements of shareholders' equity for the periods ended September 30, 2013 and 2014</u>	F-7
<u>Notes to condensed consolidated financial statements</u>	F-9

F-1

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014	As of September 30, 2014 (unaudited)	September 30, 2014 (unaudited)
	(In millions, except number of shares)		
<b>ASSETS:</b>			
Cash and cash equivalents	Rs. 370,835.2	Rs. 228,331.5	US\$ 3,687.5
Term placements	176,481.7	193,477.8	3,124.6
Investments held for trading, at fair value	65,077.9	37,172.5	600.3
Investments available for sale, at fair value [includes restricted investments of Rs. 670,603.5 and Rs. 730,463.5 (US\$ 11,796.9), respectively]	908,824.3	1,118,027.0	18,056.0
Securities purchased under agreements to resell	57,322.6	38,316.1	618.8
Loans [net of allowance of Rs. 42,613.2 and Rs. 45,823.7 (US\$ 740.0), respectively]	3,185,648.1	3,402,552.1	54,950.8
Accrued interest receivable	40,388.5	40,371.2	652.0
Property and equipment, net	31,369.1	31,099.3	502.2
Intangible assets, net	231.0	20.5	0.3
Goodwill	74,937.9	74,937.9	1,210.2
Other assets	214,291.0	155,856.1	2,517.1
<b>Total assets</b>	<b>Rs. 5,125,407.3</b>	<b>Rs. 5,320,162.0</b>	<b>US\$ 85,919.8</b>

**LIABILITIES AND SHAREHOLDERS  
EQUITY:**

**Liabilities:**

Interest-bearing deposits	Rs. 3,057,154.5	Rs. 3,327,758.5	US\$ 53,742.9
Non-interest-bearing deposits	612,845.6	576,107.9	9,304.1
<b>Total deposits</b>	<b>3,670,000.1</b>	<b>3,903,866.4</b>	<b>63,047.0</b>
Securities sold under repurchase agreements		15,000.0	242.2
Short-term borrowings	150,775.5	104,571.9	1,688.8
Accrued interest payable	27,734.7	38,870.5	627.8

Edgar Filing: HDFC BANK LTD - Form 6-K

Long-term debt	395,208.6	406,221.4	6,560.4
Accrued expenses and other liabilities	348,687.7	277,094.7	4,474.9
Total liabilities	Rs. 4,592,406.6	Rs. 4,745,624.9	US\$ 76,641.1
Commitments and contingencies (see note 14)			
<b>Shareholders equity:</b>			
Equity shares: par value Rs. 2.0 each; authorized 2,750,000,000 shares; issued and outstanding 2,399,050,435 shares and 2,414,322,155 shares, as of March 31, 2014 and September 30, 2014, respectively	Rs. 4,798.1	Rs. 4,828.6	US\$ 78.0
Additional paid-in capital	271,709.6	282,484.9	4,562.1
Retained earnings	175,105.9	198,781.7	3,210.3
Statutory reserve	91,883.5	91,883.5	1,483.9
Accumulated other comprehensive income (loss)	(11,590.4)	(4,183.7)	(67.6)
Total HDFC Bank Limited shareholders equity	531,906.7	573,795.0	9,266.7
Noncontrolling interest in subsidiaries	1,094.0	742.1	12.0
Total shareholders equity	533,000.7	574,537.1	9,278.7
Total liabilities and shareholders equity	Rs. 5,125,407.3	Rs. 5,320,162.0	US\$ 85,919.8

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

**Six months ended September 30,**  
**2013                      2014                      2014**  
(In millions, except share and per share amounts)

<b>Interest and dividend revenue:</b>			
Loans	Rs. 154,036.3	Rs. 184,717.1	US\$ 2,983.2
Trading securities	3,412.5	2,459.3	39.7
Available for sale securities	38,460.8	44,038.0	711.2
Other	6,097.3	7,390.8	119.4
<b>Total interest and dividend revenue</b>	<b>202,006.9</b>	<b>238,605.2</b>	<b>3,853.5</b>
<b>Interest expense:</b>			
Deposits	88,448.4	106,776.4	1,724.4
Short-term borrowings	11,365.7	3,719.6	60.1
Long-term debt	11,784.7	14,744.6	238.1
Other	35.7	206.5	3.3
<b>Total interest expense</b>	<b>111,634.5</b>	<b>125,447.1</b>	<b>2,025.9</b>
<b>Net interest revenue</b>	<b>90,372.4</b>	<b>113,158.1</b>	<b>1,827.6</b>
Provision for credit losses	8,887.3	7,332.5	118.4
<b>Net interest revenue after provision for credit losses</b>	<b>81,485.1</b>	<b>105,825.6</b>	<b>1,709.2</b>
<b>Non-interest revenue, net:</b>			
Fees and commissions	27,923.0	32,309.8	521.8
Trading securities gain/(loss), net	(781.9)	218.0	3.5
Realized gain/(loss) on sales of available for sale securities, net	1,891.8	244.2	3.9
Other than temporary impairment losses on available for sale securities		(1.8)	



Edgar Filing: HDFC BANK LTD - Form 6-K

Foreign exchange transactions	(225.9)	747.6	12.1
Derivatives gain/(loss), net	4,575.5	(774.1)	(12.5)
Other, net	237.2	160.7	2.6
Total non-interest revenue, net	33,619.7	32,904.4	531.4
Total revenue, net	115,104.8	138,730.0	2,240.6
Non-interest expense:			
Salaries and staff benefits	29,132.2	34,257.9	553.3
Premises and equipment	9,733.6	10,021.1	161.8
Depreciation and amortization	3,537.7	3,392.6	54.8
Administrative and other	18,846.6	23,264.6	375.8
Amortization of intangible assets	834.2	210.5	3.4
Total non-interest expense	62,084.3	71,146.7	1,149.1
Income before income tax expense	53,020.5	67,583.3	1,091.5
Income tax expense	18,503.1	24,576.7	396.9
Net income before noncontrolling interest	Rs. 34,517.4	Rs. 43,006.6	US\$ 694.6
Less: Net income attributable to noncontrolling interest	5.8	30.1	0.5
Net income attributable to shareholders of HDFC Bank Limited	Rs. 34,511.6	Rs. 42,976.5	US\$ 694.1
Per share information:			
Earnings per equity share basic	Rs. 14.46	Rs. 17.85	US\$ 0.29
Earnings per equity share diluted	Rs. 14.35	Rs. 17.71	US\$ 0.28
Per ADS information (where 1 ADS represents 3 shares):			
Earnings per ADS basic	Rs. 43.38	Rs. 53.55	US\$ 0.87
Earnings per ADS diluted	Rs. 43.05	Rs. 53.13	US\$ 0.84
Dividends declared per equity share	Rs. 5.50	Rs. 6.85	US\$ 0.11

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

	<b>Six months ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>		
Net income before noncontrolling interest	Rs. 34,517.4	Rs. 43,006.6	US\$ 694.6
Other comprehensive income, net of tax:			
Foreign currency translation reserve:			
Net unrealized gain (loss) arising during the period	275.8	73.8	1.2
Available for sale securities:			
Net unrealized gain (loss) arising during the period [net of tax Rs. (9,095.5) and Rs.3,675.3, respectively]	(17,676.7)	7,138.0	115.3
Reclassification adjustment for net (gain)/ loss included in net income [net of tax Rs. (164.2) and Rs. 100.4, respectively]	(318.9)	194.9	3.1
Other comprehensive income, net of tax	(17,719.8)	7,406.7	119.6
<b>Total comprehensive income</b>	<b>16,797.6</b>	<b>50,413.3</b>	<b>814.2</b>
Less: Comprehensive income attributable to noncontrolling interest	5.8	30.1	0.5
<b>Comprehensive income attributable to shareholders of HDFC Bank Limited</b>	<b>Rs. 16,791.8</b>	<b>Rs. 50,383.2</b>	<b>US\$ 813.7</b>

See accompanying notes to condensed consolidated financial statements

Table of Contents

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Six months ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>		
<b>Cash flows from operating activities:</b>			
Net income before noncontrolling interest	Rs. 34,517.4	Rs. 43,006.6	US\$ 694.6
Adjustment to reconcile net income to net cash provided by operating activities			
Provision for credit losses	8,887.3	7,332.5	118.4
Depreciation and amortization	3,537.7	3,392.6	54.8
Amortization of intangible assets	834.2	210.5	3.4
Amortization of deferred acquisition costs	2,052.4	2,846.2	46.0
Amortization of premium (discount) on investments	(343.7)	(573.8)	(9.3)
Other than temporary impairment losses on available for sale securities		1.8	
Provision for deferred income taxes	(3,013.4)	(441.2)	(7.1)
Share-based compensation expense	1,710.7	4,985.4	80.5
Net realized (gain) loss on sale of available for sale securities	(1,891.8)	(244.2)	(3.9)
(Gain) loss on disposal of property and equipment, net	(1.7)	(52.5)	(0.8)
Exchange (gain) loss	(6,283.3)	1,928.1	31.1
Net change in:			
Investments held for trading	10,152.9	24,356.4	393.4
Accrued interest receivable	(3,474.7)	92.6	1.5
Other assets	(99,019.1)	65,099.7	1,051.3
Accrued interest payable	(28,638.5)	10,973.4	177.2
Accrued expense and other liabilities	88,860.1	(81,303.2)	(1,313.0)
Net cash provided by operating activities	7,886.5	81,610.9	1,318.1

**Cash flows from investing activities:**

Net change in term placements	13,007.1	(16,996.1)	(274.5)
Activity in available for sale securities:			
Purchases	(290,694.0)	(570,066.7)	(9,206.5)
Proceeds from sales	44,103.2	88,484.8	1,429.0
Maturities, prepayments and calls	295,534.1	289,329.3	4,672.7
Net change in repurchase options and reverse repurchase options	53,500.0	34,006.5	549.2
Loans purchased	(11,338.0)	(20,148.7)	(325.4)
Repayments on loans purchased	19,533.1	18,537.4	299.4
Increase in loans originated, net of principal collections	(312,443.2)	(216,578.3)	(3,497.7)
Additions to property and equipment	(5,658.6)	(3,444.2)	(55.6)
Proceeds from sale or disposal of property and equipment	21.5	100.0	1.6
Net cash used in investing activities	(194,434.8)	(396,776.0)	(6,407.8)

See accompanying notes to condensed consolidated financial statements

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****(Unaudited)**

	<b>Six months ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>		
<b>Cash flows from financing activities:</b>			
Net increase in deposits	164,070.8	224,726.4	3,629.2
Net increase (decrease) in short-term borrowings	64,124.1	(48,340.2)	(780.7)
Purchase of subsidiary shares from noncontrolling interest	(2,265.8)	(715.7)	(11.6)
Proceeds from issue of shares by a subsidiary to noncontrolling interests	140.4		
Proceeds from issuance of long-term debt	28,683.2	40,865.1	660.0
Repayment of long-term debt	(34,697.5)	(33,772.8)	(545.4)
Proceeds from issuance of equity shares for options exercised	4,059.5	6,154.1	99.4
Payment of dividends and dividend tax	(15,382.3)	(19,300.7)	(311.7)
Net cash provided by financing activities	208,732.4	169,616.2	2,739.2
Effect of exchange rate changes on cash and cash equivalents	10,294.6	3,045.2	49.1
Net change in cash and cash equivalents	32,478.7	(142,503.7)	(2,301.4)
Cash and cash equivalents, beginning of year	218,740.2	370,835.2	5,988.9
<b>Cash and cash equivalents, end of period</b>	Rs. 251,218.9	Rs. 228,331.5	US\$ 3,687.5
<b>Supplementary cash flow information:</b>			
Interest paid	Rs. 140,281.6	Rs. 114,311.3	US\$ 1,846.1
Income taxes paid	Rs. 16,762.3	Rs. 25,872.5	US\$ 417.8
<b>Non-cash investment activities</b>			
Payable for purchase of property and equipment	Rs. 1,035.7	Rs. 539.8	US\$ 8.7

See accompanying notes to condensed consolidated financial statements



Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****(Unaudited)**

<b>Number of Equity Shares</b>	<b>Equity Share Capital</b>	<b>Additional Paid In Capital</b>	<b>Advance received pending allotment of shares</b>	<b>Retained Earnings</b>	<b>Statutory Reserve*</b>	<b>Accumulated Other Comprehensive Income (loss)</b>	<b>Total HDFC Bank Limited Shareholders' Equity</b>	<b>Noncontrolling interest</b>
2,379,419,030	Rs. 4,758.8	Rs. 259,966.3	Rs. 221.5	Rs. 132,773.3	Rs. 70,269.0	Rs. 485.4	Rs. 468,474.3	Rs. 1,903.6
11,829,130	23.7	4,257.3	(221.5)				4,059.5	
		1,710.7					1,710.7	
				(15,382.3)			(15,382.3)	
		(1,149.5)					(1,149.5)	(1,116.3)
				34,511.6			34,511.6	140.4
						(17,719.8)	(17,719.8)	5.8
<b>2,391,248,160</b>	<b>Rs. 4,782.5</b>	<b>Rs. 264,784.8</b>	<b>Rs.</b>	<b>Rs. 151,902.6</b>	<b>Rs. 70,269.0</b>	<b>Rs. (17,234.4)</b>	<b>Rs. 474,504.5</b>	<b>Rs. 933.5</b>

See accompanying notes to condensed consolidated financial statements





Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Continued)****(Unaudited)**

<b>Number of Equity Shares</b>	<b>Equity Share Capital</b>	<b>Additional Paid In Capital</b>	<b>Advance received pending allotment of shares</b>	<b>Retained Earnings</b>	<b>Statutory Reserve*</b>	<b>Accumulated Other Comprehensive Income (loss)</b>	<b>Total HDFC Bank Limited Shareholders Equity</b>	<b>Noncontrolli interest</b>
<b>(In millions, except for equity shares)</b>								
<b>399,050,435</b>	<b>Rs. 4,798.1</b>	<b>Rs. 271,709.6</b>	<b>Rs.</b>	<b>Rs. 175,105.9</b>	<b>Rs. 91,883.5</b>	<b>Rs. (11,590.4)</b>	<b>Rs. 531,906.7</b>	<b>Rs. 1,094.</b>
15,271,720	30.5	6,123.6					6,154.1	
		4,985.4					4,985.4	
				(19,300.7)			(19,300.7)	
		(333.7)					(333.7)	(382.
				42,976.5			42,976.5	30.
						7,406.7	7,406.7	
<b>414,322,155</b>	<b>Rs. 4,828.6</b>	<b>Rs. 282,484.9</b>	<b>Rs.</b>	<b>Rs. 198,781.7</b>	<b>Rs. 91,883.5</b>	<b>Rs. (4,183.7)</b>	<b>Rs. 573,795.0</b>	<b>Rs. 742.</b>
<b>414,322,155</b>	<b>US\$ 78.0</b>	<b>US\$ 4,562.1</b>	<b>US\$</b>	<b>US\$ 3,210.3</b>	<b>US\$ 1,483.9</b>	<b>US\$ (67.6)</b>	<b>US\$ 9,266.7</b>	<b>US\$ 12.</b>

Edgar Filing: HDFC BANK LTD - Form 6-K

\*In terms of local regulations, the Bank is required to transfer 25% of its profit after tax (Indian GAAP ) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval

See accompanying notes to condensed consolidated financial statements

F-8

---

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

These condensed consolidated financial statements should be read in conjunction with the financial statements of the Bank included in its Form 20-F filed with the Securities and Exchange Commission on July 31, 2014.

**1. Summary of significant accounting policies**

*a. Principles of consolidation*

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary under Financial Accounting Standard Board Accounting Standard Codification FASB ASC Topic 810 Consolidations. All significant inter-company accounts and transactions are eliminated on consolidation.

*b. Basis of presentation*

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulation Act 1949 and related regulations issued by the Reserve Bank of India ( RBI ) (collectively Indian GAAP ), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences, insofar as they relate to the Bank, include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred 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. The condensed consolidated balance sheet at March 31, 2014 has been derived from the Bank's audited consolidated financial statement at that date. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included.

*c. Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, other than temporary impairment, valuation of derivatives, stock-based compensation and impairment assessment of goodwill.

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

*d. Allowance for credit losses*

The Bank provides an allowance for credit losses based on management's best estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans.

*Retail*

The Bank's retail loan loss allowance consists of specific and unallocated allowances.

The Bank establishes a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally the Bank monitors loan to value ratios for loan against securities. The loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days past due for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible.

The Bank also records unallocated allowances for its retail loans by product type. The Bank's retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its unallocated allowance for retail loans based on an internal credit slippage matrix, which measures the Bank's historic losses for its standard loan portfolio. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

*Wholesale*

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by management and is based upon management's view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

The Bank grades its wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

The Bank establishes specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent.

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

In light of the significant growth in the size and diversity of its wholesale loan portfolio, the Bank has also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its wholesale unallocated allowance based on an internal credit slippage matrix, which measures the Bank's historic losses for its standard loan portfolio.

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

*e. Income tax*

The Bank estimates its income tax expense for the interim periods based on its best estimate of the expected effective income tax rate for a full year.

*f. Revenue recognition*

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. Nominal loan application fees are charged which offset the related costs incurred.

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 sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

*g. Recently adopted accounting standards*

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). As per the amendment, an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss (NOL) or other tax credit carry forward when settlement in this manner is available under the tax law. The assessment of whether settlement is available under the tax law would not consider future events (e.g., upcoming expiration of related NOL carry forwards). This classification should not affect an entity's analysis of the realization of its deferred tax assets. Gross presentation in the rollforward of unrecognized tax positions in the notes to the financial statements would still be required. ASU 2013-11 is effective for interim and annual periods beginning on or after December 15, 2013. The adoption of this guidance effective April 1, 2014 did not have a material impact on the Bank's consolidated financial position or results of operations.

---

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

*h. Recently issued accounting pronouncements not yet effective*

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . This update clarifies the principles for revenue recognition in transactions involving contracts with customers. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank's financial condition, results of operations, or disclosures.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) . The amendments in this update change the current accounting outcome by requiring repurchase-to-maturity transactions to be accounted for as secured borrowings and for repurchase financing arrangement the amendments require separate accounting for a transfer of the financial asset executed contemporaneously with a repurchase agreement with same counterparty. The amendments also require new disclosures. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2014 and early adoption is not permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank's financial condition, results of operations, or disclosures.

In August 2014, the FASB also issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU requires management to perform an assessment of going concern and provides specific guidance on when and how to assess or disclose going concern uncertainties. The new standard also defines terms used in the evaluation of going concern, such as substantial doubt. Following application, the Bank will be required to perform assessments at each annual and interim period, provide an assessment period of one year from the issuance date, and make disclosures in certain circumstances in which substantial doubt is identified. The amendment will be effective for the Bank for the first reporting period ending after December 15, 2016. Earlier application is permitted. The Bank does not expect this ASU to have an impact on its financial position, result of operations, or disclosures.

*i. Convenience translation*

The accompanying financial statements have been expressed in Indian Rupees ( Rs. ), the Bank's functional currency. For the convenience of the reader, the financial statements as of and for the six months period ended September 30, 2014 have been translated into U.S. dollars at U.S.\$1.00 = Rs. 61.92 as published by the Federal Reserve Board of New York on September 30, 2014. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****2. Investments, held for trading**

The portfolio of trading securities as of March 31, 2014 and September 30, 2014 was as follows:

	Amortized Cost	As of March 31, 2014		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
	(In millions)			
Government of India securities	Rs. 56,409.0	Rs. 3.5	Rs. 191.1	Rs. 56,221.4
Other corporate/financial institution securities	8,874.2	11.7	55.2	8,830.7
Total debt securities	Rs. 65,283.2	Rs. 15.2	Rs. 246.3	Rs. 65,052.1
Equity securities	25.2	0.7	0.1	25.8
<b>Total</b>	<b>Rs. 65,308.4</b>	<b>Rs. 15.9</b>	<b>Rs. 246.4</b>	<b>Rs. 65,077.9</b>

	Amortized Cost	As of September 30, 2014		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
	(In millions)			
Government of India securities	Rs. 35,166.6	Rs. 0.1	Rs. 46.4	Rs. 35,120.3
Other corporate/financial institution securities	2,000.0	52.6	0.4	2,052.2
Total debt securities	Rs. 37,166.6	Rs. 52.7	Rs. 46.8	Rs. 37,172.5
Equity securities				
<b>Total</b>	<b>Rs. 37,166.6</b>	<b>Rs. 52.7</b>	<b>Rs. 46.8</b>	<b>Rs. 37,172.5</b>

<b>Total</b>	<b>US\$ 600.2</b>	<b>US\$ 0.9</b>	<b>US\$ 0.8</b>	<b>US\$ 600.3</b>
--------------	-------------------	-----------------	-----------------	-------------------



**3. Investments, available for sale**

The portfolio of available for sale securities as of March 31, 2014 and September 30, 2014 was as follows:

	<b>As of March 31, 2014</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(In millions)</b>			
Government of India securities	Rs. 839,248.3	Rs. 919.1	Rs. 19,762.5	Rs. 820,404.9
State government securities	161.8		0.9	160.9
Credit substitutes	65,001.6	177.0	31.5	65,147.1
Other corporate/financial institution bonds	4,979.2	61.8	1.3	5,039.7
Certificate of Deposit	921.3	6.0		927.3
Debt securities, other than asset and mortgage-backed securities	910,312.2	1,163.9	19,796.2	891,679.9
Mortgage-backed securities	1,743.2	91.5	0.3	1,834.4
Asset-backed securities	14,442.1	211.2	409.9	14,243.4
Other securities (including mutual fund units)	787.4	283.2	4.0	1,066.6
<b>Total</b>	<b>Rs. 927,284.9</b>	<b>Rs. 1,749.8</b>	<b>Rs. 20,210.4</b>	<b>Rs. 908,824.3</b>
Securities with gross unrealized losses				Rs. 699,169.1
Securities with gross unrealized gains				209,655.2
				<b>Rs. 908,824.3</b>

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	As of September 30, 2014				Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
	(In millions)				
Government of India securities	Rs. 984,454.8	Rs. 3,270.9	Rs. 11,740.1	Rs. 975,985.6	
State government securities	19,888.8	274.1	0.7	20,162.2	
Credit substitutes	99,583.9	263.8	14.5	99,833.2	
Other corporate/financial institution bonds	5,556.1	94.7	0.3	5,650.5	
Certificate of Deposit	965.8	2.8		968.6	
Debt securities, other than asset and mortgage-backed securities	1,110,449.4	3,906.3	11,755.6	1,102,600.1	
Mortgage-backed securities	1,489.3	80.5		1,569.8	
Asset-backed securities	12,674.0	229.6	284.7	12,618.9	
Other securities (including mutual fund units)	788.1	450.1		1,238.2	
Total	Rs. 1,125,400.8	Rs. 4,666.5	Rs. 12,040.3	Rs. 1,118,027.0	
Total	US\$ 18,175.1	US\$ 75.3	US\$ 194.4	US\$ 18,056.0	
Securities with gross unrealized losses				Rs. 810,680.4	
Securities with gross unrealized gains				307,346.6	
				Rs. 1,118,027.0	
				US\$ 18,056.0	

AFS investments of Rs. 820,565.8 million and Rs. 996,147.8 million (US\$ 16,087.7 million) as of March 31, 2014 and September 30, 2014, respectively, are eligible for placement towards the Bank's statutory liquidity ratio

requirements. These balances are subject to withdrawal and usage restrictions, but may be freely traded by the Bank within those restrictions. Of these investments, Rs. 670,603.5 million as of March 31, 2014 and Rs. 730,463.5 million (US\$ 11,796.9 million) as of September 30, 2014, respectively, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO), real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank conducts a review each reporting period 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 the Bank intends to sell or will be required to sell the security until the forecasted recovery. The Bank evaluated the impaired investments and has fully recognized an expense of Nil and Rs.1.8 million as other than temporary impairment for six months periods ended September 30, 2013 and September 30, 2014, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank is of the opinion that the other unrealized losses on its investments in equity and debt securities as of September 30, 2014 are temporary in nature. The Bank's review of impairment generally entails:

identification and evaluation of investments that have indications of possible impairment;

analysis of individual investments that have fair values of less than 95% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;

analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment; and

documentation of the results of these analysis, as required under business policies.

As of March 31, 2014 and September 30, 2014, the Bank did not hold any debt securities with credit losses for which a portion of other-than-temporary impairment was recognized in other comprehensive income.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The gross unrealized losses and fair value of available for sale securities at March 31, 2014 was as follows:

	As of March 31, 2014				Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or Greater Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 363,301.9	Rs. 11,340.9	Rs. 303,851.6	Rs. 8,421.6	Rs. 667,153.5	Rs. 19,762.5
State government securities	123.8	0.7	37.1	0.2	160.9	0.9
Credit substitutes	18,666.2	31.3	266.4	0.2	18,932.6	31.5
Other corporate/financial institution bonds	310.1	1.2	9.7	0.1	319.8	1.3
Debt securities, other than asset and mortgage-backed securities	382,402.0	11,374.1	304,164.8	8,422.1	686,566.8	19,796.2
Mortgage-backed securities	133.0	0.3			133.0	0.3
Asset-backed securities	12,468.3	409.9			12,468.3	409.9
Equity securities	1.0	4.0			1.0	4.0
<b>Total</b>	<b>Rs. 395,004.3</b>	<b>Rs. 11,788.3</b>	<b>Rs. 304,164.8</b>	<b>Rs. 8,422.1</b>	<b>Rs. 699,169.1</b>	<b>Rs. 20,210.4</b>

The gross unrealized losses and fair value of available for sale securities at September 30, 2014 was as follows:

	As of September 30, 2014		Total Fair Value
	Less Than 12 Months Fair Value	12 Months or Greater Fair Value	

Edgar Filing: HDFC BANK LTD - Form 6-K

	Unrealized Losses		Unrealized Losses (In millions)		Unrealized Losses	
Government of India securities	Rs. 180,062.6	Rs. 81.6	Rs. 571,325.5	Rs. 11,658.5	Rs. 751,388.1	Rs. 11,740.1
State government securities			132.6	0.7	132.6	0.7
Credit substitutes	47,100.1	12.6	347.8	1.9	47,447.9	14.5
Other corporate/financial institution bonds	127.4	0.3	9.9		137.3	0.3
Debt securities, other than asset and mortgage-backed securities	227,290.1	94.5	571,815.8	11,661.1	799,105.9	11,755.6
Asset-backed securities	11,574.5	284.7			11,574.5	284.7
<b>Total</b>	<b>Rs. 238,864.6</b>	<b>Rs. 379.2</b>	<b>Rs. 571,815.8</b>	<b>Rs. 11,661.1</b>	<b>Rs. 810,680.4</b>	<b>Rs. 12,040.3</b>
Total	US\$ 3,857.6	US\$ 6.1	US\$ 9,234.8	US\$ 188.3	US\$ 13,092.4	US\$ 194.4

F-15

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of September 30, 2014 is set out below:

	<b>As of September 30, 2014</b>		
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value</b>
	<b>(In millions)</b>		
Within one year	Rs. 470,589.6	Rs. 469,318.1	US\$ 7,579.4
Over one year through five years	241,516.7	239,102.4	3,861.5
Over five years through ten years	273,882.0	267,891.6	4,326.4
Over ten years	124,461.1	126,288.0	2,039.5
<b>Total</b>	<b>Rs. 1,110,449.4</b>	<b>Rs. 1,102,600.1</b>	<b>US\$ 17,806.8</b>

The contractual residual maturity of available for sale mortgage-backed and asset-backed securities as of September 30, 2014 is set out below:

	<b>As of September 30, 2014</b>		
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Fair Value</b>
	<b>(In millions)</b>		
Within one year	Rs. 6,629.7	Rs. 6,537.4	US\$ 105.6
Over one year through five years	6,620.2	6,502.0	105.0
Over five years through ten years	352.1	359.9	5.8
Over ten years	561.3	789.4	12.7
<b>Total</b>	<b>Rs. 14,163.3</b>	<b>Rs. 14,188.7</b>	<b>US\$ 229.1</b>

Gross realized gains and gross realized losses from sale of available for sale securities and dividends and interest on such securities are set out below:

	<b>Six months ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>		
Gross realized gains on sale	Rs. 2,306.6	Rs. 1,192.0	US\$ 19.2
Gross realized losses on sale	(414.8)	(947.8)	(15.3)
Realized gains (losses), net	1,891.8	244.2	3.9
Dividends and interest	38,460.8	44,038.0	711.2
<b>Total</b>	<b>Rs. 40,352.6</b>	<b>Rs. 44,282.2</b>	<b>US\$ 715.1</b>

#### **4. Investments, held to maturity**

There were no HTM securities as of March 31, 2014 and September 30, 2014.

Under Indian GAAP, transfer from an HTM portfolio to an AFS portfolio are 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 and therefore the investment classification made under US GAAP and Indian GAAP varies materially.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****5. Loans**

Loan balances include Rs. 115,777.3 million and Nil as of March 31, 2014 and September 30, 2014, respectively, which have been pledged as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2014 and September 30, 2014 were as follows:

	<b>March 31, 2014</b>	<b>As of September 30, 2014 (In millions)</b>	<b>September 30, 2014</b>
<b>Retail loans:</b>			
Auto loans	Rs. 407,811.6	Rs. 444,160.2	US\$ 7,173.1
Personal loans/Credit cards	347,393.8	390,864.1	6,312.4
Retail business banking	519,472.2	571,515.9	9,229.9
Commercial vehicle and construction equipment finance	280,372.2	283,444.5	4,577.6
Housing loans	193,180.5	195,715.8	3,160.8
Other retail loans	440,107.4	471,355.8	7,612.3
<b>Subtotal</b>	<b>Rs. 2,188,337.7</b>	<b>Rs. 2,357,056.3</b>	<b>US\$ 38,066.1</b>
<b>Wholesale loans</b>	<b>Rs. 1,039,923.6</b>	<b>Rs. 1,091,319.5</b>	<b>US\$ 17,624.7</b>
<b>Gross loans</b>	<b>3,228,261.3</b>	<b>3,448,375.8</b>	<b>55,690.8</b>
<b>Less: Allowance for credit losses</b>	<b>42,613.2</b>	<b>45,823.7</b>	<b>740.0</b>
<b>Total</b>	<b>Rs. 3,185,648.1</b>	<b>Rs. 3,402,552.1</b>	<b>US\$ 54,950.8</b>

Gross loans analyzed by performance are as follows:



	<b>March 31, 2014</b>	<b>As of September 30, 2014</b>	<b>September 30, 2014</b>
		<b>(In millions)</b>	
Performing	Rs. 3,198,574.8	Rs. 3,413,648.3	US\$ 55,130.0
Impaired	29,686.5	34,727.5	560.8
<b>Total gross loans</b>	<b>Rs. 3,228,261.3</b>	<b>Rs. 3,448,375.8</b>	<b>US\$ 55,690.8</b>

F-17

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table provides details of age analysis of loans as of March 31, 2014 and September 30, 2014.

	As of March 31, 2014			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due	Total
	(in millions)			
<b>Retail Loans</b>				
Auto loans	Rs. 2,326.2	Rs. 1,845.2	Rs. 403,640.2	Rs. 407,811.6
Personal loans/Credit card	1,940.5	1,984.4	343,468.9	347,393.8
Retail business banking	3,815.1	7,104.6	508,552.5	519,472.2
Commercial vehicle and construction equipment finance	7,500.8	6,207.8	266,663.6	280,372.2
Housing loans	83.2	205.8	192,891.5	193,180.5
Other retail	3,947.7	3,580.5	432,579.2	440,107.4
Wholesale loans	1,452.2	8,758.2	1,029,713.2	1,039,923.6
<b>Total</b>	<b>Rs. 21,065.7</b>	<b>Rs. 29,686.5</b>	<b>Rs. 3,177,509.1</b>	<b>Rs. 3,228,261.3</b>

	As of September 30, 2014			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due	Total
	(in millions)			
<b>Retail Loans</b>				
Auto loans	Rs. 3,011.8	Rs. 2,149.1	Rs. 438,999.3	Rs. 444,160.2
Personal loans/Credit card	2,187.8	2,103.2	386,573.1	390,864.1

Edgar Filing: HDFC BANK LTD - Form 6-K

Retail business banking	2,844.5	8,758.4	559,913.0	571,515.9
Commercial vehicle and construction equipment finance	7,074.7	6,859.8	269,510.0	283,444.5
Housing loans	73.8	209.1	195,432.9	195,715.8
Other retail	3,172.1	5,095.8	463,087.9	471,355.8
Wholesale loans	3,277.9	9,552.1	1,078,489.5	1,091,319.5
<b>Total</b>	<b>Rs. 21,642.6</b>	<b>Rs. 34,727.5</b>	<b>Rs. 3,392,005.7</b>	<b>Rs. 3,448,375.8</b>
<b>Total</b>	<b>US\$ 349.5</b>	<b>US\$ 560.8</b>	<b>US\$ 54,780.5</b>	<b>US\$ 55,690.8</b>

The Bank has a credit risk mitigating/monitoring mechanism which is comprised of target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

For wholesale credit risk in addition to the credit approval process the Bank has an approved framework for the review and approval of credit ratings. Credit Policies and Procedures articulate credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. These are reviewed in detail at annual or more frequent intervals. To ensure adequate diversification of risk, concentration limits have been set up in terms of borrower/business group, industry and risk grading.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

For retail credit the policy and approval processes are designed for the fact that the Bank has high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of our own experience and industry data, in combination with the judgment of our senior officers. The Bank mines data on our borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment and use these as inputs in revising our product programs, target market definitions and credit assessment criteria to meet our twin objectives of combining volume growth and maintenance of asset quality.

As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments (see note 1d). The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated atleast annually.

**Retail Loans**

Credit quality indicator based on payment activity as of March 31, 2014 and as of September 30, 2014 is given below.

	<b>As of March 31, 2014</b>						
	<b>Auto loans</b>	<b>Personal loans/ Credit card</b>	<b>Retail business banking</b>	<b>Commercial vehicle and construction equipment finance (In millions)</b>	<b>Housing Loans</b>	<b>Other retail</b>	<b>Total</b>
Performing	Rs. 405,966.4	Rs. 345,409.4	Rs. 512,367.6	Rs. 274,164.4	Rs. 192,974.7	Rs. 436,526.9	Rs. 2,167,409.4
Impaired	1,845.2	1,984.4	7,104.6	6,207.8	205.8	3,580.5	20,928.3
<b>Total</b>	<b>Rs. 407,811.6</b>	<b>Rs. 347,393.8</b>	<b>Rs. 519,472.2</b>	<b>Rs. 280,372.2</b>	<b>Rs. 193,180.5</b>	<b>Rs. 440,107.4</b>	<b>Rs. 2,188,337.7</b>

	<b>As of September 30, 2014</b>					
<b>Auto loans</b>	<b>Personal loans/ Credit card</b>	<b>Retail business banking</b>	<b>Commercial vehicle and</b>	<b>Housing Loans</b>	<b>Other retail</b>	<b>Total</b>

**construction  
equipment  
finance  
(In millions)**

performing	Rs. 442,011.1	Rs. 388,760.9	Rs. 562,757.5	Rs. 276,584.7	Rs. 195,506.7	Rs. 466,260.0	Rs. 2,331,880.9
impaired	2,149.1	2,103.2	8,758.4	6,859.8	209.1	5,095.8	25,175.4
<b>Total</b>	<b>Rs. 444,160.2</b>	<b>Rs. 390,864.1</b>	<b>Rs. 571,515.9</b>	<b>Rs. 283,444.5</b>	<b>Rs. 195,715.8</b>	<b>Rs. 471,355.8</b>	<b>Rs. 2,357,056.3</b>
	US\$ 7,173.1	US\$ 6,312.4	US\$ 9,229.9	US\$ 4,577.6	US\$ 3,160.8	US\$ 7,612.3	US\$ 38,066.1

Wholesale Loans

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. Our 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.

	<b>As of</b>	
	<b>March 31, 2014</b>	<b>September 30, 2014 September 30, 2014 (In millions)</b>
Credit quality indicators-Internally assigned grade and payment activity		
Pass	Rs. 1,029,884.6	Rs. 1,076,239.1      US\$ 17,381.1
Labeled	1,280.8	5,528.3      89.3
Impaired	8,758.2	9,552.1      154.3
<b>Total</b>	<b>Rs. 1,039,923.6</b>	<b>Rs. 1,091,319.5      US\$ 17,624.7</b>

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Impaired loans are those for which the Bank believes that it is probable that it will not collect all amounts due according to the original contractual terms of the loans and includes troubled debt restructuring. The following table provides details of impaired loans as of March 31, 2014 and September 30, 2014.

	<b>As of March 31, 2014</b>				
	<b>Recorded investments</b>	<b>Unpaid principal balance</b>	<b>Related specific allowance</b>	<b>Average Recorded investments</b>	<b>Finance receivable on non-accrual status</b>
	<b>(In millions)</b>				
<b>Retail Loans</b>					
Auto loans	Rs. 1,845.2	Rs. 1,845.2	Rs. 796.1	Rs. 1,542.0	Rs. 1,845.2
Personal loans/ Credit card	1,984.4	1,984.4	1,267.3	1,767.5	1,984.4
Retail business banking	7,104.6	7,104.6	5,598.1	6,447.4	6,978.2
Commercial vehicle and construction equipment finance	6,207.8	6,207.8	3,472.9	4,932.9	6,207.8
Housing loans	205.8	205.8	116.7	236.9	205.8
Other retail	3,580.5	3,580.5	2,082.0	2,827.2	3,580.5
Wholesale loans	8,758.2	8,758.2	7,316.1	7,655.6	8,612.8
<b>Total</b>	<b>Rs. 29,686.5</b>	<b>Rs. 29,686.5</b>	<b>Rs. 20,649.2</b>	<b>Rs. 25,409.5</b>	<b>Rs. 29,414.7</b>

The Bank holds no recorded impaired loans for which there is no related allowance.

	<b>As of September 30, 2014</b>				
	<b>Recorded investments</b>	<b>Unpaid principal balance</b>	<b>Related specific allowance</b>	<b>Average recorded investments</b>	<b>Finance receivable on non-accrual status</b>
	<b>(In millions)</b>				
<b>Retail Loans</b>					
Auto loans	Rs. 2,149.1	Rs. 2,149.1	Rs. 920.4	Rs. 1,997.2	Rs. 2,149.1
Personal loans/ Credit card	2,103.2	2,103.2	1,330.9	2,043.8	2,103.2
Wholesale loans	8,758.4	8,758.4	6,359.5	7,931.5	8,477.5

Retail business  
banking

Commercial vehicle and construction equipment finance	6,859.8	6,859.8	4,134.0	6,533.8	6,859.8
Housing loans	209.1	209.1	113.4	207.5	209.1
Other retail	5,095.8	5,095.8	2,600.6	4,338.2	5,095.8
Wholesale loans	9,552.1	9,552.1	8,605.0	9,155.2	9,377.9

Total	Rs.	34,727.5	Rs.	34,727.5	Rs.	24,063.8	Rs.	32,207.2	Rs.	34,272.4
-------	-----	----------	-----	----------	-----	----------	-----	----------	-----	----------

Total	US\$	560.8	US\$	560.8	US\$	388.6	US\$	520.1	US\$	553.5
-------	------	-------	------	-------	------	-------	------	-------	------	-------

The Bank holds no recorded impaired loans for which there is no related allowance.

F-20

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Impaired loans by industry as of March 31, 2014 and September 30, 2014 by facility are as follows:

	<b>As of March 31, 2014</b>	
	<b>(In millions)</b>	
Gross impaired loans by industry:		
Land Transport	Rs.	2,077.9
Iron & Steel		1,811.8
Others (none greater than 5% of impaired loans)		25,796.8
<b>Total</b>	<b>Rs.</b>	<b>29,686.5</b>

	<b>As of September 30, 2014</b>	
	<b>(In millions)</b>	
Gross impaired loans by industry:		
Land Transport	Rs. 2,239.7	US\$ 36.2
Iron & Steel	2,073.3	33.5
Others (none greater than 5% of impaired loans)	30,414.5	491.1
<b>Total</b>	<b>Rs. 34,727.5</b>	<b>US\$ 560.8</b>

F-21



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Summary information relating to impaired loans during the year ended March 31, 2014 and six months period ended September 30, 2014 is as follows:

	March 31, 2014	As of September 30, 2014 (In millions)	September 30, 2014
Average impaired loans, net of allowance	Rs. 6,851.3	Rs. 9,850.5	US\$ 159.1
Interest income recognized on impaired loans	Rs. 1,664.7	Rs. 1,048.5	US\$ 16.9

Allowance for credit losses as of March 31, 2014 are as follows:

	As of March 31, 2014							Unallocated	
	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	
	(In millions)								
Rs.	556.7	Rs. 1,067.1	Rs. 5,058.2	Rs. 2,094.4	Rs. 185.0	Rs. 1,751.0	Rs. 5,754.5	Rs. 14,731.6	Rs. 2,495.7
	(2,150.4)	(5,748.9)	(93.7)	(5,014.1)	(21.3)	(1,166.2)	(714.5)		
	2,389.8	5,949.1	633.6	6,392.6	(47.0)	1,497.2	2,276.1	4,493.9	242.8
Rs.	796.1	Rs. 1,267.3	Rs. 5,598.1	Rs. 3,472.9	Rs. 116.7	Rs. 2,082.0	Rs. 7,316.1	Rs. 19,225.5	Rs. 2,738.5

Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 7,316.1	Rs.	Rs.	Rs.
796.1	1,267.3	5,598.1	3,472.9	116.7	2,082.0		19,225.5	2,738.5	
						8,758.2			
1,845.2	1,984.4	7,104.6	6,207.8	205.8	3,580.5		2,167,409.4	1,031,165.4	

\*Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 6,400.0 million.

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Allowance for credit losses as of September 30, 2014 are as follows:

	As of September 30, 2014						Unallocated		Total
	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing loans	Other retail (In millions)	Wholesale	Retail	Wholesale	
Rs. 6.1	Rs. 1,267.3	Rs. 5,598.1	Rs. 3,472.9	Rs. 116.7	Rs. 2,082.0	Rs. 7,316.1	Rs. 19,225.5	Rs. 2,738.5	Rs. 42,6
(0.5)	(3,351.3)	(209.0)	(2,141.9)	(8.2)	(620.9)	(24.2)			(7,6
4.8	3,414.9	970.4	2,803.0	4.9	1,139.5	1,313.1	(268.6)	64.5	10,8
0.4	Rs. 1,330.9	Rs. 6,359.5	Rs. 4,134.0	Rs. 113.4	Rs. 2,600.6	Rs. 8,605.0	Rs. 18,956.9	Rs. 2,803.0	Rs. 45,8
Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 8,605.0	Rs.	Rs.	Rs.	Rs. 8,6

0.4	1,330.9	6,359.5	4,134.0	113.4	2,600.6	18,956.9	2,803.0	37,2
-----	---------	---------	---------	-------	---------	----------	---------	------

						9,552.1		9,5
--	--	--	--	--	--	---------	--	-----

9.1	2,103.2	8,758.4	6,859.8	209.1	5,095.8	2,331,880.9	1,081,767.4	3,438,8
-----	---------	---------	---------	-------	---------	-------------	-------------	---------

\*Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 3,554.0 million.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The unallocated allowance is assessed at each period end and the increase/(decrease) as the case may be is recorded in the income statement under allowances for credit losses. There is no transfer of amounts to or from the unallocated category to the specific category.

**Troubled debt restructuring (TDR)**

When the Bank grants concession, for economic or legal reasons related to a borrower's financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. On restructuring, the loans are re-measured to reflect the impact, if any, on projected cash flows resulting from the modified terms. Modification may have little or no impact on the allowance established for the loan if there was no forgiveness of the principal and the interest was not decreased. A charge off may be recorded at the time of restructuring if a portion of the loan is deemed to be uncollectible.

The following table summarizes our TDR modifications during the year ended March 31, 2014 and six months period ended September 30, 2014 presented by primary modification type and includes the financial effects of these modifications.

	<b>Fiscal year ended March 31, 2014</b>						<b>Net P&amp;L impact <sup>(3)</sup></b>
	<b>Carrying Value</b>	<b>TDRs involving changes in the amount of Principal payments <sup>(1)</sup></b>		<b>TDRs involving changes in the amount of interest payments <sup>(2)</sup></b>		<b>TDRs involving changes in the amount of both principal and interest payments forgiven</b>	
						<b>Balance of Principal forgiven</b>	
Retail business banking	Rs. 83.9	Rs.	Rs.	83.9	Rs.	Rs.	Rs. 7.8
Wholesale loans	167.0			167.0			147.0
<b>Total<sup>4</sup></b>	<b>Rs. 250.9</b>	<b>Rs.</b>	<b>Rs.</b>	<b>250.9</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs. 154.8</b>

(1)

TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.

- (2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
- (3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred
- (4) TDR modification during the year ended March 31, 2014 comprised of four cases.

	<b>Six months period ended September 30, 2014</b>							
	<b>Carrying Value</b>	<b>TDRs involving changes in the amount of Principal payments (1)</b>			<b>TDRs involving changes in the amount of both principal and interest payments (2)</b>			<b>Balance of Principal forgiven</b>
<b>(In millions)</b>								
Retail business banking	Rs. 242.3	Rs.	Rs.	Rs. 242.3	Rs.	Rs.	Rs.	Rs. 8.7
Wholesale loans								
<b>Total<sup>4</sup></b>	<b>Rs. 242.3</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs. 242.3</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs. 8.7</b>
<b>Total<sup>4</sup></b>	<b>US\$ 3.9</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$ 3.9</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$ 0.1</b>

- (1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
- (2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
- (3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred
- (4) TDR modification during the six months period ended September 30, 2014 comprised of one case.

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The table below summarizes TDRs that have defaulted in the current period within 12 months of their modification date. The defaulted TDRs are based on a payment default definition of 90 days past due.

	<b>As of September 30, 2014</b>	
	<b>Recorded investments</b>	
	<b>(In millions)</b>	
Retail loans:		
Retail business banking	Rs.	76.2
Wholesale loans		244.0
Total	Rs.	320.2
Total	US\$	5.2

**6. Goodwill and other intangible assets**

Goodwill arising from a business combination is tested at least on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million for the year ended March 31, 2014 and six months period ended September 30, 2014. The entire amount of goodwill was allocated to the retail business. The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by class of intangible assets as of March 31, 2014 and September 30, 2014:

	<b>As of March 31, 2014</b>			<b>As of September 30, 2014</b>			
	<b>Gross</b>		<b>Net</b>	<b>Gross</b>		<b>Net</b>	<b>Net</b>
	<b>carrying</b>	<b>Accumulated</b>	<b>carrying</b>	<b>carrying</b>	<b>Accumulated</b>	<b>carrying</b>	<b>carrying</b>
	<b>amount</b>	<b>amortization</b>	<b>amount</b>	<b>amount</b>	<b>amortization</b>	<b>amount</b>	<b>amount</b>
	<b>(In millions)</b>						
Branch network	Rs. 8,335.0	Rs. 8,133.0	Rs. 202.0	Rs. 8,335.0	Rs. 8,335.0	Rs.	US\$
Customer list	2,710.0	2,710.0		2,710.0	2,710.0		
Core deposit	4,414.0	4,414.0		4,414.0	4,414.0		
Favorable leases	543.0	514.0	29.0	543.0	522.5	20.5	0.3

Total	Rs. 16,002.0	Rs. 15,771.0	Rs. 231.0	Rs. 16,002.0	Rs. 15,981.5	Rs. 20.5	US\$ 0.3
-------	--------------	--------------	-----------	--------------	--------------	----------	----------

Branch network intangible represents the benefit that the Bank received through the acquisition of a ready branch network from Centurion Bank of Punjab Limited ( CBoP ) as opposed to having to build a new one. The fair value attributable to the branch network intangible is the difference in the present values of the earnings (net of costs) that the Bank would have generated if the Bank had set up its own branches/ATMs (the Hypothetical New Branch Network Earnings ) and the earnings (net of costs) that were generated because of the acquisition of CBoP (the CBoP Branch Network Earnings ). Similar streams of revenues and operating costs (and therefore profits) from CBoP s existing customer base and loan portfolio (includes net interest income, fees and commission) have been considered in determining the values of the Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings. Other assets including intangibles such as customer list, core deposits, loans, premises and equipment have been considered as assets of Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings and the value of these assets have been included in both of the networks. The aforesaid present values to compute the said intangible assets was intended to capture the advantages that the Bank received through the acquisition of a ready branch network from CBoP (as opposed to having to build a new one) in terms of time and of avoiding the administrative process required to obtaining branch licenses from the RBI. The Bank calculated the value of the customer list intangible through the cost approach by considering the estimated direct unit costs to source these customers multiplied by the number of customers. The Bank used the cost savings approach, i.e. the difference between the estimated cost of funds on deposit (interest cost and net maintenance costs) and the estimated cost of an equal amount of funds from an alternative source to calculate the core deposit intangible. The valuation of favorable leases intangibles was based on the cost saving to the Bank and future economic benefit until the lease expiry.



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The aggregate amortization charged for the six months period ended September 30, 2013 and September 30, 2014 was Rs. 834.2 million and Rs. 210.5 million (US\$ 3.4 million), respectively.

The estimated amortization expense for intangible assets for each of the five succeeding twelve months period is given in the table below:

	<b>As of September 30,</b>	
	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>	
To be amortized during the twelve months ending September 30:		
2015	Rs. 12.0	US\$ 0.2
2016	5.0	0.1
2017	2.0	
2018	1.0	
2019	0.5	

**7. Short-term borrowings**

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2014 and September 30, 2014 were comprised of the following:

	<b>As of,</b>			
	<b>March 31, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2014</b>	
	<b>(In millions)</b>			
Borrowed in the call market	Rs. 13,937.3	Rs. 20,196.3	US\$	326.1
Term borrowings from institutions/banks	49,550.0	11,550.0		186.6
Foreign currency borrowings	83,313.8	72,825.6		1,176.1
Bills rediscounted	3,974.4			
<b>Total</b>	<b>Rs. 150,775.5</b>	<b>Rs. 104,571.9</b>	<b>US\$</b>	<b>1,688.8</b>

**8. Long-term debt**

Long-term debt as of March 31, 2014 and September 30, 2014 was comprised of the following:

	<b>As of March 31, 2014</b>	<b>As of September 30, 2014</b>	<b>September 30, 2014</b>
	<b>(In millions)</b>		
Subordinated debt	Rs. 174,730.5	Rs. 172,774.0	US\$ 2,790.3
Others	220,478.1	233,447.4	3,770.1
<b>Total</b>	<b>Rs. 395,208.6</b>	<b>Rs. 406,221.4</b>	<b>US\$ 6,560.4</b>

F-26

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The below table presents the balance of long term debt as of March 31, 2014 and September 30, 2014 and the related contractual rates and maturity dates:

	March 31, 2014			As of September 30, 2014			
	Maturity / Call dates	Stated interest rates	Total	Maturity / Call dates (In millions)	Stated interest rates	Total	Total
<b>Subordinated debt</b>							
<b>Lower Tier II</b>							
Fixed rate	2015 - 2024	5.90% to 10.70%	Rs. 132,580.0	2015 - 2025	6.00% to 10.70%	Rs. 130,440.0	US\$ 2,106.6
<b>Upper Tier II</b>							
Fixed rate	2016 - 2021	8.70% to 10.85%	34,159.0	2016 - 2021	8.70% to 10.85%	34,159.0	551.7
Variable rate	2016 - 2017	LIBOR+1.2	5,991.5	2016 - 2017	LIBOR+1.2	6,175.0	99.7
Perpetual debt	2016 - 2017	9.92%	2,000.0	2016 - 2017	9.92%	2,000.0	32.3
<b>Others</b>							
Variable rate (1)	2015 - 2018	1.25% to 3.00%	129,708.4	2015 - 2018	1.43% to 3.00%	117,041.8	1,890.2
Variable rate (2)	2015 - 2018	10.25% to 11.35%	57,299.7	2015 - 2019	10.25% to 11.35%	66,049.3	1,066.7
Fixed rate (1)	2015 - 2019	8.54% to 10.81%	33,470.0	2015 - 2020	8.54% to 10.81%	44,490.0	718.5
Fixed rate (2)				2016 - 2017	3.00%	5,866.3	94.7
<b>Total</b>			<b>Rs. 395,208.6</b>			<b>Rs. 406,221.4</b>	<b>US\$ 6,560.4</b>

The scheduled maturities of long-term debt are set out below:

**As of September 30, 2014**  
**(In millions)**

Due in the twelve months ending September 30:		
2015	Rs. 27,054.1	US\$ 436.9
2016	42,190.0	681.4
2017	126,091.3	2,036.4
2018	48,384.1	781.4
2019	18,898.0	305.2
Thereafter (1)	141,603.9	2,286.9
<b>Total</b>	<b>Rs. 404,221.4</b>	<b>US\$ 6,528.2</b>

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 2.0 billion. During the six months period ended September 30, 2014, the Bank issued subordinated debt qualifying for Lower Tier II capital, under RBI regulatory guidelines, amounting to Rs. 2,000.0 million and raised other long term debt Rs. 38,865.1 million.

As of March 31, 2014 and September 30, 2014, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 129,708.4 million and Rs. 122,908.1 million, respectively, and functional currency borrowings aggregating to Rs. 90,769.7 million and Rs. 110,539.3 million, respectively.

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Accumulated other comprehensive income**

The below table presents the changes in accumulated other comprehensive income (OCI) after tax for the year ended March 31, 2014 and six months period ended September 30, 2014.

	<b>Available for sale securities</b>	<b>Foreign currency translation reserve (In millions)</b>	<b>Total</b>
Balance, March 31, 2013	Rs. 222.4	Rs. 263.0	Rs. 485.4
Net unrealized gain/(loss) arising during the period	(12,267.8)	211.5	(12,056.3)
Amounts reclassified to income	(19.5)		(19.5)
Balance, March 31, 2014	Rs. (12,064.9)	Rs. 474.5	Rs. (11,590.4)
Balance, March 31, 2014	Rs. (12,064.9)	Rs. 474.5	Rs. (11,590.4)
Net unrealized gain/(loss) arising during the period	7,138.0	73.8	7,211.8
Amounts reclassified to income	194.9		194.9
Balance, September 30, 2014	Rs. (4,732.0)	Rs. 548.3	Rs. (4,183.7)
	US\$ (76.5)	US\$ 8.9	US\$ (67.6)

The below table presents the reclassification out of accumulated other comprehensive income (OCI) by income line item and the related tax effect for period ended September 30, 2013 and September 30, 2014.

<b>2013</b>	<b>As of September 30, 2014</b>	<b>2014</b>
<b>(In millions)</b>		

Available for sale securities:			
Realized (gain)/loss on sales of available for sale securities, net	Rs. (483.1)	Rs. 293.5	US\$ 4.7
Other than temporary impairment losses on available for sale securities		1.8	
Total before tax	Rs. (483.1)	Rs. 295.3	US \$4.7
Income tax	164.2	(100.4)	(1.6)
Net of tax	Rs. (318.9)	Rs. 194.9	US\$ 3.1

F-28

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****10. Stock-based compensation**

For details of the Bank's employee stock option scheme refer to the Bank's Form 20-F filed with the Securities and Exchange Commission on July 31, 2014.

On July 26, 2014 the Compensation Committee of the Board approved the grant of 574,000 options (Scheme XXIII) and 41,085,000 options (Scheme XXIV) to the employees of the Bank, respectively.

*Assumptions used*

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	<b>Six months period ended September 30,</b>	
	<b>2013</b>	<b>2014</b>
Dividend yield	0.81%	0.82%
Expected volatility	28.57%-36.95%	24.30%-32.00%
Risk-free interest rate	8.21%-8.30%	8.42%-8.63%
Expected lives	1.0-7.0 years	1.0-7.0 years

*Activity and other details*

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	<b>Options available to be granted</b>	
	<b>Six months period ended</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2014</b>
Options available to be granted, beginning of period*	58,080,400	112,121,300
Equity shares allocated for grant under the plan	100,000,000**	
Options granted	(47,028,500)	(41,659,000)
Forfeited/ lapsed*	535,700	728,550

Options available to be granted, end of period	111,587,600	71,190,850
--	-------------	------------

- \* Does not include options exchanged on acquisition of CBoP since these options on forfeiture/ lapse are not available for re-issue.
- \*\* The annual general meeting held on June 27, 2013, reserved 100.0 million equity shares with aggregate nominal value of Rs. 200.0 million for grant under the Bank's employee stock option scheme.

F-29



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	Six months period ended September 30, 2013		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	65,443,045	Rs. 417.32	92,476,600	Rs. 556.06
Granted	47,028,500	680.00	41,659,000	835.50
Exercised	(11,100,840)	365.69	(15,271,720)	402.98
Forfeited	(517,500)	585.96	(664,300)	737.35
Lapsed	(18,200)	413.66	(64,250)	352.35
Options outstanding, end of period	100,835,005	Rs. 544.65	118,135,330	Rs. 673.48
Options exercisable, end of period	45,717,605	Rs. 420.24	49,232,630	Rs. 533.57

Weighted average fair value of options granted during the period

Rs. 258.52

Rs. 302.31

The following summarizes information about stock options outstanding as of September 30, 2014:

Plan	Range of exercise price	As of September 30, 2014		
		Number Of Shares Arising Out Of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Plan C	Rs. 680.00 to Rs.835.50 (or US\$ 10.98 to US\$ 13.49)	7,352,600	3.45	Rs. 691.97
Plan D		7,751,850	2.91	639.40

Edgar Filing: HDFC BANK LTD - Form 6-K

Rs. 340.96 to Rs. 680.00 (or US\$ 5.51 to US\$ 10.98)

Plan E	Rs. 440.16 to Rs. 680.00 (or US\$ 7.11 to US\$ 10.98)	62,148,100	2.73	569.30
Plan F	Rs. 835.50 to Rs. 835.50 (or US\$ 13.49 to US\$ 13.49)	40,848,000	5.72	835.50
General ESOP	Rs. 118.61 to Rs. 251.72 (or US\$ 1.92 to US\$ 4.07)	34,780	0.09	Rs. 238.72

The intrinsic value, of options exercised during the six months period ended September 30, 2014, at grant date and at exercise date was Rs. 85.4 million (September 30, 2013 Rs. 59.8 million) and Rs. 6,103.1 million (September 30, 2013 Rs. 3,249.1 million), respectively. The aggregate intrinsic value at grant date and as at September 30, 2014 attributable to options outstanding was Rs. 273.6 million and Rs. 23,528.8 million, respectively. The aggregate intrinsic value at grant date and as at September 30, 2014 attributable to options which are exercisable as on September 30, 2014 was Rs. 273.6 million and Rs. 16,694.0 million, respectively. Total stock compensation cost (including on modification) recognized under these plans was Rs. 1,710.7 million and Rs. 4,985.4 million during the six month period ended September 30, 2013 and September 30, 2014, respectively. As of September 30, 2014, there were 68,902,700 unvested options with weighted average exercise price of Rs. 773.5 and aggregate intrinsic value at grant date and as at September 30, 2014 of nil and Rs. 6,834.8 million, respectively. As at September 30, 2014, the total estimated compensation cost to be recognized in future periods is Rs.12,770.2 million. This is expected to be recognized over a weighted average period of 1.05 years.

F-30

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****11. Financial instruments*****Foreign exchange and derivative contracts***

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

The Bank uses its pricing models to determine fair values of its derivative financial instruments. The Bank records credit risk valuation adjustments on derivative financial instruments in order to reflect the credit quality of the counterparties and its own credit quality. The Bank calculates valuation adjustments on derivatives based on observable market credit risk spreads.

The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and other derivative contracts as of March 31, 2014 and September 30, 2014, together with the fair values on each reporting date.

		As of March 31, 2014		
	Notional	Gross Assets	Gross Liabilities	Net Fair Value
		(In millions)		
Interest rate derivatives	Rs. 1,772,658.7	Rs. 10,766.4	Rs. 12,240.7	Rs. (1,474.3)

Edgar Filing: HDFC BANK LTD - Form 6-K

Currency options	165,920.4	1,329.4	1,640.4	(311.0)
Currency swaps	71,041.3	5,055.9	3,326.6	1,729.3
Forward exchange contracts	4,753,861.2	125,327.6	106,968.6	18,359.0
<b>Total</b>	<b>Rs. 6,763,481.6</b>	<b>Rs. 142,479.3</b>	<b>Rs. 124,176.3</b>	<b>Rs. 18,303.0</b>

As of September 30, 2014

	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
				(In millions)		
Interest rate derivatives	Rs. 1,571,336.9	Rs. 6,235.1	Rs. 7,091.6	Rs. (856.5)	US\$ 25,376.9	US\$ (13.8)
Currency options	158,673.9	1,003.3	1,381.9	(378.6)	2,562.6	(6.1)
Currency swaps	72,146.2	5,657.7	3,094.2	2,563.5	1,165.2	41.4
Forward exchange contracts	6,931,001.7	72,611.1	65,159.1	7,452.0	111,934.8	120.3
<b>Total</b>	<b>Rs. 8,733,158.7</b>	<b>Rs. 85,507.2</b>	<b>Rs. 76,726.8</b>	<b>Rs. 8,780.4</b>	<b>US\$ 141,039.5</b>	<b>US\$ 141.8</b>

F-31

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in earnings. The gross assets and the gross liabilities are recorded in other assets and accrued expenses and other liabilities, respectively.

The following table summarizes certain information related to derivative amounts recognized in income:

	<b>Non-interest revenue, net</b>		
	<b>Derivatives for the six months period ended September</b>		
	<b>2013</b>	<b>30, 2014</b>	<b>2014</b>
	<b>(In millions)</b>		
Interest rate derivatives	Rs. (899.3)	Rs. 222.5	US\$ 3.6
Currency options	327.2	(477.8)	(7.7)
Currency swaps	1,696.2	1,015.6	16.4
Forward exchange contracts	3,451.4	(1,534.4)	(24.8)
<b>Total gains/(losses)</b>	<b>Rs. 4,575.5</b>	<b>Rs. (774.1)</b>	<b>US\$ (12.5)</b>

**Offsetting**

The following table shows the impact of netting arrangements on derivative financial instruments, repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements, but are not offset in accordance with ASC 210-20-45 and ASC 815-10-45.

The Bank enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements or similar agreements with substantially all of the Bank's foreign exchange and derivative contract counterparties. These master netting agreements, give the Bank, in the event of default by the counterparty, the right to liquidate collaterals held or placed and to offset receivables and payables with the same counterparty. In the table below we have presented the gross derivative assets and liabilities adjusted for the effects of master netting agreements and collaterals received or pledged.

Transactions with counterparties for Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) are settled through the Clearing Corporation of India Limited (CCIL), a centralized clearing house. Collaterals received or pledged comprise of highly liquid investments. For undertaking the above transactions, power of attorney is executed by the Bank and the counterparties in favor of CCIL to liquidate the

securities pledged in the event of default.

<b>As of March 31, 2014</b>						
<b>Amounts subject to enforceable netting arrangements</b>						
<b>Effects of offsetting on balance sheet</b>			<b>Related amounts not offset</b>			
<b>Net amounts</b>						
<b>Gross Amounts</b>	<b>Amounts offset</b>	<b>Amounts reported in the balance sheet</b>	<b>Financial instruments</b>	<b>Financial collateral <sup>(1)</sup></b>	<b>Net amount</b>	
<b>(In millions)</b>						
<b>Financial assets</b>						
Derivative assets	Rs. 142,479.3	Rs.	Rs. 142,479.3	Rs. 101,787.6	Rs. 9,191.9	Rs. 31,499.8
Securities purchased under agreements to resell	57,322.6		57,322.6		57,322.6	
<b>Financial liabilities</b>						
Derivative liabilities	Rs. 124,176.3	Rs.	Rs. 124,176.3	Rs. 101,787.6	Rs. 305.3	Rs. 22,083.4

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/ liability balance, and accordingly, do not include excess collateral received/ pledged.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****As of September 30, 2014****Amounts subject to enforceable netting arrangements****Effects of offsetting on balance****sheet****Related amounts not offset****Net amounts  
reported in the**

	<b>Gross Amounts</b>	<b>Amounts offset</b>	<b>balance sheet</b>	<b>Financial instruments</b>	<b>Financial collateral <sup>(1)</sup></b>	<b>Net amount</b>	<b>Net amount</b>
				<b>(In millions)</b>			

**Financial assets**

Derivative assets	Rs. 85,507.2	Rs.	Rs. 85,507.2	Rs. 63,569.4	Rs. 2,796.6	Rs. 19,141.2	US\$ 309.1
-------------------	--------------	-----	--------------	--------------	-------------	--------------	------------

Securities purchased under agreements to resell	38,316.1		38,316.1		38,316.1		
---	----------	--	----------	--	----------	--	--

**Financial liabilities**

Derivative liabilities	Rs. 76,726.8	Rs.	Rs. 76,726.8	Rs. 63,569.4	Rs.	Rs. 13,157.4	US\$ 212.5
------------------------	--------------	-----	--------------	--------------	-----	--------------	------------

Securities sold under repurchase agreements	15,000.0		15,000.0		15,000.0		
---	----------	--	----------	--	----------	--	--

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/ liability balance, and accordingly, do not include excess collateral received/ pledged.

**Guarantees**

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill his financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the

Bank is normally in line with requirements on case by case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and outstanding range from 1 day to 18.4 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

F-33



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

In terms of FASB ASC 460-10 the Bank has recognized a liability of Rs. 1,301.7 million and Rs. 1,357.7 million as of March 31, 2014 and September 30, 2014 respectively, in respect of guarantees issued or modified. Based on historical trends, in terms of FASB ASC 450, the Bank has recognized a liability of Rs. 846.0 million and Rs. 895.8 million as of March 31, 2014 and September 30, 2014, respectively.

Details of guarantees and documentary credits outstanding are set out below:

	<b>March 31, 2014</b>	<b>As of September 30, 2014</b>	<b>September 30, 2014</b>	
		<b>(In millions)</b>		
<b>Nominal values:</b>				
<b>Bank guarantees:</b>				
Financial guarantees	Rs. 161,259.8	Rs. 146,315.0	US\$ 2,363.0	
Performance guarantees	88,204.3	88,892.5	1,435.6	
Documentary credits	192,095.2	288,095.1	4,652.7	
<b>Total</b>	<b>Rs. 441,559.3</b>	<b>Rs. 523,302.6</b>	<b>US\$ 8,451.3</b>	
<b>Estimated fair values:</b>				
Guarantees	Rs. (1,301.7)	Rs. (1,357.7)	US\$ (21.9)	
Documentary credits	(179.0)	(247.7)	(4.0)	
<b>Total</b>	<b>Rs. (1,480.7)</b>	<b>Rs. (1,605.4)</b>	<b>US\$ (25.9)</b>	

As part of its risk management activities, the Bank continuously monitors the credit-worthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss.

***Loan sanction letters***

The Bank issues sanction letters indicating its intent to provide new loans to certain customers. The aggregate of loans contemplated in these letters that had not yet been disbursed was Rs. 616,957.6 million as of September 30, 2014. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. The Bank has no commitment to lend under these letters. Among other things, the making of a loan is subject to a review of the credit-worthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan.

## **12. Estimated fair value of financial instruments**

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2014 and September 30, 2014. The estimated fair value amounts as of March 31, 2014 and September 30, 2014 have been measured as of the respective period end, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

### ***Financial instruments valued at carrying value***

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash and amounts due from banks, interest-bearing deposits in banks, securities purchased and sold under resale and repurchase agreements, accrued interest receivable, acceptances, accrued interest payable, and certain other assets and liabilities that are considered financial instruments. Carrying values were assumed to approximate fair values for these financial instruments as they are short-term in nature and their recorded amounts approximate fair values or are receivable or payable on demand.

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Trading securities***

Trading securities are carried at fair value based on quoted market prices. If quoted market prices did not exist, fair values were estimated using market yield on balance period to maturity on similar instruments and similar credit risk. For more information on the fair value of these securities, refer to Note 2.

***Available for sale securities***

Available for sale investments principally comprise of debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using a market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities are estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. For more information on the fair value of these securities, refer to Note 3.

***Loans***

The fair values of consumer installment loans and other consumer loans that do not reprice frequently were estimated using discounted cash flow models. The discount rates were based on current market pricing for loans with similar characteristics and risk factors. Since, substantially all individual lines of credit and other variable rate consumer loans reprice frequently, with interest rates reflecting current market pricing, the carrying values of these loans approximate their fair values.

The fair values of commercial loans that do not reprice or mature within relatively short time frames were estimated using discounted cash flow models. The discount rates were based on current market interest rates for loans with similar remaining maturities and credit ratings. For commercial loans that reprice within relatively short time frames, the carrying values approximate their fair values.

For purposes of these fair value estimates, the fair values of impaired loans were computed by deducting an estimated market discount from their carrying values to reflect the uncertainty of future cash flows.

***Deposits***

The fair value of demand deposits, savings deposits, and money market deposits without defined maturities are the amounts payable on demand. For deposits with defined maturities, the fair values were estimated using discounted cash flow models that apply market interest rates corresponding to similar deposits and timing of maturities.

***Short-term borrowings***

The fair values of the Bank's short-term debt were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

***Long-term debt***

The fair values of the Bank's unquoted long-term debt instruments were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Term placements***

The fair values of term placements were estimated using discounted cash flow models. The discount rates were based on current market pricing for placements with similar characteristics and risk factors.

***Derivatives***

See note 11

A comparison of the fair values and carrying values of financial instruments is set out below:

<b>March 31, 2014</b>				<b>As of</b>								<b>September 30, 2014</b>				
<b>Estimated Fair Value</b>												<b>Estimated Fair Value</b>				
<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying Value</b>				<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>					
				<b>(In millions)</b>												
Rs. 370,835.2	Rs.	Rs.	Rs. 370,835.2	Rs.	228,331.5	Rs.	228,331.5	Rs.		Rs.	Rs.	228,331.5				
	176,346.4		176,346.4		193,477.8				193,441.0			193,441.0				
25.9	65,052.0		65,077.9		37,172.5				37,172.5			37,172.5				37,172.5
341.1	907,787.8		908,128.9		1,117,322.6		503.5		1,116,819.1			1,116,819.1				1,117,322.6
	57,322.6		57,322.6		38,316.1				38,316.1			38,316.1				38,316.1
	3,220,631.0		3,220,631.0		3,402,552.1				3,460,050.9			3,460,050.9				3,460,050.9
	40,388.5		40,388.5		40,371.2				40,371.2			40,371.2				40,371.2

Edgar Filing: HDFC BANK LTD - Form 6-K

184,774.8	184,774.8	120,979.9	119,640.6	119,640.6
3,039,651.4	3,039,651.4	3,327,758.5	3,313,634.0	3,313,634.0
612,845.6	612,845.6	576,107.9	576,107.9	576,107.9
		15,000.0	15,000.0	15,000.0
151,062.9	151,062.9	104,571.9	104,708.4	104,708.4
27,734.7	27,734.7	38,870.5	38,870.5	38,870.5
399,998.8	399,998.8	406,221.4	413,175.8	413,175.8
295,116.6	295,116.6	227,425.2	227,425.2	227,425.2

*\*excluding investments carried at cost Rs. 704.4 million (US\$11.4 million) (as at March 31, 2014, Rs.695.4 million)*

**Table of Contents**

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. Segment information**

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in Note 1. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance, and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank's retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on the proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/ expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions. Wholesale banking segment includes unallocated tax balances and other

items.

Summarized segment information for the six months periods ended September 30, 2013 and September 30, 2014:

	<b>Six months period ended September 30, 2013</b>			
	<b>Retail Banking</b>	<b>Wholesale Banking</b>	<b>Treasury Services</b>	<b>Total</b>
	<b>(In millions)</b>			
Net interest income/(expense) (External)	Rs. 52,235.7	Rs. 37,571.0	Rs. 565.7	Rs. 90,372.4
Net interest income/(expense) (Internal)	20,184.3	(21,451.5)	1,267.2	
Net interest revenue	72,420.0	16,119.5	1,832.9	90,372.4
Less: Provision for credit losses	7,100.5	1,786.8		8,887.3
Net interest revenue, after allowance for credit losses	65,319.5	14,332.7	1,832.9	81,485.1
Non-interest revenue	28,817.1	3,837.5	965.1	33,619.7
Non-interest expense	(56,585.4)	(4,652.9)	(846.0)	(62,084.3)
Income before income tax	Rs. 37,551.2	Rs. 13,517.3	Rs. 1,952.0	Rs. 53,020.5
Income tax expense				18,503.1
Segment assets:				
Segment total assets	Rs. 2,455,497.6	Rs. 1,857,222.6	Rs. 337,055.6	Rs. 4,649,775.8

F-37



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	<b>Six months period ended September 30, 2014</b>						<b>Total</b>	<b>Total</b>
	<b>Retail Banking</b>		<b>Wholesale Banking</b>		<b>Treasury Services</b>			
	<b>(In millions)</b>							
Net interest income/(expense) (External)	Rs. 51,811.0	Rs. 53,461.9	Rs. 7,885.2	Rs. 113,158.1	US\$ 1,827.6			
Net interest income/(expense) (Internal)	34,883.5	(32,631.9)	(2,251.6)					
Net interest revenue	86,694.5	20,830.0	5,633.6	113,158.1	1,827.6			
Less: Provision for credit losses	6,005.7	1,326.8		7,332.5	118.4			
Net interest revenue, after allowance for credit losses	80,688.8	19,503.2	5,633.6	105,825.6	1,709.2			
Non-interest revenue/(loss) net	33,073.3	4,341.3	(4,510.2)	32,904.4	531.4			
Non-interest expense	(65,067.0)	(5,538.0)	(541.7)	(71,146.7)	(1,149.1)			
Income before income tax	Rs. 48,695.1	Rs. 18,306.5	Rs. 581.7	Rs. 67,583.3	US\$ 1,091.5			
Income tax expense				24,576.7	396.9			
Segment assets:								
Segment total assets	Rs. 3,039,076.7	Rs. 1,946,500.4	Rs. 334,584.9	Rs. 5,320,162.0	US\$ 85,919.8			

**14. Commitments and contingencies**

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 11) are as follows:

**Capital commitments**

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2014 and September 30, 2014 aggregated Rs. 2,492.2 million and Rs. 2,719.5 million, respectively.

***Contingencies***

The Bank is party to various legal proceedings in the normal course of business. The Bank estimates the provision for indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank towards indirect taxes and other claims which are not acknowledged as debts as of March 31, 2014 and September 30, 2014 aggregated to Rs. 4,090.9 million and Rs.4,215.6 million, respectively. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank's business, financial condition or results of operations.

***Lease commitments***

The Bank is party to operating leases for certain of its office premises, employee residences and ATMs, with a renewal at the option of the Bank. The Bank has sub-leased certain of its properties taken on lease. The rental expenses and sub-lease income is as follows:

	<b>Six months period ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>(In millions)</b>		
The total minimum lease expense during the period recognized in the consolidated statement of income	Rs. 3,423.2	Rs. 4,307.9	US\$ 69.6

F-38

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The future minimum lease payments as of September 30, 2014 were as follows:

<b>12 months period ending September 30,</b>	<b>Payments (In millions)</b>	
2015	Rs. 7,336.9	US\$ 118.5
2016	7,117.8	115.0
2017	6,735.5	108.8
2018	5,823.9	94.1
2019	4,689.5	75.7
Thereafter	15,311.1	247.3
<b>Total</b>	<b>Rs. 47,014.7</b>	<b>US\$ 759.4</b>

**15. Earnings per equity share**

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of 23.5 million and 20.8 million were excluded from the calculation of diluted earnings per share for the six months period ended September 30, 2013 and September 30, 2014, respectively, as these were anti-dilutive.

	<b>As of September 30,</b>	
	<b>2013</b>	<b>2014</b>
Weighted average number of equity shares used in computing basic earnings per equity share	2,386,231,714	2,407,093,337
Effect of potential equity shares for stock options outstanding	18,106,685	19,144,784
Weighted average number of equity shares used in computing diluted earnings per equity share	2,404,338,399	2,426,238,121

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

	<b>Six months period ended September 30,</b>		
	<b>2013</b>	<b>2014</b>	<b>2014</b>
Basic earnings per share	Rs. 14.46	Rs. 17.85	US\$ 0.29
Effect of potential equity shares for stock options outstanding	0.11	0.14	0.01
Diluted earnings per share	Rs. 14.35	Rs. 17.71	US\$ 0.28
Basic earnings per ADS	Rs. 43.38	Rs. 53.55	US\$ 0.87
Effect of potential equity shares for stock options outstanding	0.33	0.42	0.03
Diluted earnings per ADS	Rs. 43.05	Rs. 53.13	US\$ 0.84

F-39

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****16. Fair value measurement**

FASB Accounting Standards Codification ASC 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

<b>Level of input</b>	<b>Definition</b>
Level 1	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for sale securities: Available for sale investments are principally comprised of debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk.

Trading securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2014 and September 30, 2014.

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 695.4 million on a recurring basis as of March 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<b>Particulars</b>	<b>Total</b>	<b>Fair Value Measurements Using</b>	
		<b>Quoted prices in active markets for identical assets (Level 1) (In millions)</b>	<b>Significant other observable inputs (Level 2)</b>
Trading account securities	Rs. 65,077.9	Rs. 25.9	Rs. 65,052.0
Securities Available-for-Sale	908,128.9	341.1	907,787.8
<b>Total</b>	<b>Rs. 973,206.8</b>	<b>Rs. 367.0</b>	<b>Rs. 972,839.8</b>

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 704.4 million (US\$ 11.4 million) on a recurring basis as of September 30, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<b>Particulars</b>	<b>Total</b>	<b>Fair Value Measurements Using</b>	
		<b>Quoted prices in active markets for identical assets (Level 1) (In millions)</b>	<b>Significant other observable inputs (Level 2)</b>
Trading account securities	Rs. 37,172.5	Rs.	Rs. 37,172.5
Securities Available-for-Sale	1,117,322.6	503.5	1,116,819.1
<b>Total</b>	<b>Rs. 1,154,495.1</b>	<b>Rs. 503.5</b>	<b>Rs. 1,153,991.6</b>



US\$ 18,644.9      US\$ 8.1      US\$ 18,636.8

There have been no transfers between level 1 and 2 for the year ended March 31, 2014 and six months period ended September 30, 2014.

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	Rs. 142,479.3	Rs.	Rs. 142,479.3	Rs.
Derivative liabilities	Rs. 124,176.3	Rs.	Rs. 124,176.3	Rs.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of September 30, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	Rs. 85,507.2	Rs.	Rs. 85,507.2	Rs.
Derivative liabilities	Rs. 76,726.8	Rs.	Rs. 76,726.8	Rs.

F-42