HDFC BANK LTD
Form 424B2
July 31, 2018
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered(1)	Number of ADSs to be offered	Gross Proceeds of the offering	Amount of Registration Fee
ADSs, each representing three equity shares of HDFC Bank Limited of par value Rs. 2.0.	17,500,000	$1,820,000,000	$226,590.00

1. American depositary shares evidenced by American depositary receipts issuable upon deposit of the equity shares registered hereby are registered pursuant to a separate registration statement on Form F-6. Each American depositary share represents three equity shares.

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Filed pursuant to Rule 424(b)(2)

Registration No. 333-226412

Prospectus Supplement

(to Prospectus dated July 30, 2018)

17,500,000 American Depositary Shares

Representing 52,500,000 Equity Shares

HDFC Bank Limited is offering 52,500,000 equity shares in the form of American Depositary Shares or ADSs. Each American Depositary Share represents three equity shares of HDFC Bank Limited of par value of Rs.2.0 each.

Our American Depositary Shares are listed on the New York Stock Exchange under the symbol HDB . On July 30, 2018, the closing price of an ADS on the New York Stock Exchange was US$106.2.

PRICE US$104.00 PER AMERICAN DEPOSITARY SHARE

Investing in our American Depositary Shares involves risks. See *Risk Factors* beginning on page S-20.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us (before expenses)
Per ADS	US$ 104.000	US$ 0.728	US$ 103.272
Total	**US$ 1,820,000,000**	**US$ 12,740,000**	**US$ 1,807,260,000**

Neither the Securities and Exchange Commission nor any state or foreign securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about August 2, 2018.

Global Coordinators and Joint Bookrunners

BofA Merrill Lynch	**Credit Suisse**	**J.P. Morgan**	**Morgan Stanley**

Joint Bookrunners

BNP PARIBAS	**Goldman Sachs**	**Nomura**	**UBS Investment Bank**

The date of this prospectus supplement is July 31, 2018.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of ADSs representing our equity shares (the Offering). It also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, on the other hand, you should rely on the information in this prospectus supplement.

This prospectus supplement, the accompanying prospectus and any free-writing prospectus that we prepare or authorize contain and incorporate by reference information that you should consider when making your investment decision. No person is authorized to provide you with different information. Neither we nor any of the underwriters are making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus. It is important for you to read and consider all the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision.

The offered ADSs may not be offered or sold, directly or indirectly, in India or to any resident of India, except as permitted by applicable Indian laws and regulations.

You must comply with all applicable laws and regulations in force in any applicable jurisdiction and you must obtain any consent, approval or permission required by you for the purchase of the ADSs under the laws and regulations in force in the jurisdiction to which you are subject or in which you make your purchase, and neither we nor the underwriters will have any responsibility therefor.

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EXCHANGE RATES AND CERTAIN DEFINED TERMS

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

Our financial statements are presented in Indian rupees and in some cases translated into U.S. dollars. The financial statements included in the accompanying prospectus and all other financial data included in this prospectus supplement and the accompanying prospectus, except as otherwise noted, are prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. U.S. GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of the Banking Regulation Act, 1949 (the Banking Regulation Act) and related regulations issued by the Reserve Bank of India (RBI) (collectively, Indian GAAP), which form the basis of our statutory general purpose financial statements in India. Principal differences applicable to our business include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees, derivative financial instruments, business combinations and the presentation format and disclosures of the financial statements and related notes. References to a particular fiscal are to our fiscal year ended March 31 of such year.

We generally prepare and publish our financial statements in accordance with Indian GAAP, except for purposes of the financial statements contained in our Annual Report on Form 20-F which we file with the U.S. Securities and Exchange Commission, or SEC, and for certain half-yearly information furnished on Form 6-K, which are prepared in accordance with U.S. GAAP.

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

During fiscal 2014, the rupee came under significant and sustained selling pressure driven by growing anxiety about domestic growth prospects and global risk aversion. The rupee depreciated in fiscal 2014 by 10.1% compared to the U.S. dollar. Investor expectations that reforms implemented by the Government of India (the Government) will lead to an improvement in the long-term growth outlook helped to improve the rupee s performance, reducing the depreciation trend to 3.85% in fiscal 2015. During fiscal 2016, the rupee depreciated by 6.32% primarily reflecting global risk aversion and a strong U.S. dollar. However, in line with other emerging markets, which experienced currency appreciation in fiscal 2017, the Indian rupee also appreciated by 2.1% against the U.S. dollar. This was mainly attributable to repricing of the Indian assets by international investors (driven by domestic economic and political stability) alongside the disappointment relating to the U.S. reform agenda. In fiscal 2018, the rupee ranged between a high of Rs.65.71 per US$1.00 and a low of Rs.63.38 per US$1.00. Pressure developed in the last two quarters of fiscal 2018 as oil prices rose and trade war risks escalated globally. In the first quarter of fiscal 2019, the rupee depreciated by 5.1% against the U.S. dollar. Rising oil prices and consequently marginal deterioration of India s current account deficit (CAD), slowdown in global trade volumes and a general risk aversion towards emerging market currencies (because of tariffs and trade war risks) have all affected the rupee negatively so far in the current fiscal.

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The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in the city of New York for cable transfers of Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal Year	Period End	Average*	High	Low
2014	60.00	60.76	68.80	53.65
2015	62.31	61.34	63.67	58.30
2016	66.25	65.58	68.84	61.99
2017	64.85	66.96	68.86	64.85
2018	65.11	64.48	65.71	63.38

* based on end-of-month values.

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

Month	Period End	Average*	High	Low
January 2018	63.58	63.65	64.01	63.38
February 2018	65.20	64.43	65.20	63.93
March 2018	65.11	65.05	65.24	64.83
April 2018	66.50	65.67	66.92	64.92
May 2018	67.40	67.51	68.38	66.52
June 2018	68.46	67.79	68.81	66.87
July 2018 (through July 20)	68.74	68.67	69.01	68.42

* based on daily values.

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US$1.00 = Rs.65.11 on March 31, 2018. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 20, 2018 was Rs.68.74 per US$1.00.

The following table sets forth certain defined terms and their definition:

Term	Definition
ADSs	means American Depositary Shares.
ALCO	means Asset Liability Committee.
ALM	means Asset Liability Management.

AML	means Anti-Money Laundering.
ANBC	means adjusted net bank credit.
Articles	means our Articles of Association.
Banking Regulation Act	means the Banking Regulation Act, 1949.
Basel III	means the Basel III Capital Regulations.
BSE	means BSE Limited.
CAD	means current account deficit.
CBoP	means Centurion Bank of Punjab Limited.

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Term	Definition
CET	means Common Equity Tier.
Civil Procedure Code	means the Indian Civil Procedure Code.
Companies Act	means the Indian Companies Act, 2013.
Credit Policies	means our Credit Policies & Procedure Manual and Credit Program.
CSR	means corporate social responsibility.
Depositary	means overseas depositary bank.
Depositary Receipt Scheme	means the Depositary Receipt Scheme, 2014 promulgated by the Government of India.
DIFC	means Dubai International Financial Center.
D-SIB	means domestic systemically important banks.
DTAA	means double taxation avoidance agreement.
EEA	means European Economic Area.
Exchange Act	means the Securities Exchange Act of 1934.
FATCA	means Sections 1471 through 1474 of the Internal Revenue Code (provisions commonly known as the Foreign Account Tax Compliance Act).
FDI	means foreign direct investment.
FFIs	means foreign financial institutions.
Finance Act	means the Finance Act, 2018.
FIU	means the Financial Intelligence Unit (India).
GAAR	means General Anti-Avoidance Rules.
GDP	means gross domestic product.
Government	means Government of India.
GST	means Goods and Services Tax.
HDBFSL	means HDB Financial Services Limited.
HDFC Group	means HDFC Limited and its subsidiaries.
HDFC Limited	means Housing Development Finance Corporation Limited.
HSL	means HDFC Securities Limited.
ICAAP	means Internal Capital Adequacy Assessment Process.
IFRS	means International Financial Reporting Standards as issued by the International Accounting Standards Board.

IGAs	means intergovernmental agreements.
IMF	means International Monetary Fund.

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Term	Definition
IND-AS	means Indian Accounting Standards.
Indian GAAP	means, collectively, accounting principles generally accepted in India, the requirements of the Banking Regulation Act and related regulations issued by the RBI.
Indian Income Tax Act	means the Income Tax Act, 1961 (43 of 1961).
Insolvency and Bankruptcy Code	means the Insolvency and Bankruptcy Code, 2016 and the rules prescribed thereunder.
Internal Revenue Code	means the Internal Revenue Code of 1986, as amended.
IRRBB	means interest rate risk in the banking book.
IRS	means the Internal Revenue Service.
KYC	means Know Your Customer.
MUDRA	means Micro Units Development & Refinance Agency Limited.
MVE	means market value of equity.
NABARD	means National Bank for Agriculture and Rural Development.
NBFC	means non-banking financial company.
NHB	means National Housing Bank.
NII	means net interest income.
NOFHC	means non-operative financial holding company.
NRI	means non-resident Indian.
NSE	means National Stock Exchange of India Limited.
NYSE	means New York Stock Exchange.
Offering	means this offering of ADSs representing our equity shares to which this prospectus supplement relates.
PFIC	means passive foreign investment company.
PMLA	means Prevention of Money Laundering Act, 2002.
Preferential Allotment	means the preferential allotment of 39,096,817 equity shares issued to HDFC Limited on July 17, 2018, at an aggregate price of Rs.85,000.0 million.
Prospectus Directive	means Directive 2003/71/EC (and amendments thereto, including 2010/73/EU, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State.
PSL	means priority sector lending.

PTCs	means mortgage-backed pass through certificates.

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Term	Definition
QIP	means the qualified institutions placement in accordance with applicable regulations issued by the Securities and Exchange Board of India of approximately Rs.27,750 million.
RBI	means Reserve Bank of India.
Relevant Member State	means any member state of the EEA.
Revised Framework	means the revised framework for resolution of stressed assets issued by the RBI in February 2018.
RPMC	means Risk Policy and Monitoring Committee.
RSA	means rate sensitive assets.
RSL	means rate sensitive liabilities.
RWAs	means risk weighted assets.
S&P	means Standard & Poor s.
SEBI	means Securities and Exchange Board of India.
SEBI Listing Regulations	means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
Section 115AC Regime	means the provisions of Section 115AC and other applicable provisions of the Indian Income Tax Act the Depositary Receipt Scheme.
Securities Act	means the Securities Act of 1933.
SME	means small and medium enterprises.
STT	means Securities Transaction Tax.
UPSI	means unpublished price sensitive information.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in the ADSs representing our equity shares. You should read the entire prospectus supplement and the accompanying prospectus carefully, including our audited financial statements and the notes to those financial statements, Risk Factors and the other information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Overview

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

We have grown rapidly since commencing operations in January 1995. As of March 31, 2018, we had 4,787 branches, 12,635 ATMs in 2,691 cities and towns and 43.6 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs.9,067.0 billion as of March 31, 2017 to Rs.11,367.3 billion as of March 31, 2018. Our net income has increased from Rs.140.5 billion for fiscal 2017 to Rs.178.5 billion for fiscal 2018. Our loans and deposits as of March 31, 2018 were at Rs.7,263.7 billion and Rs.7,883.8 billion respectively. Across business cycles, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2018, gross non-performing customer assets as a percentage of gross customer assets was 1.41%, while net non-performing customer assets constituted 0.61% of net customer assets. In addition, our net customer assets represented 96.2% of our deposits and our deposits represented 69.4% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 42.2% of total deposits as of March 31, 2018. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) of 4.4% for fiscal 2018. We had a return on equity (net income as a percentage of average total shareholders equity) of 16.5% for fiscal 2018 and 14.9% for fiscal 2017, and at March 31, 2018 had a total capital adequacy ratio (calculated pursuant to RBI guidelines) of 14.82%. Our Common Equity Tier I (CET-I) ratio was 12.25% as at March 31, 2018.

We have three principal business activities: retail banking, wholesale banking and treasury operations:

Retail Banking. We consider ourselves a one-stop shop for the financial needs our customers. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower income individuals through our Sustainable Livelihood Initiative. Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population in rural areas. We actively market our services through our branches and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We follow a multi-channel strategy to reach out to our customers bringing to them choice, convenience and what we believe to be a superior experience. Innovation has been the springboard of growth in this segment and so has a strong focus on analytics and customer relationship management, which we

believe have helped us to understand our customers better and offer tailor-made solutions. We further believe that these factors lead to better customer engagement.

As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns. We also provide telephone, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

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

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

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

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

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

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

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

Our Competitive Strengths

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

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

At HDFC Bank, we are focused on understanding our customers financial needs and providing them with relevant banking solutions. We are driven by our core values customer focus, operational excellence, product leadership, sustainability and people. This has helped us grow and achieve our status as one of the largest private sector banks in India, while delivering value to our customers, stakeholders, employees and our community. HDFC Bank is one of the most trusted and preferred bank brands in India. We have been acknowledged as India s Most Valuable Brand by BrandZ for the fourth consecutive year and were named the Best Domestic Bank India by the Asiamoney India Banking Awards in 2017. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns and over 43.6 million customers, and of our total branches, 53% were in the semi-urban and rural areas. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers. We are leveraging new technology to offer all banking solutions through the digital platform, which can be accessed by customers across devices of their choice.

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

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a one-stop shop for our customers banking needs. We consider our high quality service offerings to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous improvement. This pursuit of high quality service and operational execution directly supports our ability to offer a wide range of banking products.

Our retail banking products include deposit products, retail loans (such as vehicle and personal loans), and other products and services, such as private banking, depositary accounts, brokerage services, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sales of gold and silver bullion. In addition, we are the largest credit card issuer in India with 10.7 million cards outstanding as of March 31, 2018, and the second largest card issuer (across both debit and credit cards) amongst private sector banks in India, with 35.0 million total cards outstanding as of March 31, 2018. On the wholesale banking side, we offer customers working capital loans, term loans, bill collections, letters of credit, guarantees, foreign exchange and derivative products and investment banking services. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We believe our large scale and low cost of funding enable us to pursue high-quality wholesale financing opportunities competitively and at an advantage compared to our peers. We collect taxes for the Government and are bankers to companies in respect of issuances of equity shares and bonds to the public. Our non-banking financial company (NBFC) subsidiary HDB Financial Services Limited (HDBFSL) offers loan and asset finance products including tractor loans, consumer loans and gold loans, as well as business process outsourcing solutions such as forms processing, documents verification and back-office services.

We are able to provide this wide range of products across our branch network, meaning we can provide our targeted rural customers with banking products and services similar to those provided to our urban customers, which we believe gives us a competitive advantage. Our wide range of products and focus on superior service and execution also

create multiple cross-selling opportunities for us and, we believe, promote customer retention.

We have achieved robust and consistent financial performance while maintaining a healthy asset quality during our growth

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resulting increase in market penetration through our extensive branch network, our assets have grown from Rs.9,067.0 billion as of March 31, 2017 to Rs.11,367.3 billion as of March 31, 2018. Our net interest margin was 4.6% in fiscal 2017 and 4.7% in fiscal 2018. Our current and savings account deposits as a percentage of our total deposits were 43.5% as of March 31, 2018, and we believe this strong current and savings account profile has enabled us to tap into a low-cost funding base. In addition to the significant growth in our assets and net revenue, we remain focused on maintaining a healthy asset quality. We continue to have low levels of non-performing customer assets as compared to the average levels in the Indian banking industry. Our gross non-performing customer assets as a percentage of total customer assets was 1.41% as of March 31, 2018 and our net non-performing customer assets was 0.61% of net customer assets as of March 31, 2018. Our net income has increased from Rs.140.5 billion for fiscal 2017 to Rs.178.5 billion for fiscal 2018. Net income as a percentage of average total shareholders equity was 14.9% in fiscal 2017 and 16.5% in fiscal 2018 and net income as a percentage of average total assets was 1.7% in fiscal 2017 and 1.9% in fiscal 2018. We believe the combination of strong net income growth, robust deposit-taking, a low cost of funds and prudent risk management has enabled us to generate attractive returns on capital.

We have an advanced technology platform

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

Our aim has always been to improve customer experience through digital innovation as an Experiential Leader and we are constantly working to develop new technology and improve the digital aspects of our business. We have recently invested in a digital banking platform, Backbase, to give a single unified omni-channel experience to our customers for mobility banking, online banking, the public website and payments. The first phase of our mobile banking app has been rolled out to consumers, while our forward outlook and initiatives taken in in artificial intelligence-led conversational banking have helped us introduce information, assistance and commerce chatbots. Furthermore, with the pilot launch of IRA (Intelligent Robotic Assistant), an interactive humanoid placed in a branch to help in servicing, we set a benchmark for what we believe to be a best in class digital experience for customers. Other recent major technological developments include LITE App (a bilingual mobile banking application that does not require an internet connection); Missed Call Recharge to top-up prepaid mobile phone minutes; a person-to-person smartphone payment solution called Chillr ; PayZapp with SmartBuy, a payment system to improve the Bank s e-commerce processing capabilities; and the creation of a virtual relationship manager for high net worth customers. We have also rolled out product innovations like pre-approved personal loans for salaried accounts granted in as little as 10 seconds and Digital Loan Against Securities (LAS) in under three minutes in three easy steps .

We have a dedicated digital innovation team to research and experiment with technology, which hosts a Digital Innovation Summit annually to attract new talent and business opportunities from the financial technology space. In addition, we have developed robust data analytic capabilities that allow us to cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how customers choose to interact with us. We believe that our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell various products and improve customer retention.

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of connecting with customers. We are in the process of putting in place advance models of these methods that we term BBC (Biometrics BlockChain) in a BBC Initiative , together with conversational banking which is already in place (for example, our service Missed Call Commerce and Conversational Banking (MCCB)). We believe the BBC Initiative, which is most relevant for our connected customers, can help protect customer identity and establish authenticity (Biometrics) and promote secure and efficient interactions between customers and us (Blockchain), with an improved customer experience coming through artificial intelligence initiatives (Conversational Banking). For our customers with intermittent, limited or even no connectivity, or customers with evolving digital needs or preferences, we have introduced the MCCB service model and HDFC Bank LITE Banking (multilingual). We are continuously striving to improve our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to access and transact their banking accounts with the Bank.

In recent years we have been honored for our commitment to technology, including the Cisco-CNBC TV 18 Digitizing India Award for Innovations in the Financial Industry and Digital Banking, the IBA Banking Technology Award for Best Bank- IT Risk and Cyber Security Initiatives in 2017 the Best Bank Banking Technology Excellence Award from IDRBT Banking Technology and the Businessworld Digital Leadership Award 2017 for Best Analytics Implementation. We believe our Experiential Leadership strategy and culture of innovation and development will be a crucial strength in remaining competitive in the years to come.

We have an experienced management team

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

Our Business Strategy

Our business strategy emphasizes the following elements:

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

In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths, including our strong HDFC Bank brand and our extensive branch and ATM networks, to increase our market penetration. We believe we can expand our market share by focusing on developing our digital offerings to target mass markets across India. We believe digital offerings will position us well to capitalize on growth in India s banking and financial services sector, arising from India s emerging middle class and growing number of bankable households. We believe we can also capture an increased market share by expanding our branch footprint, particularly by focusing on rural and semi-urban areas. As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that is consistent with our targeted customer profile throughout India.

Continue our investments in technology to support our digital strategy

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. We believe our culture of innovation and development to be crucial to remaining competitive. As part of our dedication to digitization and technological development, we have appointed a digital innovation team to research, develop and experiment with new technologies. In February 2017, we hosted our Digital Innovation Summit to tap into emerging technological trends and innovations in the financial technology space.

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

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

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

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of gross customer assets was 1.41% as of March 31, 2018 and our net non-performing customer assets as a percentage of net customer assets was 0.61% as of March 31, 2018. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

Maintain a low cost of funds

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our non-interest bearing current and low-interest bearing savings account deposits were 43.5% of our total deposits as of March 31, 2018. Our average cost of funds (including equity) was 4.6% for fiscal 2017 and 4.4% for fiscal 2018.

Our Organization

We have two subsidiaries: HDBFSL and HDFC Securities Limited (HSL). HDBFSL is a non-deposit taking NBFC engaged primarily in the business of retail asset financing. HDBFSL s total assets and

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shareholders equity as of March 31, 2018 were Rs.447.5 billion and Rs.62.0 billion, respectively. HDBFSL s net income was Rs.9.5 billion for fiscal 2018. As of March 31, 2018, HDBFSL had 1,165 branches across 831 cities in India. HSL is primarily in the business of providing brokerage and other investment services through the internet and other channels. HSL s total assets and shareholders equity as of March 31, 2018 were Rs.16.4 billion and Rs.10.0 billion, respectively. HSL s net income was Rs.3.4 billion for fiscal 2018. On December 1, 2016, Atlas Documentary Facilitators Company Private Ltd., which provided back office transaction processing services to us, and its subsidiary HBL Global Private Ltd., which provided direct sales support for certain products of the Bank, amalgamated with HDBFSL.

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

Recent Developments

Preferential Allotment

On July 17, 2018, pursuant to the approval of our Board of Directors (the Board of Directors) at its meeting held on December 20, 2017 and of our shareholders through their resolution dated January 19, 2018, and following receipt of relevant approvals, we undertook a preferential allotment of 39,096,817 equity shares to HDFC Limited, at a price of Rs.2,174.09 per equity share, aggregating to Rs.85.0 billion (the Preferential Allotment).

Appointment of Mr. Sanjiv Sachar to the Board of Directors

On July 21, 2018, Mr. Sanjiv Sachar was appointed to the Board of Directors as an Additional Director.

Financial and other information for the three months ended June 30, 2018 and the three months ended June 30, 2017

The following discussion of our standalone financial position, results of operations, capital adequacy, distribution network and asset quality as of and for the three months ended June 30, 2018 and June 30, 2017 is based on our results under Indian GAAP incorporated by reference herein. We historically have not prepared and in the future do not intend to prepare financial information for interim periods under U.S. GAAP (other than certain half yearly information that we furnish to the SEC on Form 6-K). Indian GAAP differs in certain respects from U.S. GAAP, see Exchange Rates and Certain Defined Terms . See also Annex A: Unaudited Reverse Reconciliation of Selected Financial Information in the accompanying prospectus. Therefore, the information below should be read with caution and there can be no assurance that results reported under U.S. GAAP will not differ materially from our results under Indian GAAP and the information contained below. As such, you should not place undue reliance on this information. This information may not be indicative of the remainder of fiscal year or any future period. See Forward-Looking Statements and Risk Factors for a more complete discussion of certain of the factors that could affect our future performance.

Financial Results

Profit & Loss Account: Three months ended June 30, 2018 and June 30, 2017

The Bank s total income for the three months ended June 30, 2018 at Rs.263,670.4 million grew by 18.8% from Rs.221,853.8 million for the three months ended June 30, 2017. Net revenues (net interest income plus other income)

increased to Rs.146,316.3 million for the three months ended June 30, 2018 from Rs.128,874.0 million in the corresponding three-month period of the previous year. Net interest income (interest

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earned less interest expended) for the three months ended June 30, 2018 grew by 15.4% to Rs.108,135.7 million, from Rs.93,707.4 million for the three months ended June 30, 2017, driven by asset growth and a net interest margin of 4.2%.

Other income (non-interest revenue) for the three months ended June 30, 2018 was Rs.38,180.6 million. Fees and commission income at Rs.31,710.4 million for the three months ended June 30, 2018 constituted 83.1% of other income and grew by 23.0% over Rs.25,781.0 million in the corresponding three months ended June 30, 2017. The other three components of other income for the three months ended June 30, 2018 were foreign exchange and derivatives revenue of Rs.4,995.6 million (Rs.2,968.3 million for the corresponding three-month period of the previous year), loss on revaluation/sale of investments of Rs.2,832.3 million (gain of Rs.3,314.0 million for the corresponding three-month period of the previous year) and miscellaneous income, including recoveries and dividend, of Rs.4,306.9 million (Rs.3,103.3 million for the corresponding three-month period of the previous year). The RBI in its circular dated June 15, 2018 granted banks an option to spread provisioning for mark to market losses on investments held in available for sale and held for trading categories for the three months ended June 30, 2018 equally over four quarters. The Bank has chosen not to avail of this option and has recognized the entire mark to market loss of Rs.3,910.4 million in the three months ended June 30, 2018. The loss was primarily attributable to the corporate bond portfolio, which has a modified duration of 1.6.

Operating expenses for the three months ended June 30, 2018 were Rs.59,838.8 million, an increase of 11.5% over Rs.53,674.6 million during the corresponding three-month period of the previous year. The core cost-to-income ratio (ratio of operating expenses to net revenue excluding profit and loss on revaluation/sale of investments) was at 40.1% as against 42.7% for the corresponding three months ended June 30, 2017.

Provisions (other than tax) and contingencies for the three months ended June 30, 2018 were Rs.16,293.7 million as against Rs.15,587.6 million for the three months ended June 30, 2017. The key components therein for the three months ended June 30, 2018 were specific loan loss provisions of Rs.14,322.2 million (as against Rs.13,431.9 million for the corresponding three-month period of the previous year) and general provisions of Rs.1,832.2 million (as against Rs.2,063.2 million for the corresponding three-month period of the previous year).

Profit from ordinary activities before tax for the three months ended June 30, 2018 was up from Rs.59,611.8 million in the three months ended June 30, 2017 to Rs.70,183.8 million. Excluding profit and loss on revaluation/sale of investments, profit before tax growth would be 29.7% over the corresponding three-month period of the previous year.

After providing Rs.24,169.4 million of tax expense, the Bank earned a net profit for the period of Rs.46,014.4 million, an increase of 18.2% over the three months ended June 30, 2017.

Balance Sheet: As of June 30, 2018 and June 30, 2017

Total balance sheet size as of June 30, 2018 was Rs.10,804,090.9 million as against Rs.8,956,530.6 million as of June 30, 2017.

Total deposits as of June 30, 2018 were Rs.8,057,853.2 million, an increase of 20.0% over June 30, 2017. As of June 30, 2018 current account deposits were at Rs.1,092,972.0 million and savings account deposits at Rs.2,266,562.4 million grew by 17.4% over June 30, 2017. Time deposits were at Rs.4,698,318.8 million, an increase of 24.9% over the previous year, resulting in CASA (current accounts and savings accounts) deposits comprising 41.7% of total deposits as of June 30, 2018.

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Total advances as of June 30, 2018 were Rs.7,086,486.9 million, an increase of 22.0% over June 30, 2017. This loan growth was contributed by both segments of the Bank s loan portfolio with the domestic loan mix between retail:wholesale at 55:45. As per regulatory Basel II segment classification, retail loans grew by 21.6% and wholesale loans grew by 22.7%.

Capital Adequacy as of June 30, 2018 and June 30, 2017

The Bank s total Capital Adequacy Ratio (CAR) as per Basel III guidelines was at 14.6% as of June 30, 2018 (15.6% as of June 30, 2017) as against a regulatory requirement of 11.025% which includes Capital Conservation Buffer of 1.875% and an additional requirement of 0.15% on account of the Bank being identified as a Domestic Systemically Important Bank (D-SIB).

Tier I CAR was at 13.1% as of June 30, 2018 compared to 13.6% as of June 30, 2017. Common Equity Tier I CAR was at 12.1% as of June 30, 2018. Risk-weighted Assets were at Rs.8,448,943.3 million as of June 30, 2018 (as against Rs.6,903,701.7 million as at June 30, 2017).

Network

As of June 30, 2018, the Bank s distribution network was at 4,804 banking outlets and 12,808 ATMs as against 4,727 banking outlets and 12,220 ATMs as of June 30, 2017. Of the total banking outlets, 53% are in semi-urban and rural areas. Number of employees were at 89,550 as of June 30, 2018 (as against 83,757 as of June 30, 2017).

Asset Quality

Gross non-performing assets were at 1.33% of gross advances as of June 30, 2018, as against 1.24% as of June 30, 2017. Coverage ratio (specific provisions as a percentage of gross non-performing assets) as of June 30, 2018 was 69.5%. Net non-performing assets were at 0.41% of net advances as of June 30, 2018. The Bank held floating provisions of Rs.14,512.8 million as of June 30, 2018. Total provisions (comprising specific provisions, general provisions and floating provisions) were 118.0% of the gross non-performing assets as of June 30, 2018.

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The Offering

The Offering	ADSs representing equity shares, and constituting approximately 1.94% of our issued and outstanding equity shares on an as adjusted basis as of March 31, 2018, after giving effect to this Offering, the QIP (as defined below) and the Preferential Allotment.
ADSs offered	17,500,000 ADSs.
ADS/equity share ratio	One ADS represents three equity shares, par value Rs.2.0 per share.
Equity shares outstanding after this Offering	2,699,534,306 equity shares.
Use of proceeds	Subject to compliance with applicable laws and regulations, we intend to use the net proceeds of the Offering, together with the net proceeds of (i) the concurrent qualified institutions placement in accordance with applicable regulations issued by the Securities and Exchange Board of India (SEBI) of approximately Rs.27,750 million (the QIP) and (ii) the Preferential Allotment, to strengthen our capital structure and ensure adequate capital to support future growth and expansion, including enhancing our solvency and capital adequacy ratio.
Depositary	JPMorgan Chase Bank, N.A.
Voting rights	The ADSs will have no voting rights. Under the deposit agreement, the depositary will abstain from voting the equity shares. See *Description of American Depositary Shares Voting Rights* in the accompanying prospectus.
Concurrent equity offering	Concurrent with this Offering of ADSs, we are offering additional equity shares by way of the QIP. The closing of this Offering is conditioned on the closing of the QIP and availability of foreign investment headroom in the Bank.
	Prior to this Offering, we have allotted certain equity shares by way of the Preferential Allotment. See *Recent Developments Preferential Allotment* .

Listing	We are listing the offered ADSs on the New York Stock Exchange. Our outstanding equity shares are principally traded in India on the BSE Limited (BSE) and the National Stock Exchange of India Limited (NSE).
New York Stock Exchange symbol for ADSs	HDB.

Corporate Information

We were incorporated in August 1994 as a public limited company under the laws of India. Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai

400013, India, our telephone number is 91-22-6652-1000 and our website address is www.hdfcbank.com. Our registered agent in the United States is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022, 212-319-4800. The information on our website is not a part of this prospectus supplement or the accompanying prospectus.

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PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES

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

Trading Prices of Our ADSs on the NYSE

The following table shows:

- the reported high and low prices for our ADSs in U.S. dollars on the NYSE; and
- the average daily trading volume for our ADSs on the NYSE.

	Price per ADS		Average daily ADS trading volume (Number of ADSs)
	High	Low	
Fiscal Year 2018			
First Quarter	89.8	75.0	778,637
Second Quarter	100.3	87.1	554,708
Third Quarter	102.0	89.1	591,181
Fourth Quarter	110.8	95.1	683,669
Most Recent Six Months			
February 2018	110.2	96.3	688,279
March 2018	100.1	95.1	702,367
April 2018	101.1	93.5	848,562
May 2018	106.6	94.1	990,509
June 2018	107.1	101.0	101,038
July 2018 (through July 30)	112.1	103.3	519,695

The closing price for our ADSs on the NYSE was US$106.2 per ADS on July 30, 2018.

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Trading Prices of Our Equity Shares on the NSE

The following table shows:

- the reported high and low market prices for our equity shares in rupees on the NSE;
- the imputed high and low prices for our equity shares translated into U.S. dollars based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US$1.00 = Rs.65.11 on March 30, 2018; and
- the average daily trading volume for our equity shares on the NSE.

	Price per equity share (Rs.)		Price per equity share (US$)		Average daily equity share trading volume
	High	Low	High	Low	
Fiscal Year 2018					
First Quarter	1,716.0	1,425.1	26.4	21.9	1,341,904
Second Quarter	1,868.0	1,645.0	28.7	25.3	1,524,406
Third Quarter	1,903.1	1,757.9	29.2	27.0	1,433,176
Fourth Quarter	2,015.0	1,828.5	30.9	28.1	1,528,591
Most Recent Six Months					
February 2018	2,015.0	1,836.3	30.9	28.2	1,452,778
March 2018	1,900.0	1,828.5	29.2	28.1	1,492,222
April 2018	1,979.0	1,860.3	30.4	28.6	1,253,285
May 2018	2,160.0	1,946.0	33.2	29.9	1,796,314
June 2018	2,157.0	2,009.1	30.9	28.4	1,625,474
July 2018 (through July 30)	2,220.0	2,063.3	34.1	31.7	2,323,092

The closing price for our equity shares on the NSE was Rs.2,169.9 per equity share on July 30, 2018.

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RISK FACTORS

You should carefully consider the following risk factors in evaluating us and our business. An investment in ADSs involves a high degree of risk. You should carefully consider each of the following risk factors and all other information set forth in this prospectus supplement, including the risks and uncertainties described below, before making an investment in the ADSs. This section should be read together with Business , Selected Financial and Other Data , Selected Statistical Information and Management s Discussion and Analysis of Financial Condition and Results of Operations as well as the financial statements, including the notes thereto, and other financial information, including our unaudited interim standalone financial results under Indian GAAP as of and for the three months ended June 30, 2018, included elsewhere in this prospectus supplement or incorporated herein by reference (see Prospectus Summary Recent Developments Financial and other information for the three months ended June 30, 2018 and the three months ended June 30, 2017).

The risks and uncertainties described below are not the only risks that we currently face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, prospects, financial condition and results of operations and cashflows. If any or some combination of the following risks, or other risks that are not currently known or believed to be material, actually occur, our business, financial condition and results of operations and cashflows could suffer, the trading price of, and the value of your investment in, ADSs could decline and you may lose all or part of your investment. In making an investment decision, you must rely on your own examination of the Bank and the terms of this Offering, including the merits and risks involved.

This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors including the considerations described below and elsewhere in this prospectus supplement.

Risks Relating to our Business

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

Our performance and the quality and growth of our assets are dependent on the health of the overall Indian economy, which is, in turn, linked to global economic conditions. Economic growth in India is affected by inflation, interest rates, external trade, capital flows and, given India s dependence on imported oil for its energy needs, oil prices. The Indian economy in general and the agricultural sector in particular are also impacted by weather conditions, including the level and timing of monsoon rainfall. Investments by the corporate sector in India are affected by Government policies and decisions, including those relating to awards of licenses, access to land and natural resources and the protection of the environment. A slowdown in global growth and volatility in global financial markets could contribute to a weakness in the Indian financial and economic environment.

The global economy is expected to recover this year, with the IMF predicting global growth to recover to 3.9% in 2018 from 3.2% in 2016 and 3.7% in 2017, with growth in developed economies like the United States in particular picking up to 2.9% in 2018 from 2.3% in 2017. While emerging markets and developing economies are expected to record slightly higher growth at 4.9% in 2018 compared to 4.7% in 2017, the IMF expects China to see a moderation in its growth rate (from 6.9% in 2017 to 6.6% in 2018) and were this slowdown to be sharp, it could also have some negative implications for emerging markets, including India, through trade channels and impact on investors sentiment.

In addition, the continuation of a tighter monetary policy in the United States could further undermine financial stability in an emerging market economy like India, particularly if coupled with the start of tightening monetary policies in both the U.K. and the EU. Such economic conditions, including current and expected political uncertainties in the Eurozone, in particular, the negotiations between U.K. and EU policymakers

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following the U.K. s vote to leave the European Union, could result in heightened volatility and risk on sentiment which could adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. India also faces major challenges in sustaining its growth rate, including the need for substantial infrastructure development and improved access to healthcare and education.

In fiscal 2015, the Government introduced a new methodology for estimating the gross domestic product (GDP) and also began publishing sector data on a gross value added basis. According to the new methodology, India s GDP grew by 7.5% in fiscal 2015, 8.0% in fiscal 2016, 7.1% in fiscal 2017 and 6.6% in fiscal 2018. In addition, the RBI entered into a monetary policy framework agreement with the Government of India, affirming that the RBI would pursue a consumer inflation target of 4% with an upper tolerance level of 6% and lower limit of 2% for the five years ending March 31, 2021. Actual inflation readings so far have remained within the RBI s target zone consumer price inflation declined to 4.5% in fiscal 2017 from 4.9% in fiscal 2016 and averaged 3.6% during fiscal 2018.

However, a return to a tighter interest rate regime on account of inflation, other market factors such as higher oil prices or changes in the conduct of monetary policy may put a constraint on economic growth in India. Any prolonged slowdown may adversely impact credit growth and the level of non-performing and restructured loans. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net profits and total assets.

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

We have grown rapidly over the last three fiscals. Our loan growth rate has been significantly higher than that of the Indian banking industry. Our loans in the three-year period ended March 31, 2017 grew at a compounded annual growth rate of approximately 22.9%. The compounded annual growth for the Indian banking industry for the same period is approximately 6.4%. The growth in our business is partly attributable to the expansion of our branch network. As at March 31, 2013, we had a branch network comprised of 3,062 branches, which increased to 4,787 branches as at March 31, 2018. Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. Further, the RBI may cancel a license for violations of the conditions under which it was granted. The RBI issues instructions and guidelines to banks on branch authorization from time to time. With the objective of liberalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks, including us, to open branches in Tier 1 to Tier 6 centers, subject to a requirement to report to the RBI and certain other conditions. In May 2017, the RBI has further liberalized the branch authorization policy. See *Supervision and Regulation Regulations Relating to the Opening of Branches* . If we are unable to perform in a manner satisfactory to the RBI in any of these centers or comply with the specified conditions, it may have an impact on the number of branches we will be able to open, which would, in turn, have an impact on our future growth.

In addition, our rapid growth has placed, and if it continues, will place, significant demands on our operational, credit, financial and other internal risk controls including:

- recruiting, training and retaining sufficient skilled personnel;
- upgrading, expanding and securing our technology platform;
- developing and improving our products and delivery channels;

- preserving our asset quality as our geographical presence increases and customer profile changes;
- complying with regulatory requirements such as the Know Your Customer (KYC) norms; and
- maintaining high levels of customer satisfaction.

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

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

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2018, net interest revenue after allowances for credit losses represented 71.6% of our net revenue. Changes in market interest rates affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. An increase in interest rates could result in an increase in interest expense relative to interest revenue if we are not able to increase the rates charged on our loans, which would lead to a reduction in our net interest revenue and net interest margin. Further, an increase in interest rates could negatively affect demand for our loans and credit substitutes and we may not be able to achieve our volume growth, which could adversely affect our net income. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to the repricing of our loans at a pace faster than the rates we pay on our interest-bearing liabilities. The quantum of the changes in interest rates for our assets and liabilities may also be different.

The combination of global disinflationary pressures (a result of falling commodity prices and subdued growth), better supply management of food items, including prudent food stock management, appropriate monetary policy action and subdued global commodity prices have helped to keep domestic inflation in check in recent years, thereby causing consumer price index inflation to decrease from levels of 8.25% in March 2014 to 5.25% in March 2015 to 4.83% in March 2016 to 3.89% in March 2017. For March 2018, although inflation was higher, it remained within the RBI s target zone at 4.3%. The softening in inflation led the RBI to cut the policy repo rate by 75 basis points in fiscal 2016, by another 50 bps in fiscal 2017. and by 25 basis points in fiscal 2018. In addition, in order to make the liquidity situation more comfortable, the RBI also conducted net open market operation (OMO) with purchases of Rs.1.1 trillion in fiscal 2017 and sales of Rs.0.9 trillion in fiscal 2016. Moreover, the demonetization of the 500 and 1000 rupee notes also provided the system with ample liquidity. In response to the declining policy rates, easing liquidity conditions, the benchmark bond yield eased during most of fiscals 2016 and 2017. However, recent yields have increased on concerns of higher inflation and looming fiscal concerns at both the center and state level. Further, considering the higher inflationary pressures, the RBI increased the policy repo rate to 6.25% in June 2018.

On a going-forward basis, there are certain trends that could change interest rates or lead to increase in interest rate volatility. If the fiscal deficit for states is higher than the fiscal deficit target, or if crude oil prices remain relatively high, or if global interest rates rise rapidly, the RBI could raise rates in the current fiscal. A further narrowing of liquidity surplus (domestically or globally) could lead to further rise in bond yields in fiscal 2019. These trends could be more intense than we expect, or interest rates and bond yields could change as a result of a number of different factors which we cannot predict at this time. Any volatility in interest rates could thereby adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance. See *Selected Statistical Information Analysis of Changes in Interest Revenue and Interest Expense* and *Selected Statistical Information Yields, Spreads and Margins* .

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

Our gross non-performing loans and non-performing credit substitutes represented 1.41% of our gross customer assets as of March 31, 2018. Our non-performing loans and non-performing credit substitutes net of specific provisions represented 0.61% of our net customer assets portfolio as of March 31, 2018. Our management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, remedial management and the overall architecture for managing credit risk. In the case of our secured loan portfolio, the frequency of the valuation of collateral may vary based on the nature of the loan and the type of collateral. A decline

in the value of collateral or an inappropriate collateral valuation increases the risk in the secured loan portfolio because of inadequate coverage of collateral. As of

March 31, 2018, 72.4% of our loan book was partially or fully secured by collateral. Our risk mitigation and risk monitoring techniques may not be accurate or appropriately implemented and we may not be able to anticipate future economic and financial events, leading to an increase in our non-performing loans. See *Note 10 Loans* in our consolidated financial statements.

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

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

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

We calculate customer and industry exposure (i.e. the loss we could incur due to the downfall of a customer or an industry) in accordance with the policies established by the RBI, computed based on our Indian GAAP financial

statements. In the case of customer exposures, we aggregate the higher of the outstanding balances of,

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or limits on, funded and non-funded exposures. As of March 31, 2018, our largest single customer exposure was Rs.91.0 billion, representing 9.8% of our capital funds, and our ten largest customer exposures totaled Rs.651.4 billion, representing 69.9% of our capital funds, in each case, computed in accordance with RBI guidelines. None of our ten largest customer exposures were classified as non-performing as of March 31, 2018. However, if any of our ten largest customer exposures were to become non-performing, our net income would decline and, due to the magnitude of the exposures, our ability to meet capital requirements could be jeopardized. See *Management s Discussion and Analysis of Financial Condition and Results of Operations* for a detailed discussion on customer exposures. In December 2016, the RBI released a framework for large exposures with limits on exposure of banks to single counterparty and a group of connected counterparties. Under this framework, the sum of all the exposure values of a bank to a single counterparty must not be higher than 20% of the bank s available eligible capital base at all times and the sum of all the exposure values of a bank to a group of connected counterparties must not be higher than 25% of the bank s available eligible capital base at all times. This framework is expected to be implemented in full by April 1, 2019 and the extant exposure norms applicable for credit exposure to individual borrowers or to groups of companies under the same management control will no longer be applicable from that date. Banks are required to gradually adjust their exposures so as to comply with the limits given in the framework for large exposures. In August 2016, the RBI issued guidelines proposing limits on the aggregate exposure of the banking system to large borrowers, with lending beyond the specified limits attracting higher risk weights and provisioning. These guidelines which are effective from April 1, 2017, and our focus on controlling and reducing concentration risk, may restrict our ability to grow our business with some customers, and require us to reduce our exposure to some groups.

Further, in February 2018, the RBI released a revised framework for resolution of stressed assets (Revised Framework) repealing the existing instructions on resolution of stressed assets including the Framework for Revitalising Distressed Assets , Corporate Debt Restructuring Scheme , Flexible Structuring of Existing Long Term Project Loans , Strategic Debt Restructuring Scheme , Change in Ownership outside SDR , and Scheme for Sustainable Structuring of Stressed Assets. The Revised Framework requires all lenders, including us, to put in place policies, approved by the board of directors of the lender, for resolution of stressed assets, including the timelines for resolution. As soon as there is a default in the borrower entity s account with any lender, all lenders, either singly or jointly, shall be required to initiate steps to cure the default. Specifically, in respect of accounts to which the lenders have an aggregate exposure of more than Rs.20 billion, the lenders are to implement a resolution plan within a certain period, failing which they are required to file an insolvency application, singly or jointly, under the Insolvency and Bankruptcy Code, 2016. See *Supervision and Regulations Revised Framework for Resolution of Stressed Assets* . If the lenders fail to meet such timelines, such lenders will be subject to stringent supervisory review and enforcement actions by the RBI, including higher provisioning on such accounts and monetary penalties.

As of March 31, 2018, our largest industry concentrations, based on RBI guidelines, were as follows: NBFC/financial intermediaries (4.8%), retail trade (4.4%), banks and financial institutions (4.2%) and automobile & auto ancillary (3.9%). In addition, as of March 31, 2018, 22.4% of our exposures were consumer loans. Industry-specific difficulties in these or other sectors may increase our level of non-performing customer assets. If we experience a downturn in an industry in which we have concentrated exposure, our net income will likely decline significantly and our financial condition may be materially adversely affected. As of March 31, 2018, our non-performing loans and credit substitutes as a percentage of total non-performing customer assets in accordance with U.S. GAAP were concentrated in the following industries: Wholesale trade- non industrial (14.0%), agriculture production-food (11.2%), food and beverage (6.4%), retail trade (5.8%) and agriculture allied (5.7%). In addition, 14.0% of our non-performing customer assets were consumer loans.

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

The RBI prescribes guidelines on priority sector lending (PSL) in India. Under these guidelines, banks in India are required to lend 40.0% of their adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures (CEOBE), whichever is higher, as defined by the RBI and computed in accordance with Indian GAAP figures, to certain eligible sectors categorized as priority sectors. The RBI has issued revised priority sector lending norms applicable from fiscal 2016 onwards. The priority sector requirements must be met as of March 31 of each year with reference to the higher of the ANBC and the CEOBE as of the corresponding date of the preceding year. From fiscal 2017, PSL achievement is required to be evaluated at the end of the fiscal based on the average of priority sector target/sub-target achievement as at the end of each quarter of that fiscal. See *Supervision and Regulation Directed Lending* . Under the guidelines, scheduled commercial banks having any shortfall in lending to the priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with National Bank for Agriculture and Rural Development (NABARD) and other Funds with NABARD, National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) or Micro Units Development & Refinance Agency Limited (MUDRA), as decided by the RBI from time to time. The interest rates on such deposits may be lower than the interest rates which the Bank would have obtained by investing these funds at its discretion.

Further, the RBI has directed banks to maintain direct lending to non-corporate farmers at the banking system s average level for the last three years, which would be notified by the RBI at the beginning of each year. The target for fiscal 2018 was 11.78%. Failure to maintain these lending levels to non-corporate farmers will attract penalties. The RBI has also directed banks to continue to pursue the target of 13.5% of ANBC towards lending to borrowers who constituted the direct agriculture lending category under the earlier guidelines. If we fail to adhere to the RBI s policies and directions, we may be subject to penalties, which may adversely affect our results of operations. Furthermore, the RBI can make changes to the types of loans that qualify under the PSL scheme. Changes that reduce the types of loans that can qualify toward meeting our PSL targets could increase shortfalls under the overall target or under certain sub-targets.

Our total PSL achievement for fiscal 2018 stood at 41.2% and our achievement of direct lending to non-corporate farmers stood at 14.6% for fiscal 2018 as against a requirement of 40% and 11.78%, respectively. However, in fiscal 2018 agricultural loans made to small and marginal farmers were 7.3% of ANBC, against the requirement of 8.0%, with a shortfall of Rs.96 billion. Advances to sections termed weaker by the RBI were 10.2% against the requirement of 10.0%. Our achievement stood at 14.7% compared to a target of 13.5% of ANBC towards lending to borrowers, who constituted the direct agriculture lending category under the earlier guidelines.

We may experience a higher level of non-performing assets in our directed lending portfolio, particularly in loans to the agricultural sector, small enterprises and weaker sections, where we are less able to control the portfolio quality and where economic difficulties are likely to affect our borrowers more severely. Our gross non-performing assets in the directed lending sector as a percentage to gross loans were 0.6% as of March 31, 2018 (as compared to 0.4% as of March 31, 2017). Further expansion of the PSL scheme could result in an increase of non-performing assets due to our limited ability to control the portfolio quality under the directed lending requirements.

In addition to the PSL requirements, the RBI has encouraged banks in India to have a financial inclusion plan for expanding banking services to rural and unbanked centers and to customers who currently do not have access to banking services. The expansion into these markets involves significant investments and recurring

costs. The profitability of these operations depends on our ability to generate business volumes in these centers and from these customers. Future changes by the RBI in the directed lending norms may result in our inability to meet the PSL requirements as well as require us to increase our lending to relatively more risky segments and may result in an increase in non-performing loans.

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

Although we typically lend on a cash-flow basis, many of our loans are secured by collateral, which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities). As of March 31, 2018, 72.4% of our loans were partially or fully secured by collateral. We may not be able to realize the full value of the collateral, due to, among other things, stock market volatility, changes in economic policies of the Indian government, obstacles and delays in legal proceedings, borrowers and guarantors not being traceable, the Bank s records of borrowers and guarantors addresses being ambiguous or outdated and defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India, which negatively impacted the value of our collateral.

The RBI has introduced various mechanisms, from time to time, to enable the lenders to timely resolve and initiate recovery with regards to stressed assets. In February 2018, RBI released a revised framework for resolution of stressed assets providing a simplified generic framework for resolution of stressed assets to harmonize the process of resolving stressed assets with the insolvency resolution process provided under the Insolvency and Bankruptcy Code, 2016 and the rules prescribed thereunder (the Insolvency and Bankruptcy Code). See *Supervision and Regulations Resolution of Stressed Assets* .

The Insolvency and Bankruptcy Code was introduced in December 1, 2016, with the aim to provide for the efficient and timely resolution of insolvency of all persons, including companies, partnership firms, limited liability partnerships and individuals. For further details, see *Supervision and Regulation The Insolvency and Bankruptcy Code, 2016* . However, given the limited experience of this framework, there can be no assurance that we will be able to successfully implement the above-mentioned mechanisms and recover the amounts due to us in full. The inability to foreclose on such loan dues or otherwise liquidate our collateral may result in failure to recover the expected value of such collateral security, which may, in turn, give rise to increased losses and a decline in net income.

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

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

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

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

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

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

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

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

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

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

As of March 31, 2018, the RBI requires a minimum capital adequacy ratio of 10.875% (including capital conservation buffer) of our total risk-weighted assets. We adopted the Basel III capital regulations effective April 1, 2013. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 14.82% as of

March 31, 2018. Our CET-I ratio was 12.25% as of March 31, 2018. See also *Prospectus Summary Recent Developments Financial and other information for the three months ended June 30, 2018 and the three months ended June 30, 2017 Financial Results Capital Adequacy as of June 30, 2018 and June 30, 2017* . Our ability to support and grow our business would be limited by a declining capital adequacy ratio. While we anticipate accessing the capital markets to offset declines in our capital adequacy ratio, we may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions.

The Basel Committee on Banking Supervision issued a comprehensive reform package entitled Basel III: A global regulatory framework for more resilient banks and banking systems in December 2010. In May 2012, the RBI released guidelines on implementation of the Basel III capital regulations in India and in July 2015, the RBI issued a master circular consolidating all relevant guidelines on Basel III. The key items covered under these guidelines include: i) improving the quality, consistency and transparency of the capital base; ii) enhancing risk coverage; iii) grading the enhancement of the total capital requirement; iv) introducing a capital conservation buffer and countercyclical buffer; and v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier I capital will predominantly consist of common equity of the banks, which includes common shares, reserves and stock surplus. Innovative instruments and perpetual non-cumulative preference shares will not be considered a part of CET-I capital. Basel III also defines criteria for instruments to be included in Tier II capital to improve their loss absorbency. The guidelines also set out criteria for loss absorption through the conversion or write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-common equity Tier I and Tier II instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity. Additionally, the guidelines have set out criteria for loss absorption through the conversion or write-off of Additional Tier I capital instruments at a pre-specified trigger level. For Additional Tier I instruments issued before March 31, 2019, i.e., before the full implementation of Basel III, there would be two pre-specified triggers. A lower pre-specified trigger at CET-I of 5.5% of risk weighted assets (RWAs) will apply and remain effective before March 31, 2019; from this date the trigger will be raised at CET-I of 6.125% of RWAs for all such instruments. Additional Tier I instruments issued on or after March 31, 2019 will have only one pre-specified trigger at CET-I of 6.125% of RWAs. The capital requirement, including the capital conservation buffer, will be 11.5% once these guidelines are fully phased in. Domestic systemically important banks (D-SIB) are required to maintain additional CET-I capital requirement ranging from 0.2% to 0.8% of risk weighted assets. We have been classified a D-SIB and we are required to maintain additional CET-I of 0.15% with effect from April 1, 2018 and will be required to maintain additional CET-I of 0.20% from April 1, 2019, respectively. See *Supervision and Regulation Domestic Systemically Important Banks* . Banks will also be required to have an additional capital requirement towards countercyclical capital buffer varying between 0% and 2.5% of the risk weighted assets as and when announced by the RBI. The transitional arrangements began from April 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2019. Additionally, the Basel III Liquidity Coverage Ratio (LCR), which is a measure of the Bank s high quality liquid assets compared to its anticipated cash outflows over a 30-day stressed period, began applying in a phased manner that started with a minimum requirement of 60% from January 1, 2015 and will reach a minimum of 100% on January 1, 2019. These various requirements including requirements to increase capital to meet increasing capital adequacy ratios could require us to forego certain business opportunities.

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

met, which would create additional uncertainty regarding the market for Basel III compliant securities in India.

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

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

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

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

HDFC Limited and its subsidiaries (together, HDFC Group) owned 20.86% of our equity as of June 30, 2018. See *Capitalization* and *Principal Shareholders* . So long as HDFC Group holds at least a 20% equity stake in us, HDFC Limited is entitled to nominate two directors, our Chairperson and Managing Director, to our Board of Directors. These two directors are not required to retire by rotation and their appointments are subject to RBI approval. Shyamala Gopinath has been re-appointed as part-time Non-Executive Chairperson for three years with effect from January 2, 2018. Keki Mistry, the Vice Chairman and Chief Executive Officer of HDFC Limited is a member of our Board of Directors. While we are professionally managed and overseen by an independent board of directors, HDFC Limited can exercise influence over our board and over matters subject to a shareholder vote, which could result in decisions that favor HDFC Limited or result in us foregoing opportunities to the benefit of HDFC Limited. Such decisions may restrict our growth or harm our financial condition.

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

Additionally, on July 15, 2014, the RBI issued guidelines in relation to the issuance of long-term bonds with a view to encouraging financing of infrastructure and affordable housing. Regulatory incentives in the form of an exemption from the reserve requirements and a relaxation in PSL norms are stipulated as being restricted to bonds that are used

to incrementally finance long-term infrastructure projects and loans for affordable housing. Any incremental infrastructure or affordable housing loans acquired from other financial institutions, such as those that could be involved in a business combination with HDFC Limited, to be reckoned for regulatory

incentives will require the prior approval of the RBI. We cannot predict the impact any potential business combination would have on our business, financial condition, growth prospects or the prices of our equity shares.

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

HDFC Limited is primarily engaged in financial services, including home loans, property-related lending and deposit products. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life and other insurance and mutual funds. Although we have no agreements with HDFC Limited or any other HDFC Group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC Group companies and may effectively prevent us from taking advantage of business opportunities. See Note 28 *Related Party Transactions* in our consolidated financial statements for a summary of transactions we have engaged in with HDFC Limited during fiscal 2018. We currently distribute products of HDFC Limited and its group companies. If we stop distributing these products or forego other opportunities because of our relationship with HDFC Limited, it could have a material adverse effect on our financial performance.

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

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

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

RBI guidelines prescribe a policy framework for the ownership and governance of private sector banks. Under the Banking Regulation Act, a shareholder presently cannot exercise voting rights in excess of 15% of the total voting rights, which ceiling on voting rights may be increased in a phased manner up to 26% by the RBI. In May 2016, the RBI issued the Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016. These guidelines prescribe requirements regarding shareholding and voting rights in relation to all private sector banks licensed by the RBI to operate in India. The guidelines specify the following ownership limits for shareholders based on their categorization:

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

(ii)

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

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

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

Such restrictions could discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. The RBI s approval is required for the acquisition or transfer of a bank s shares, which will increase the aggregate holding (direct and indirect, beneficial or otherwise) of an individual or a group to the equivalent of 5% or more of its total paid-up capital. The RBI, when considering whether to grant an approval, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests, as prescribed by the RBI. The RBI has accorded its approval for HDFC Limited to hold more than 10% of our stock. HDFC Limited s substantial stake in us could discourage or prevent another entity from exploring the possibility of a combination with us. These obstacles to potentially synergistic business combinations could negatively impact our share price and have a material adverse effect on our ability to compete effectively with other large banks and consequently our ability to maintain and improve our financial condition.

Additionally, under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the SEBI Listing Regulations), all related party transactions will require approval from the audit committee. Further, all material related party transactions (based on the threshold provided under the SEBI Listing Regulations) will require shareholders approval. Further, pursuant to the SEBI Listing Regulations a related party is unable to vote with regard to the approval of these transactions. For transactions with HDFC Limited shareholder approvals have been obtained for fiscal 2018. However, if we are unable to obtain the necessary shareholder approvals for transactions with HDFC Limited in the future, we would be required to forego certain opportunities, which could have a material adverse effect on our financial performance.

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

Aggregate foreign investment from all sources in a private sector bank is permitted up to 49% of the paid-up capital under the automatic route. This limit can be increased to 74% of the paid-up capital with prior approval from the Government of India. Pursuant to a letter dated February 4, 2015 from the erstwhile FIPB and letter dated June 25, 2018 from the Department of Financial Services, Ministry of Finance, Government of India, the Bank has received approval for foreign investment in the Bank up to 74% of its paid-up capital. If we are subject to any penalties or an unfavorable ruling by the RBI, this could have an adverse effect on our results of operation and financial condition. The RBI had previously imposed a restriction on the purchase of equity shares of the Bank by foreign investors, under its circular dated March 19, 2012. On February 16, 2017, the RBI lifted such restriction since the foreign shareholding in the Bank was below the maximum prescribed percentage of 74%. Thereafter the RBI notified by press release on February 17, 2017, and by separate letter to us dated February 28, 2017, that the aggregate foreign shareholding in the Bank crossed the said limit of 74% again. This was due to secondary market purchases of the Bank s equity shares during this period. Consequently, the RBI re-imposed the restrictions on the purchase of the Bank s equity shares by foreign investors. Further, SEBI has also enquired regarding the measures that the Bank has taken and will take in respect of breaches of the maximum prescribed percentage of foreign shareholding in the Bank, by its letter dated March 9, 2018. The Bank has accordingly filed its reply with SEBI and there has been no further communication from SEBI in that respect. As of March 31, 2018, foreign investment in the Bank, including the shareholdings of HDFC Limited and its subsidiaries, constituted 72.62% of the paid-up capital of the Bank. The restrictions on the purchases of the Bank s equity shares could negatively affect the price of our shares and could limit the ability of investors to trade our shares in the market. These limitations and any consequent regulatory actions may also negatively affect the Bank s ability to raise additional capital to meet its capital adequacy requirements or to fund future growth through

future issuances of additional equity shares, which could have a material adverse effect on our business and financial results. See *Supervision and Regulation Foreign Ownership Restriction* .

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

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

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

The RBI is empowered under the Banking Regulation Act to impose penalties on banks and their employees to enforce applicable regulatory requirements. In fiscal 2014, the RBI imposed penalties on us and many other banks for certain irregularities and violations discovered by the RBI during its scrutiny conducted in the first half of 2013, namely, non-observance of certain safeguards in respect of arrangement of at par payment of checks drawn by cooperative banks, exceptions in the periodic review of risk profiling of account holders, non-adherence to KYC rules for walk-in customers (non-customers) including for the sale of third party products, the sale of gold coins for cash in excess of Rs.50,000 in certain cases and the non-submission of proper information as required by the RBI. We paid a penalty of Rs.45.0 million in June 2013. Further, in this regard, the Financial Intelligence Unit (India) (the FIU), in January 2015, levied a fine on us of Rs.2.6 million relating to our failure to detect and report attempted suspicious transactions. We filed an appeal against the order before the appellate tribunal stating that there were only roving enquiries made by the reporters of the media and there were no instances of any attempted suspicious transactions. Pursuant to the directions of the appellate tribunal, the Bank created a fixed deposit of Rs.2.6 million in favor of the FIU. In June 2017, the appellate tribunal dismissed the penalty levied by the FIU and observed that the prescribed matter fell within the provisions of section 13(2)(a) of the Prevention of Money Laundering Act, 2002 (PMLA) (pursuant to which a warning was required to be given to the Bank), and that the matter did not fall within section 13(2)(d) of the PMLA (pursuant to which monetary penalties can be imposed on failure to comply with certain obligations under the PMLA) as mentioned by the FIU. The appellate tribunal further ordered that the fixed deposit created by the Bank as per the interim order of the appellate tribunal be released. In a letter dated September 8, 2017, we requested FIU s consent for liquidation of the Rs.2.6 million fixed deposit receipt given the resolution of the case. FIU has responded to us on October 25, 2017, advising that it has challenged the appellate tribunal s order to release the fixed deposit receipt. They advised that the appeal, including application for stay, is to be listed before the Delhi High Court in due course and accordingly at this stage our request to liquidate the fixed deposit receipt is premature. The matter has now been listed for hearing on December 6, 2018 for further proceedings See *Supervision and Regulation Penalties* .

Additionally, during fiscal 2014, the RBI investigated a corporate borrower s loan and current accounts maintained with 12 Indian banks, including us. Based on its assessment, the RBI, in its press release dated July 25, 2014, levied penalties totaling Rs.15 million on the 12 Indian banks. The penalty levied on us was Rs.0.5 million on the grounds that we failed to exchange information about the conduct of the corporate borrower s account with other banks at intervals as prescribed in the RBI guidelines on Lending under Consortium Arrangement/Multiple Banking Arrangements . In October 2015, there were media reports about irregularities in advance import remittances in various banks, further to which the RBI had conducted a scrutiny of the transactions carried out by us. In April 2016, the RBI issued a show cause notice to us to which we submitted our detailed response. After considering our submissions, the

RBI imposed a penalty of Rs.20.0 million on us in July 2016, which we paid, on account of pendency in receipt of bills of entry relating to advance import remittances made and lapses in adhering to KYC/Anti-Money Laundering (AML) guidelines in

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

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

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

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

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

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

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

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. Short-term deposits are those with a maturity not exceeding one year. Medium-term deposits are those with a maturity of greater than one year but not exceeding three years. See *Selected Statistical*

Information Funding . However, a portion of our assets have long-term maturities, which sometimes causes funding mismatches. As of March 31, 2018, 37.1% of our loans are expected to mature within the next one year

and 45.0% of our loans are expected to mature between the next one to three years. As of March 31, 2018, 42.2% of our deposits are expected to mature within the next year and 39.3% of our deposits are expected to mature between the next one to three years. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position will be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which would result in a decline in our net income and have a material adverse effect on our financial condition. We may also face a concentration of deposits by our larger depositors. Any sudden or large withdrawals by such large depositors may impact our liquidity position.

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

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net revenue. Policy rates were successively increased from February 2010 to March 2012 during which period the bout of interest rate tightening in India was faster than in many other economies. The RBI raised key policy rates from 5.25% (repo rate) in April 2010 to 8.5% in October 2011. However, key policy rates were eased from 8.0% (repo rate) in April 2012 to 7.25% in May 2013. In July 2013, the RBI increased the rate for borrowings under its marginal standing facility (which was introduced by the RBI in fiscal 2012) from 100 basis points to 300 basis points above the repo rate. This rate was eased from 200 basis points above the repo rate in September 2013 to 100 basis points above repo rate in October 2013. In contrast, the policy rates were tightened from 7.5% (repo rate) in September 2013 to 8.0% in January 2014. The RBI reduced the policy repo rate again to 7.75% in January 2015, further reducing it to 7.5% in March 2015, 7.25% in June 2015, 6.75% in September 2015, 6.5% in April 2016, 6.25% in October 2016, and 6.00% in August 2017, before increasing it to 6.25% in June 2018. We are, however, more structurally exposed to interest rate risk than banks in many other countries because of certain mandated reserve requirements of the RBI. See *Supervision and Regulation Legal Reserve Requirements* . These requirements result in Indian banks, such as ourselves, maintaining (as per RBI guidelines currently in force) a portion of our liabilities in bonds issued by the Government (19.5% as of June 2018, computed as per guidelines issued by the RBI). We are also required to maintain 4% of our liabilities (computed as per guidelines issued by the RBI) by way of a balance with the RBI. This, in turn, means that we could be adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. A rise in yields on fixed income securities, including government securities, will likely adversely impact our profitability. The aforementioned requirements would also have a negative impact on our net interest income and net interest margins since interest earned on our investments in government issued securities is generally lower than that earned on our other interest earning assets.

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

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

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

technology investments, may have a material adverse effect on our financial condition.

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

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

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

As per RBI norms, a bank s capital market exposure is limited to 40% of its net worth under Indian GAAP as of March 31 of the previous year, both on a consolidated and non-consolidated basis. Our capital market exposure as of March 31, 2018 was 22.8% of our net worth on a non-consolidated basis and 24.0% on a consolidated basis, in each case, under Indian GAAP. See *Supervision and Regulation Large Exposures Framework* . If we fail to meet these regulatory limits in the future, we may face difficulties in obtaining other regulatory approvals necessary to conduct our normal course of business, which would have a material adverse effect on our business and operations.

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

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

For example, certain unpublished price sensitive information (UPSI) relating to our financial results for the three months ended December 31, 2015 and the three months ended June 30, 2017 was leaked through the WhatsApp mobile app ahead of the official publication of such results. Following this leak, we received an order from SEBI on February 23, 2018 directing us, among others, to (i) submit a report on our current systems and controls relating to the protection of UPSI and how such systems and controls have been strengthened since the aforementioned leak and

(ii) conduct an internal inquiry into the leakage of UPSI relating to our financial results and submit a report in relation thereto. In accordance with the SEBI order, we filed both reports with SEBI on

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May 30, 2018. Any additional action by SEBI in connection with its investigation and our respective reports could subject us to further scrutiny or enforcement actions and have a material adverse effect on our reputation, business, financial position or results of operation.

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

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

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

Legal proceedings, including lawsuits, investigations by regulatory authorities and other inspections or audits, could result in judgments, fines, public reprimands, damage to our reputation, significant time and attention from our management, costs for investigations and remediation of affected customers, or other adverse effects on our business and financial results. We establish reserves for legal claims when payments associated with claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of any pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition. See *Business Legal Proceedings* .

We may breach third party intellectual property rights.

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

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

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. The reputation of the financial services industry in general has been closely monitored as a result of the

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financial crisis and other matters affecting the financial services industry. Negative public opinion about the financial services industry generally or us specifically could adversely affect our ability to attract and retain customers, and may expose us to litigation and regulatory action. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions and related disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

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

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

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

Our ability to operate and remain competitive depends in part on our ability to maintain and upgrade our information technology systems and infrastructure on a timely and cost-effective basis, including our ability to process a large number of transactions on a daily basis. Our operations also rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Our financial, accounting or other data processing systems and management information systems or our corporate website may fail to operate adequately or become disabled as a result of events that may be beyond our control or may be vulnerable to unauthorized access, computer viruses or other attacks. See *We face cyber threats, such as hacking, phishing and trojans, attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal Bank data or customer information. This may cause damage to our reputation and adversely impact our business and financial results*. Further, the information available to and received by our management through its existing systems may not be timely and sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in our operations. If any of these systems are disabled or if there are other shortcomings or failures in our internal processes or systems, it may disrupt our business or impact our operational efficiencies, and render us liable to

regulatory intervention or damage to its reputation. The occurrence of any such events may adversely affect our business, results of operation and financial condition.

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

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

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

The Government of India regulates foreign ownership in private sector banks. Foreign ownership up to 49% of the paid-up capital is permitted in Indian private sector banks under the automatic route and this limit can be increased up to 74% with prior approval of the Government of India. However, under the Banking Regulation Act, read together with the Reserve Bank of India (Ownership in Private Sector Banks) Directions, 2016, a shareholder cannot exercise voting rights in excess of 15% of the total voting rights. The ceiling on voting rights may be increased in a phased manner up to 26% by the RBI. The RBI has also from time to time issued various circulars and regulations regarding ownership of private banks and licensing of new private sector banks in India. See *Supervision and Regulation Entry of new banks in the private sector* . Reduced restrictions on foreign ownership of Indian banks could increase the presence of foreign banks in India, increased competition in the industry in which we operate.

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

In November 2014, the RBI released guidelines for the licensing of payments banks and small finance banks in the private sector. Since promulgation, such banks have been established and operational pursuant to these guidelines, which have increased competition in the markets in which we operate.

In August 2016, the RBI released final guidelines for on-tap Licensing of Universal Banks in the Private Sector. The guidelines aim at moving from the current stop and go licensing approach (wherein the RBI notifies the licensing

window during which a private entity may apply for a banking license) to a continuous or

on-tap licensing regime. Among other things, the new guidelines specify conditions for the eligibility of promoters, corporate structure and foreign shareholdings. One of the key features of the new guidelines is that, unlike the February 2013 guidelines (mentioned above), the new guidelines make the NOFHC structure non-mandatory in the case of promoters being individuals or standalone promoting/converting entities which do not have other group entities.

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

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

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

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

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

As at March 31, 2013, we had 3,062 branches and as at March 31, 2018, we had 4,787 branches, a significant increase in the number of branches. Some of the newly added branches are currently operating at a lower efficiency level as compared with our established branches. While we believe that the newly added branches will achieve the productivity benchmark set for our entire network over time, the success in achieving our benchmark level of efficiency and productivity will depend on various internal and external factors, some of which are not under our control. The sub-optimal performance of the newly added branches, if continued over an extended period of time, would have a material adverse effect on our profitability.

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

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

information available to us about the credit history of our borrowers, especially individuals and small businesses. As a result, our ability to effectively manage our credit risk may be adversely affected.

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

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

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

Scheduled commercial banks in India, including us, insurers/insurance companies and non-banking financial companies will be required to prepare financial statements under Indian Accounting Standards, as per the implementation roadmap drawn up by the Ministry of Corporate Affairs. In addition, we may adopt IFRS for the purposes of our filings pursuant to the Securities Exchange Act of 1934 (the Exchange Act). If we do, we may be adversely affected by this transition.

The Ministry of Corporate Affairs, in its press release dated January 18, 2016, issued a roadmap for the implementation of Indian Accounting Standards (IND-AS) converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) with certain carve-outs for scheduled commercial banks, insurance companies and non-banking financial companies (the 2016 Roadmap). The 2016 Roadmap required such institutions to prepare IND-AS-based financial statements for accounting periods commencing on or after April 1, 2018, and to prepare comparative financial information for accounting periods commencing on or after April 1, 2017. The RBI, in its circular dated February 11, 2016, required all scheduled commercial banks to comply with IND-AS for financial statements for the same periods stated above. The RBI does not permit banks to adopt IND-AS earlier than these timelines. In April 2018, the RBI deferred the effective date for implementation of IND-AS by one year at which point the necessary legislative amendments are expected to have been completed. Earlier, in June 2017, the Insurance Regulatory and Development Authority of India had deferred the effective date for implementation of IND-AS accounting model in the insurance sector by two years.

In conjunction with the implementation of IND-AS for our local Indian results, we may adopt IFRS for the purposes of our filings pursuant to Section 13 or 15(d) of, and our reports pursuant to Rule 13a-16 or 15d-16 under, the Exchange Act. Should we choose to do so, our first year of reporting in accordance with IFRS would be for the accounting period commencing on April 1, 2019 and, as such, we would be permitted to file two years, rather than three years, of statements of income, changes in shareholders equity and cash flows prepared in accordance with IFRS.

The new accounting standards are expected to change, among other things, our methodologies for estimating allowances for probable loan losses and classifying and valuing our investment portfolio, as well as our revenue recognition policy. It is possible that our financial condition, results of operations and changes in shareholders equity may appear materially different under IND-AS or IFRS than under Indian or U.S. GAAP, respectively. Further, during the transition to reporting under the new standards, we may encounter difficulties in the ongoing implementation of the new standards and development of our management information systems. Given the increased competition for the small number of IFRS-experienced accounting personnel in India, it may be difficult for us to employ the appropriate

accounting personnel to assist us in preparing IND-AS or IFRS financial statements. Moreover, there is no significant body of established practice from which we may draw

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when forming judgments regarding the application of the new accounting standards. There can be no assurance that the Bank s controls and procedures will be effective in these circumstances or that a material weakness in internal control over financial reporting will not occur. Further, failure to successfully adopt IND-AS or IFRS could adversely affect the Bank s business, financial condition and results of operations.

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

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

Risks Relating to India

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

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

The global credit and equity markets have experienced substantial dislocations, liquidity disruptions and market corrections in recent years. In particular, sub-prime mortgage loans in the United States have experienced increased rates of delinquency, foreclosure and loss. The recent history of financial crises which have affected both emerging and developed economies has given rise to heightened liquidity and credit concerns and caused an increase in volatility in the global credit and financial markets. Developments in the Eurozone have further exacerbated concerns relating to liquidity and volatility in global capital markets.

Developments in the Eurozone during the past couple of years have exacerbated the ongoing global economic crisis. Large budget deficits and rising public debts have triggered sovereign debt crisis in multiple European countries that resulted in the bailout of certain economies and increased the risk of government debt defaults, forcing governments to undertake aggressive budget cuts and austerity measures. On the back of this crisis, the U.K. voted to leave the European Union in 2016, prompting a plunge in the pound sterling and a credit rating downgrade. The outcome of the U.K. referendum created fear of potential further exits from the European Economic and Monetary Union. While some of these apprehensions have been alleviated by favorable outcomes of subsequent Dutch and French elections, election results in Germany and Italy (where anti-EU parties gained support) and the rise of separatists in Catalonia in Spain show that these fears still persist. Moreover, the terms of the U.K. s exit from the European Union are in the process of being negotiated and this uncertainty regarding the future of the relationship between the U.K. and the European Union could keep financial markets on edge. In addition, the sovereign ratings of various European Union countries have been downgraded since 2012. Financial markets and the supply of credit could continue to be negatively impacted by ongoing concerns surrounding the sovereign debts and fiscal deficits of European countries,

the possibility of further downgrades of, or defaults on, sovereign debt, concerns regarding a slowdown in growth in certain economies, as well as uncertainties regarding the stability and overall standing of the European Monetary Union. These and other related events have had a significant impact on the global credit and financial markets as a whole, including reduced liquidity, greater volatility, the widening of credit spreads and a lack of price transparency.

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

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

The Bank is rated BBB- by Standard & Poor s (S&P) and Baa2 by Moody s, two international rating agencies. In the case of the international rating agencies, the ratings of all Indian banks are capped at the sovereign rating (that is, BBB- by S&P and Baa2 by Moody s). In India, the Bank is rated AAA by CRISIL, CARE and India Ratings (the Indian arm of Fitch Ratings), which are the highest credit ratings assigned on the domestic scale.

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

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

Going forward, the sovereign ratings outlook for India will remain dependent on the growth of the economy and the inflation environment, as well as exercise of adequate fiscal restraint by the government. Any adverse change in India s credit rating, or the credit rating of any country in which our foreign branches are located, by international rating agencies may adversely impact our business financial position and liquidity, limit our access to capital markets, and increase our cost of borrowing.

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

Any change in Indian tax laws, including the upward revision to the currently applicable normal corporate tax rate of 30% along with applicable surcharge and cess, could affect our tax burden. Other benefits such as exemption for income earned by way of dividend from investments in other domestic companies and units of mutual funds, exemption for interest received in respect of tax-free bonds and long-term capital gains on equity shares, if withdrawn in the future, may no longer be available to us. Any adverse order passed by the appellate authorities/tribunals/courts would have an impact on our profitability.

As of July 1, 2017, the Goods and Services Tax (GST) in India replaced taxes levied by central and state governments with a unified tax regime in respect of certain goods and services for all of India. However, given

the recent introduction of the GST in India, there is no established practice regarding the implementation of, and compliance with, GST. Our business and financial performance could be adversely affected by any unexpected or onerous requirements or regulations resulting from the introduction of GST or any changes in laws or interpretation of existing laws, or the promulgation of new laws, rules and regulations relating to GST, as it is implemented.

Further, as GST is implemented, there can be no assurance that we will not be required to comply with additional procedures and/or obtain additional approvals and licenses from the government and other regulatory bodies or that they will not impose onerous requirements and conditions on our operations. Any such changes and the related uncertainties with respect to the implementation of GST may have a material adverse effect on our business, financial condition and results of operations.

The General Anti-Avoidance Rules (GAAR) have come into effect from April 1, 2017. The tax consequences of the GAAR provisions being applied to an arrangement could result in denial of tax benefit amongst other consequences. In the absence of any precedents on the subject, the application of these provisions is uncertain. If the GAAR provisions are made applicable to us, it may have an adverse tax impact on us.

The Finance Bill, 2018, which was earlier approved by the Parliament has been enacted and came into effect from April 1, 2018. The exemption previously granted in respect of payment of long-term capital gains tax was withdrawn and such tax became payable by the investors from April 1, 2018. We cannot predict whether any tax laws or regulations impacting our products will be enacted, what the nature and impact of the specific terms of any such laws or regulations will be or whether, if at all, any laws or regulations would have a material adverse effect on our business, financial condition and results of operations.

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

Capital flows picked up substantially during fiscal 2017, reflecting a reassessment of investor expectations about future domestic growth prospects following the election of a pro-reform government in 2014. While the CAD remained a main area of concern over fiscal 2012 and fiscal 2013, it shrunk sharply in fiscal 2014 to 1.7% of GDP, and fell further in fiscal 2016 to 0.7% of GDP, respectively. A sharp contraction in the oil imports bill on the back of a near 50% decline in global crude prices was the main reason behind the improvement in the current account position. However, with the recent rise in oil prices, we expect CAD to have been approximately 1.8% in fiscal 2018.

During fiscal 2014, the rupee came under significant and sustained selling pressure driven by growing anxiety about domestic growth prospects and global risk aversion. The rupee depreciated in fiscal 2014 by 10.1% compared to the U.S. dollar. Investor expectations that reforms implemented by the Government will lead to an improvement in the long-term growth outlook helped to improve the rupee s performance, reducing the depreciation trend to 3.85% in fiscal 2015. During fiscal 2016, the rupee depreciated by 6.32% primarily reflecting global risk aversion and a strong U.S. dollar. However, in line with other emerging markets, which experienced currency appreciation in fiscal 2017, the Indian rupee also appreciated by 2.1% against the U.S. dollar. This was mainly attributed to repricing of the Indian assets by international investors (driven by domestic economic and political stability) alongside the disappointment relating to the U.S. reform agenda. In fiscal 2018, the rupee ranged between a high of Rs.65.71 per US$1.00 and a low of Rs.63.38 per US$1.00. Pressure developed in the last two quarters of fiscal 2018 as oil prices rose and trade war risks escalated globally. In the first quarter of fiscal 2019, the rupee depreciated by 5.1% against the U.S. dollar. Rising oil prices and consequently marginal deterioration of India s CAD, slowdown in global trade volumes and a general risk aversion towards emerging market currencies (because of tariffs and trade war risks) have all affected the rupee negatively so far this fiscal year. Going forward, the Indian rupee may be impacted by factors such as: (a) the tightening in U.S. monetary policy, (b) the rise in protectionist voices across the world (c) uncertainty surrounding the

United Kingdom s exit from the European Union, (d) the slower pace of growth in China, (e) the revival of the domestic economy and f) rise in oil prices.

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Further, global risk aversion could mean a continuation of the rotation of global fund flows from emerging markets to U.S. markets over the medium term. The Indian rupee may be more vulnerable than other emerging market currencies on the back of a deterioration in the CAD and an increase in inflation rates in the second half of fiscal 2019. Nevertheless, it remains a possibility that the RBI will intervene in the foreign exchange markets to stamp out excess volatility in the exchange rate in the event of potential shocks, such as an increase in U.S. interest rates or a break-down in the negotiations between EU and U.K. policymakers. Any such intervention by the RBI may result in a decline in India s foreign exchange reserves and, subsequently, reduce the amount of liquidity in the domestic financial system, which would, in turn, cause domestic interest rates to rise.

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

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

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators remain significant as independent factors in the Indian economy. The election of a pro-business majority government in May 2014 has marked a distinct increase in expectations for policy and economic reforms among certain aspects of the Indian economy. There is no guarantee that the current government will be able to enact an optimal set of reforms or that any such reforms would continue or succeed if there were a change in the current majority leadership in the government in the future. There is also no guarantee that the government will announce an optimal set of reforms or policies in the future. In November 2016, the government undertook demonetization of high denomination notes of Rs.500 and Rs.1,000. Short-term disruptions that the cash squeeze caused, may have weighed down on the economy. The rate of economic liberalization is subject to change and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in our securities are continuously evolving as well. In addition, the GST was implemented in India in July 2017 and replaced multiple cascading taxes levied by the Indian central and state governments. Any significant change in India s economic liberalization, deregulation policies or other major economic reforms could adversely affect business and economic conditions in India generally and our business in particular.

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

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

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

on our business and the price of our equity shares and ADSs.

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Natural calamities, climate change and health epidemics could adversely affect the Indian economy, or the economy of other countries where we operate, our business and the price of our equity shares and ADSs.

India has experienced natural calamities such as earthquakes, floods and droughts in the past few years. The extent and severity of these natural disasters determine their impact on the Indian economy. In particular, climatic and weather conditions, such as the level and timing of monsoon rainfall, impact the agricultural sector, which constituted approximately 15% of India s GDP in 2017. Prolonged spells of below or above normal rainfall or other natural calamities, or global or regional climate change, could adversely affect the Indian economy and our business, especially our rural portfolio. Similarly, global or regional climate change in India and other countries where we operate could result in change in weather patterns and frequency of natural calamities like droughts, floods and cyclones, which could affect the economy of India, the countries where we operate and our operations in those countries.

Health epidemics could also disrupt our business. In fiscal 2010, there were outbreaks of swine flu, caused by the H1N1 virus, in certain regions of the world, including India and several countries in which we operate. Any future outbreak of health epidemics may restrict the level of business activity in affected areas, which may in turn adversely affect our business and the price of our equity shares and ADSs could be adversely affected.

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

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

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

The United States has not been declared by the government to be a reciprocating territory for the purposes of section 44A of the Civil Procedure Code. However, the United Kingdom has been declared by the government to be a reciprocating territory and the High Courts in England as the relevant superior courts. A judgment of a court in a jurisdiction which is not a reciprocating territory, such as the United States, may be enforced only by a new suit upon the judgment and not by proceedings in execution. Section 13 of the Civil Procedure Code provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except: (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in India. The suit must be brought in India within three years from the date of

the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce a foreign judgment if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice.

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A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amount recovered pursuant to execution. Any judgment in a foreign currency would be converted into Indian rupees on the date of the judgment and not on the date of the payment. The Bank cannot predict whether a suit brought in an Indian court will be disposed of in a timely manner or be subject to considerable delays.

Risks Relating to the Settlement of this Offering

The closing and settlement of this Offering is conditioned on the closing of the concurrent QIP and availability of foreign investment headroom in the Bank.

The Government regulates ownership of Indian companies by foreign shareholders. See *Supervision and Regulation Foreign Ownership Restriction* . The maximum prescribed percentage of foreign shareholding in the Bank is 74% of its paid-up capital. There is a risk that due to secondary market purchases of the Bank s equity shares, which are beyond our control, the aggregate foreign shareholding in the Bank may cross the 74% limit. See *Risk Factors Risks Relating to our Business Foreign investment in our shares may be restricted due to regulations governing aggregate foreign investment in the Bank s paid-up equity share capital* . While at the time of launch of this Offering, we believe that we had sufficient foreign investment headroom to issue the offered ADSs, there is uncertainty under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017, as to whether we can allot the equity shares underlying the ADSs offered in this Offering if the aggregate foreign shareholding in the Bank rises above the 74% limit prior to the scheduled closing and settlement time. The underwriting agreement relating to this Offering includes, among other conditions precedent, conditions relating to (i) the availability of foreign investment headroom and (ii) the closing of the QIP. Consequently, if sufficient headroom does not exist at the relevant time or the QIP does not close, you may not receive any ADSs or, subject to a separate agreement between the underwriters and us (which the underwriters are under no obligation to enter into), the delivery of the ADSs may be delayed. Accordingly, purchasers who wish to trade ADSs on any date prior to delivery of the ADSs may encounter a delayed or failed settlement and should consult their own advisors in structuring any such trades. If the foreign shareholding is above the 74% limit after allotment of the equity shares underlying the ADSs, but prior to the scheduled closing and settlement time, it is unclear under Indian laws and regulations whether the Offering can be closed and settled.

Risks Relating to the ADSs and Equity Shares

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

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

Investors in ADSs will not be able to vote.

Investors in ADSs will have no voting rights, unlike holders of equity shares. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the

equity shares underlying the ADSs and seek to vote (subject to Indian restrictions on foreign ownership) the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays and additional costs and you may not be able to redeposit the equity shares. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see *Restrictions on Foreign Ownership of Indian Securities* and *Description of American Depositary Shares Voting Rights* .

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

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

Restrictions on deposit of equity shares in the depositary facility could adversely affect the price of our ADSs.

Under current Indian regulations, an ADSs holder who surrenders ADSs and withdraws equity shares may deposit those equity shares again in the depositary facility in exchange for ADSs. An investor who has purchased equity shares in the Indian market may also deposit those equity shares in the ADSs program. However, the deposit of equity shares may be subject to securities law restrictions and the restriction that the cumulative aggregate number of equity shares that can be deposited as of any time cannot exceed the cumulative aggregate number represented by ADSs converted into underlying equity shares as of such time. These restrictions increase the risk that the market price of our ADSs will be below that of our equity shares.

There is a limited market for the ADSs.

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

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

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

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

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

You may be subject to Indian taxes arising out of capital gains.

Generally, capital gains, whether short-term or long-term, arising on the sale of the underlying equity shares in India are subject to Indian capital gains tax. Investors are advised to consult their own tax advisers and to carefully consider the potential tax consequences of an investment in ADSs. See also *Taxation* .

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

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of

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

Financial difficulty and other problems in certain financial institutions in India could adversely affect our business and the price of our equity shares and ADSs.

We are exposed to the risks of the Indian financial system by being a part of the system which may be affected by the financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Such systemic risk , may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with which we interact on a daily basis. Any such difficulties or instability of the Indian financial system in general could create an adverse market perception about Indian financial institutions and banks and adversely affect our business. Our transactions with these financial institutions expose us to various risks in the event of default by a counterparty, which can be exacerbated during periods of market illiquidity.

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

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

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

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

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

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

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

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HDFC Limited s significant holdings could have an effect on the trading price of our equity shares and ADSs.

HDFC Limited and its subsidiaries hold a significant portion of our equity, and are entitled to certain rights to appoint directors to our Board. While we are professionally managed and overseen by an independent board of directors, HDFC Limited can exercise influence over our board and over matters subject to a shareholder vote that could directly or indirectly favor the interests of HDFC Limited over our interests. See *HDFC Limited holds a significant percentage of our share capital and can exercise influence over board decisions that could directly or indirectly favor the interests of HDFC Limited over our interests* and *We may face conflicts of interest relating to our promoter and principal shareholder, HDFC Limited, which could cause us to forego business opportunities and consequently have an adverse effect on our financial performance*. HDFC Limited s concentration of ownership may adversely affect the trading price of our equity shares to the extent investors perceive a disadvantage in owning stock of a company with a significant shareholder. See *Recent Developments Preferential Allotment* .

Investors may be subject to Indian taxes arising out of capital gains on the sale of equity shares.

Under current Indian tax laws and regulations, capital gains arising from the sale of shares in an Indian company are generally taxable in India. Any gain realized on the sale of equity shares held for more than 12 months to an Indian resident, which are sold other than on a recognized stock exchange and on which no Securities Transaction Tax (STT) has been paid, are subject to long term capital gains tax in India. Until March 31, 2018, any gain realized on the sale of listed equity shares on a stock exchange held for more than 12 months was not subject to capital gains tax in India if STT was paid on the transaction. STT is levied on and collected by a domestic stock exchange on which the equity shares are sold. However, with the enactment of the Finance Act, 2018 (Finance Act) the exemption previously granted in respect of payment of long term capital gains tax has been withdrawn and such taxes are now payable by the investors with effect from April 1, 2018. Further, any gain realized on the sale of listed equity shares held for a period of 12 months or less will be subject to short term capital gains tax in India. Capital gains arising from the sale of equity shares will be exempt from taxation in India in cases where the exemption from taxation in India is provided under a treaty between India and the country of which the seller is resident.

Generally, Indian tax treaties do not limit India s ability to impose tax on capital gains. As a result, residents of other countries may be liable for tax in India as well as in their own jurisdiction on a gain upon the sale of equity shares. See *Taxation Indian Taxation* .

Future issuances or sales of equity shares and ADSs could significantly affect the trading price of our equity shares and ADSs.

The future issuance of shares by us or the disposal of shares by any of our major shareholders, or the perception that such issuance or sales may occur, may significantly affect the trading price of our equity shares and ADSs. There can be no assurance that we will not issue further shares or that the major shareholders will not dispose of, pledge or otherwise encumber their shares.

You may be subject to additional compliance requirements under Indian law in the future.

The DR Scheme (see *Restrictions on Foreign Ownership of Indian Securities FPI Regulations Issue of securities through the depository receipt mechanism* in the accompanying prospectus) authorizes the RBI, SEBI, the Ministry of Corporate Affairs and the Ministry of Finance of the Government to implement the provisions of the DR Scheme. While certain operational guidelines have been issued by the regulatory authorities, there can be no assurance that additional rules, regulations or guidelines will not be issued, or existing rules, regulations or guidelines will not be amended or modified, from time to time and the holders of ADSs will not be subject to more onerous compliance

requirements. For instance, the Ministry of Finance has recently notified the Companies (Significant Beneficial Owners) Rules, 2018, which require certain disclosures in respect of significant beneficial owners as per the term defined in the rules.

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Foreign Account Tax Compliance Act withholding may affect payments on our equity shares and ADSs.

Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code) (provisions commonly known as FATCA or the Foreign Account Tax Compliance Act) impose (a) certain reporting and due diligence requirements on foreign financial institutions (FFIs) and, (b) potentially require such FFIs to deduct a 30% withholding tax from (i) certain payments from sources within the United States, and (ii) foreign passthru payments (which is not yet defined in current guidance) made to certain FFIs that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information. We (as well as relevant intermediaries such as custodians and depositary participants) are classified as FFIs for these purposes. The United States has entered into a number of intergovernmental agreements (IGAs) with other jurisdictions which may modify the operation of this withholding. India has entered into a Model 1 IGA with the United States for giving effect to FATCA, and Indian FFIs, including us, are generally required to comply with FATCA based on the terms of the IGA and relevant rules made pursuant thereto.

Under current guidance it is not clear whether or to what extent payments on ADSs or equity shares will be considered foreign passthru payments subject to FATCA withholding or the extent to which withholding on foreign passthru payments will be required under the applicable IGA. Investors should consult their own tax advisers on how the FATCA rules may apply to payments they receive in respect of the ADSs or equity shares.

Should any withholding tax in respect of FATCA be deducted or withheld from any payments arising to any investor, neither we nor any other person will pay additional amounts as a result of the deduction or withholding.

BUSINESS

Overview

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

We have three principal business activities: retail banking, wholesale banking and treasury operations. Our retail banking products include deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services, loans to small and medium enterprises and other services. On the wholesale banking front, we offer customers a range of financing products, such as documentary credits and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. We offer a range of deposit and transaction banking services, such as cash management, custodial and clearing bank services and correspondent banking. Our treasury operations manage our balance sheet, and include customer driven services such as advisory services related to foreign exchange and derivative transactions for corporate and institutional customers, supplemented by proprietary trading, including Indian Government securities. Further, our NBFC subsidiary HDBFSL, offers loan and asset finance products including tractor loans, consumer loans and gold loans, as well as a range of business process outsourcing solutions. We provide our customers brokerage accounts through our subsidiary HSL.

Our financial conditions and results of operation are affected by general economic conditions prevailing in India. The Indian economy is one of the largest economies in the world with a GDP at current market prices of an estimated Rs.152.5 trillion for fiscal 2017 and an estimated Rs.167.5 trillion for fiscal 2018. In recent years, India has become a popular destination for foreign direct investment (FDI), owing to its well-developed private corporate sector, large consumer market potential, large pool of well-educated and English speaking workers and well established legal systems. Overall, India attracted FDI (including reinvested earnings) of approximately US$60.1 billion in fiscal 2017 and US$55.6 billion in fiscal 2016 as compared to an average of US$23.1 billion from fiscal 2001 through fiscal 2013. From April through September 2017, FDI equity inflows of US$25.35 billion were received, representing a 17% increase over the same period in fiscal 2017. One measure of India s progress has been the upward trend in ease of doing business rankings, a measure published annually by the World Bank. In 2017, India jumped 30 places to the 100th spot and was ranked as one of the top 10 improvers year-over-year.

Although GDP grew at a slightly slower pace in fiscal 2017 than fiscal 2016 (with GDP growth of 7.1% compared to 8.2%), private final consumption grew at 7.3% for fiscal 2017. In the first quarter of fiscal 2018 GDP growth slowed down to a 13-quarter low at 5.6%, sharply lower than last year s 8.1% expansion in the same quarter. GDP growth bounced back to 6.3% in the second quarter of fiscal 2018 after declining for the last five quarters, and has further been pegged at 7.0% for the third quarter of fiscal 2018, and 7.7% for the fourth quarter of fiscal 2018. While many economic indicators suggest a revival is underway, we believe that the improvement going forward may only be gradual, undermined by structural problems such as weak private consumption and low capacity utilization.

On the other hand, inflation also moderated during fiscal 2017, with the average level of Consumer Price Inflation (CPI) declining to 4.5% in fiscal 2017 from 4.9% in fiscal 2016. CPI in fiscal 2018 was 3.6% on average. In line with market expectations, the RBI, in its monetary policy announcements on February 7 and April 5, 2018 kept rates unchanged, in February also announcing the linking of the base rate to the Marginal Cost of Funds based Lending Rate (MCLR) with effect from April 1, 2018.

Notwithstanding some positive reversal in private investment growth over the course of fiscal 2018 (rising to 14.4% in the fourth quarter from 9.1%, 6.1% and 0.8% in the third, second and first quarter of fiscal 2018,

respectively), we believe incremental pick up in private capital expenditures is likely to be sector and sub-sector specific and very gradual. In contrast to these positive signs seen in private capital expenditure, there has been a continued slowdown in private consumption growth up to the fourth quarter of fiscal 2018, during which growth picked up slightly to 6.7% from 5.9% in the third quarter. Previously, private consumption had declined to 6.8% in the second and 6.9% in the first quarter of fiscal 2018 from 9.3% in the third quarter of fiscal 2017.

Global growth is expected to pick up in 2018, with the International Monetary Fund (IMF) projecting 2018 GDP growth of 3.7% compared to 3.2% registered in 2016, which we believe means external demand is more likely to support growth going forward. The IMF has forecasted India GDP growth of 7.4% and 7.9% for 2018 and 2019.

We are constantly working to develop new technology and improve the digital aspects of our business. For example, we have recently invested in a digital banking platform, Backbase, to give a single unified omni-channel experience to our customers for mobility banking, online banking, the public website and payments. We have implemented mobile data based networking options in semi-urban and rural areas where telecom infrastructure and data connectivity are weak, and other recent technological developments include mobile banking applications, person-to-person smartphone payment solutions, secure payment systems and a virtual relationship manager for high net worth customers.

We have grown rapidly since commencing operations in January 1995. As of March 31, 2018, we had 4,787 branches, 12,635 ATMs in 2,691 cities and towns and 43.6 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs.9,067.0 billion as of March 31, 2017 to Rs.11,367.3 billion as of March 31, 2018. Our net income has increased from Rs.140.5 billion for fiscal 2017 to Rs.178.5 billion for fiscal 2018. Our loans and deposits as of March 31, 2018 were at Rs.7,263.7 billion and Rs.7,883.8 billion respectively. Across business cycles, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2018, gross non-performing customer assets as a percentage of gross customer assets was 1.41%, while net non-performing customer assets constituted 0.61% of net customer assets. In addition, our net customer assets represented 96.2% of our deposits and our deposits represented 69.4% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 42.2% of total deposits as of March 31, 2018. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) of 4.4% for fiscal 2018. We had a return on equity (net income as a percentage of average total shareholders equity) of 16.5% for fiscal 2018 and 14.9% for fiscal 2017, and at March 31, 2018 had a total capital adequacy ratio (calculated pursuant to RBI guidelines) of 14.82%. Our CET-I ratio was 12.25% as at March 31, 2018. See also *Prospectus Summary Recent Developments Financial and other information for the three months ended June 30, 2018 and the three months ended June 30, 2017* .

About Our Bank

HDFC Bank was incorporated in August 1994 and commenced operations as a scheduled commercial bank in January 1995. In 2000, Times Bank Limited amalgamated with us and, in 2008, we acquired Centurion Bank of Punjab Limited (CBoP). We are part of the HDFC Group of companies established by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and general insurance. HDFC Limited and its subsidiaries owned 20.86% of our outstanding equity shares as of June 30, 2018 and our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. See also *Principal Shareholders* . We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or that restrict HDFC Limited or any of its group companies from competing with our

business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance

products of HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

We have two subsidiaries: HDBFSL and HSL. HDBFSL is a non-deposit taking NBFC engaged primarily in the business of retail asset financing. HDBFSL s total assets and shareholders equity as of March 31, 2018 were Rs.447.5 billion and Rs.62.0 billion, respectively. HDBFSL s net income was Rs.9.5 billion for fiscal 2018. As of March 31, 2018, HDBFSL had 1,165 branches across 831 cities in India. HSL is primarily in the business of providing brokerage and other investment services through the internet and other channels. HSL s total assets and shareholders equity as of March 31, 2018 were Rs.16.4 billion and Rs.10.0 billion, respectively. HSL s net income was Rs.3.4 billion for fiscal 2018. On December 1, 2016, Atlas Documentary Facilitators Company Private Ltd., which provided back office transaction processing services to us, and its subsidiary HBL Global Private Ltd., which provided direct sales support for certain products of the Bank, amalgamated with HDBFSL.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000.

Our Competitive Strengths

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

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

At HDFC Bank, we are focused on understanding our customers financial needs and providing them with relevant banking solutions. We are driven by our core values customer focus, operational excellence, product leadership, sustainability and people. This has helped us grow and achieve our status as one of the largest private sector banks in India, while delivering value to our customers, stakeholders, employees and our community. HDFC Bank is one of the most trusted and preferred bank brands in India. We have been acknowledged as India s Most Valuable Brand by BrandZ for the fourth consecutive year and were named the Best Domestic Bank India by the Asiamoney India Banking Awards in 2017. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns and over 43.6 million customers, and of our total branches, 53% were in the semi-urban and rural areas. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers. We are leveraging new technology to offer all banking solutions through the digital platform, which can be accessed by customers across devices of their choice.

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

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a one-stop shop for our customers banking needs. We consider our high quality service offerings to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous improvement. This pursuit of high quality service and operational execution directly supports our ability to offer a wide range of banking products.

Our retail banking products include deposit products, retail loans (such as vehicle and personal loans), and other products and services, such as private banking, depositary accounts, brokerage services, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sales of gold and silver

bullion. In addition, we are the largest credit card issuer in India with 10.7 million cards outstanding as of March 31, 2018, and the second largest card issuer (across both debit and credit cards) amongst private sector banks in India, with 35.0 million total cards outstanding as of March 31, 2018. On the wholesale

banking side, we offer customers working capital loans, term loans, bill collections, letters of credit, guarantees, foreign exchange and derivative products and investment banking services. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We believe our large scale and low cost of funding enable us to pursue high-quality wholesale financing opportunities competitively and at an advantage compared to our peers. We collect taxes for the Government and are bankers to companies in respect of issuances of equity shares and bonds to the public. Our NBFC subsidiary HDBFSL offers loan and asset finance products including tractor loans, consumer loans and gold loans, as well as business process outsourcing solutions such as forms processing, documents verification and back-office services.

We are able to provide this wide range of products across our branch network, meaning we can provide our targeted rural customers with banking products and services similar to those provided to our urban customers, which we believe gives us a competitive advantage. Our wide range of products and focus on superior service and execution also create multiple cross-selling opportunities for us and, we believe, promote customer retention.

We have achieved robust and consistent financial performance while maintaining a healthy asset quality during our growth

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resulting increase in market penetration through our extensive branch network, our assets have grown from Rs.9,067.0 billion as of March 31, 2017 to Rs.11,367.3 billion as of March 31, 2018. Our net interest margin was 4.6% in fiscal 2017 and 4.7% in fiscal 2018. Our current and savings account deposits as a percentage of our total deposits were 43.5% as of March 31, 2018, and we believe this strong current and savings account profile has enabled us to tap into a low-cost funding base. In addition to the significant growth in our assets and net revenue, we remain focused on maintaining a healthy asset quality. We continue to have low levels of non-performing customer assets as compared to the average levels in the Indian banking industry. Our gross non-performing customer assets as a percentage of total customer assets was 1.41% as of March 31, 2018 and our net non-performing customer assets was 0.61% of net customer assets as of March 31, 2018. Our net income has increased from Rs.140.5 billion for fiscal 2017 to Rs.178.5 billion for fiscal 2018. Net income as a percentage of average total shareholders equity was 14.9% in fiscal 2017 and 16.5% in fiscal 2018 and net income as a percentage of average total assets was 1.7% in fiscal 2017 and 1.9% in fiscal 2018. We believe the combination of strong net income growth, robust deposit-taking, a low cost of funds and prudent risk management has enabled us to generate attractive returns on capital.

We have an advanced technology platform

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

Our aim has always been to improve customer experience through digital innovation as an Experiential Leader and we are constantly working to develop new technology and improve the digital aspects of our business. We have recently invested in a digital banking platform, Backbase, to give a single unified omni-channel experience to our customers for mobility banking, online banking, the public website and payments. The first phase of our mobile banking app has been rolled out to consumers, while our forward outlook and initiatives taken in in artificial intelligence-led conversational banking have helped us introduce information, assistance and commerce chatbots. Furthermore, with the pilot launch of IRA (Intelligent Robotic Assistant), an interactive humanoid placed in a branch to help in servicing, we set a benchmark for what we believe to be a best in class digital experience for customers. Other recent major technological developments include LITE App (a bilingual mobile banking application that does not require an

internet connection); Missed Call Recharge to top-up prepaid mobile phone minutes; a person-to-person smartphone payment solution called Chillr ; PayZapp with

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SmartBuy, a payment system to improve the Bank s e-commerce processing capabilities; and the creation of a virtual relationship manager for high net worth customers. We have also rolled out product innovations like pre-approved personal loans for salaried accounts granted in 10 seconds and Digital Loan Against Securities (LAS) in under three minutes in three easy steps .

We have a dedicated digital innovation team to research and experiment with technology, which hosts a Digital Innovation Summit annually to attract new talent and business opportunities from the financial technology space. In addition, we have developed robust data analytic capabilities that allow us to cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how customers choose to interact with us. We believe that our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell various products and improve customer retention.

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of connecting with customers. We are in the process of putting in place advance models of these methods that we term BBC (Biometrics BlockChain) in a BBC Initiative , together with conversational banking which is already in place (for example, our service Missed Call Commerce and Conversational Banking (MCCB)). We believe the BBC Initiative, which is most relevant for our connected customers, can help protect customer identity and establish authenticity (Biometrics) and promote secure and efficient interactions between customers and us (Blockchain), with an improved customer experience coming through artificial intelligence initiatives (Conversational Banking). For our customers with intermittent, limited or even no connectivity, or customers with evolving digital needs or preferences, we have introduced the MCCB service model and HDFC Bank LITE Banking (multilingual). We are continuously striving to improve our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to access and transact their banking accounts with the Bank.

In recent years we have been honored for our commitment to technology, including the Cisco-CNBC TV 18 Digitizing India Award for Innovations in the Financial Industry and Digital Banking, the IBA Banking Technology Award for Best Bank- IT Risk and Cyber Security Initiatives in 2017 the Best Bank Banking Technology Excellence Award from IDRBT Banking Technology and the Businessworld Digital Leadership Award 2017 for Best Analytics Implementation. We believe our Experiential Leadership strategy and culture of innovation and development will be a crucial strength in remaining competitive in the years to come.

We have an experienced management team

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

Our Business Strategy

Our business strategy emphasizes the following elements:

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

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

brand and our extensive branch and ATM networks, to increase our market penetration. We

believe we can expand our market share by focusing on developing our digital offerings to target mass markets across India. We believe digital offerings will position us well to capitalize on growth in India s banking and financial services sector, arising from India s emerging middle class and growing number of bankable households. We believe we can also capture an increased market share by expanding our branch footprint, particularly by focusing on rural and semi-urban areas. As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that is consistent with our targeted customer profile throughout India.

Continue our investments in technology to support our digital strategy

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. We believe our culture of innovation and development to be crucial to remaining competitive. As part of our dedication to digitization and technological development, we have appointed a digital innovation team to research, develop and experiment with new technologies. In February 2017, we hosted our Digital Innovation Summit to tap into emerging technological trends and innovations in the financial technology space.

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

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

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

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of gross customer assets was 1.41% as of March 31, 2018 and our net non-performing customer assets as a percentage of net customer assets was 0.61% as of March 31, 2018. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

Maintain a low cost of funds

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free

float generated by transaction services, such as cash management and stock exchange clearing. Our non-interest bearing current and low-interest bearing savings account deposits were 43.5% of our total deposits as of March 31, 2018. Our average cost of funds (including equity) was 4.6% for fiscal 2017 and 4.4% for fiscal 2018.

Our Principal Business Activities

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

	Year ended March 31,						
	2016		2017		2018		
	(in millions, except percentages)						
Retail banking	Rs. 304,223.4	82.7%	Rs. 351,345.6	82.8%	Rs. 414,894.0	US$ 6,372.2	81.6%
Wholesale banking	48,340.9	13.1%	63,367.2	14.9%	77,623.6	1,192.2	15.3%
Treasury operations	15,099.8	4.2%	9,457.5	2.3%	15,842.2	243.3	3.1%
Net revenue	**Rs. 367,664.1**	**100.0%**	**Rs. 424,170.3**	**100.0%**	**Rs. 508,359.8**	**US$ 7,807.7**	**100.0%**

Retail Banking

Overview

We consider ourselves a one-stop shop for the financial needs our customers. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower income individuals through our Sustainable Livelihood Initiative. Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population in rural areas. We actively market our services through our branches and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We follow a multi-channel strategy to reach out to our customers bringing to them choice, convenience and what we believe to be a superior experience. Innovation has been the springboard of growth in this segment and so has a strong focus on analytics and customer relationship management, which we believe has helped us to understand our customers better and offer tailor-made solutions. We further believe that these factors lead to better customer engagement.

As of March 31, 2018, we had 4,787 branches and 12,635 ATMs in 2,691 cities and towns. We also provide telephone, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans,

credit cards and loans against securities. Our retail loans, of which 26.1% were unsecured, made up 70.7% of our gross loans as of March 31, 2018. Apart from our branches, we use our ATMs and the internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analysis of the borrowers and the value of the collateral if the loan is secured. See *Risk Management Credit Risk Retail Credit Risk*. We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral, in most cases, we obtain debit instructions/post-dated checks covering repayments at the time a retail loan is made. It is a criminal offense

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in India to issue a bad check. Our unsecured personal loans, which are not supported by any collateral, are a greater credit risk for us than our secured loan portfolio. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher contracted interest rate since they carry a higher credit risk as compared to secured loans. See also *Risk Factors Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance* .

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

	At March 31, 2018 Value (in millions)		% of Total Value
Retail Assets:			
Auto loans	Rs. 885,234.7	US$ 13,596.0	16.9%
Personal loans/Credit Cards	1,187,127.1	18,232.6	22.7%
Retail business banking	1,305,219.8	20,046.4	24.9%
Commercial vehicle and construction equipment finance	595,813.6	9,150.9	11.4%
Housing loans	362,718.1	5,570.9	6.9%
Other Retail Loans	877,251.3	13,473.4	16.8%
Total retail loans	5,213,364.6	80,070.2	99.6%
Mortgage-backed securities	84.9	1.3	%
Asset-backed securities	18,670.7	286.8	0.4%
Total retail assets	Rs. 5,232,120.2	US$ 80,358.3	100.0%

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

Auto Loans

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

Personal Loans and Credit Cards

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

We also offer credit cards from the VISA, MasterCard and Diners platforms, including gold, silver, corporate, business, platinum, titanium, signature, world, black, infinite, credit cards under the classification of corporate cards, business cards, co-brand cards, premium retail cards and super premium retail cards. During fiscal 2017, the Bank launched three product variants Regalia First Credit Card, Freedom Credit Card and the Bharat Cashback Credit Card. The launch of Regalia First is to enable the bank to cater to the needs of the rapidly growing super premium customer

segment, the Freedom Credit Card caters to the youth segment of the country with an offering that meets their needs and the Bharat Cashback Credit Card caters to customers who had not previously had credit cards. We had approximately 8.5 million and 10.7 million cards outstanding as of March 31, 2017 and March 31, 2018, respectively. We believe that we are a leader in the credit cards segment.

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Retail Business Banking

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

Commercial Vehicles and Construction Equipment Finance

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

Housing Loans

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

Other Retail Loans

Two-Wheeler Loans

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

Loans Against Securities

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

Loan Assignments

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

Kisan Gold Card (Agri Loans)

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

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Loans Against Gold Jewelry

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

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

Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented approximately 74.0% of our total deposits as of March 31, 2018. The following chart shows the book value of our retail deposits by our various deposit products:

	At March 31, 2018		
	Value (in millions)		% of total
Savings	Rs. 2,193,458.7	US$ 33,688.5	37.6%
Current	744,366.1	11,432.4	12.8%
Time	2,896,641.5	44,488.4	49.6%
Total	Rs. 5,834,466.3	US$ 89,609.3	100.0%

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

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

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

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

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

We had mobilized US$3.4 billion in special Foreign Currency Non-Resident (FCNR) deposits from non-resident Indian (NRI) clients under the RBI swap window in fiscal 2014. A major portion of these deposits were issued for a 3-year tenor and by fiscal 2018, US$3.03 billion of the FCNR deposits were redeemed.

Other Retail Services and Products

Debit Cards

We had approximately 23.6 million and 24.3 million debit cards outstanding as of March 31,2017 and March 31, 2018, respectively. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

Individual Depositary Accounts

We provide depositary accounts to individual retail customers for holding debt and equity instruments. Securities traded on the Indian exchanges are generally not held through a broker s account or in a street name.

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Instead, an individual has his or her own account with a depositary participant. Depositary participants, including us, provide services through the major depositaries established by the two major stock exchanges. Depositary participants record ownership details and effectuate transfers in book-entry form on behalf of the buyers and sellers of securities. We provide a complete package of services, including account opening, registration of transfers and other transactions and information reporting.

Mutual Fund Sales

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

Insurance

We have arrangements with HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited to distribute their life insurance and general insurance products, respectively, to our customers, and have recently entered into similar distribution arrangements with other insurance companies. We earn commissions on new premiums collected as well as some trailing income in subsequent years in certain cases while the policy is still in force. Our commission income for fiscal 2018 included fees of Rs.11,923.4 million in respect of life insurance business, of which Rs.4,067.7 million was for displaying publicity materials at the Bank s branches/ATMs, and Rs.2,034.3 million of fees in respect of general insurance business.

Investment Advice

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

Bill Payment Services

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

Corporate Salary Accounts

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees individual accounts and offer them preferred services, such as lower minimum balance requirements. As of March 31, 2018, these accounts constituted 29% of our savings deposits by value.

Non-Resident Indian Services

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs.728.6 billion as of March 31, 2017 and Rs 817.9 billion as of March 31, 2018.

Retail Foreign Exchange

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

Customers and Marketing

We identify and target distinct market customer segments for our retail services. We market our products through our branches, online through our website, through telemarketing and through our dedicated sales team for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective customers.

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

We have programs that target other particular segments of the retail market. For example, our private and preferred banking programs provide customized financial planning to high net worth individuals. Private banking customers receive a personal investment advisor who serves as their single-point contact and compiles personalized portfolio tracking products, including mutual fund and equity tracking statements. Our private banking program also offers equity investment advisory products. While not as service-intensive as our private banking program, preferred banking offers similar services to a slightly broader target segment. Top revenue-generating customers of our preferred banking program are channeled into our private banking program. As of March 31, 2018, 33% of our retail deposit customers contributed 80% of our retail deposits.

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

Wholesale Banking

Overview

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

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

For our commercial banking products, our customers include companies that are part of private sector business houses, public sector enterprises and multinational corporations, as well as small and mid-sized businesses. Our customers also include suppliers and distributors of corporations to whom we provide credit facilities and with whom we thereby establish relationships as part of a supply chain initiative for both our commercial banking products and transactional services. We aim to provide our corporate customers with high quality customized service. We have

relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

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

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

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

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

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

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

	As of March 31,			
	2016	2017	2018	2018
	(in millions)			
Gross commercial loans	Rs. 1,534,268.7	Rs. 1,939,948.4	Rs. 2,162,814.4	US$ 33,217.8
Credit substitutes:				
Commercial paper	Rs. 258,006.4	Rs. 248,269.7	Rs. 34,248.6	US$ 526.0
Non-convertible debentures	39,234.6	171,270.9	289,782.9	4,450.7
Total credit substitutes	Rs. 297,241.0	Rs. 419,540.6	Rs. 324,031.5	US$ 4,976.7
	Rs. 1,831,509.7	Rs. 2,359,489.0	Rs. 2,486,845.9	US$ 38,194.5

Gross commercial loans
plus credit substitutes

While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of March 31, 2018, approximately 68.9% of the aggregate principal amount of our gross wholesale loans was secured by collateral (approximately Rs.673.3 billion in aggregate principal amount of loans were

unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See *Risk Management Credit Risk Wholesale Credit Risk* .

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

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

Bill Collection, Documentary Credits and Bank Guarantees

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

	As of March 31,			
	2016	2017	2018	2018
	(in millions)			
Bill collection	Rs. 3,595,361.1	Rs. 4,003,047.4	Rs. 4,345,163.8	US$ 66,735.7
Documentary credits	982,710.6	1,172,946.1	1,262,413.0	19,388.9
Bank guarantees	241,990.0	226,961.8	289,821.8	4,451.3
Total	Rs. 4,820,061.7	Rs. 5,402,955.3	Rs. 5,897,398.6	US$ 90,575.9

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

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

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

Foreign Exchange and Derivatives

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

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

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

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

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2016, 2017 and 2018, together with the fair values on each reporting date.

	As of March 31,							
	2016		2017		2018		2018	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
terest rate vaps and rward te greements	Rs. 528,589.7	Rs. (2,165.2)	Rs. 704,131.9	Rs. (34.6)	Rs. 1,106,546.0	Rs. 1,847.5	US$ 16,994.9	US$ 28.
rward kchange ontracts, urrency vaps, urrency ptions	Rs. 809,002.2	Rs. 3,166.4	Rs. 738,919.5	Rs. (312.9)	Rs. 864,449.8	Rs. (5,261.4)	US$ 13,276.7	US$ (80.8

Investment Banking

Our Investment Banking Group offers services in the debt and equity capital markets. The group has arranged project financing for clients across various sectors including telecom, toll roads, healthcare, energy, real estate and cement. The group advised on aggregate issuances of over Rs.770.6 billion worth of rupee denominated corporate bonds across public sector undertakings, financial institutions and the Bank s corporate clients during fiscal 2018, becoming the second largest corporate bond arranger in the market for fiscal 2018. In the equity capital markets business, the group concluded initial public offerings of a small finance bank, an insurance company and a road infrastructure company; a rights issue of a steel company and a QIP of a cement company during fiscal 2018. In the advisory business, we advise clients in the infrastructure, financial services, industrials and healthcare sectors.

Wholesale Deposit Products

As of March 31, 2018, we had wholesale deposits aggregating over Rs.2,049.3 billion, which represented 26.0% of our total deposits. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs.10.0 million), provided the rates booked on a day are the same for all customers of that deposit size for that maturity. See *Selected Statistical Information* for further information about our total deposits.

Transactional Services

Cash Management Services

We believe that the Indian market is one of the most promising Cash Management Services (CMS) markets. However, it is also marked by some distinctive characteristics and challenges such as a vast geography, a large number of small business-intensive towns, a large unorganized sector in various business supply chains, and infrastructural limitations for accessibility to many parts of the country. Over the years, such challenges have made it a daunting task for CMS providers in the country to uncover the business potential and extend suitable services and product solutions to the business community.

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We have been providing CMS to our customers from diverse industry segments. We believe that we have been consistently aligning our product and services strategy to meet our customers needs. This, we believe, has helped us to keep ahead of competitors and retain a satisfied customer base that is growing by the year.

We offer traditional and new age electronic banking products and experience an increasing demand for electronic banking services. While we believe that we have been one of the leading banks in the traditional CMS market, we believe that we have also been able to forge a similar position in the new age CMS market, i.e. electronic cash management, and we also believe that we have aligned our product offering with changing and dynamic customer needs. As of the date hereof, over 70% of our transactions are done on the electronic platform.

Today we believe that we are a leading service provider of electronic banking products with a large share of business across customer segments. We have, thus, been able to reduce our transaction costs while maintaining our fees and float levels.

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

Clearing Bank Services for Stock and Commodity Exchanges

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

Custodial Services

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

Correspondent Banking Services

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

We are well-positioned to offer this service to co-operative banks, foreign banks and select private banks in light of the structure of the Indian banking industry and our position within it. Co-operative banks are generally restricted to a particular state and foreign banks/some private banks have limited branch networks. The customers of these banks frequently need services in other areas of the country where their own banks cannot provide. Because of our

technology platforms, our geographical reach and the electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers.

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Tax Collections

We have been appointed by the Government of India to collect direct taxes. In fiscals 2017 and 2018 we collected Rs.2,158 billion and Rs.2,613 billion, respectively, of direct taxes for the Government of India. We are also appointed to collect GST and excise duties in India. In fiscals 2017 and 2018 we collected Rs.1,522 billion and Rs.1,874 billion, respectively, of such indirect taxes for the Government of India and relevant state governments. We earn a fee from the Government of India for each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

Treasury

Overview

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

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

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

Foreign Exchange and Derivatives

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

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The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2016, 2017 and 2018 together with the fair values on each reporting date:

	As of March 31,							
	2016		2017		2018		2018	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
erest rate aps and ward e reements	Rs. 1,678,786.7	Rs. 1,552.1	Rs. 1,687,375.9	Rs. 411.3	Rs. 1,980,227.2	Rs.(750.2)	US$ 30,413.6	US$ (11.
rward change ntracts, rrency aps, rrency tions	Rs. 4,844,850.6	Rs. 4,087.3	Rs. 4,291,942.7	Rs.(5,907.2)	Rs. 3,876,140.5	Rs.(1,124.3)	US$ 59,532.2	US$ (17.

Domestic Money Market and Debt Securities Desk

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

Equities Market

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2018, we had an internal aggregate approved limit of Rs.300 million for market purchases and Rs.100 million (defined as a sub-limit of the aggregate approved limit) for primary purchases of equity investments for proprietary trading and Rs.100 million (defined as a sub-limit of the aggregate approved limit) for investment in index funds or equity mutual funds for proprietary trading. Our exposure as of March 31, 2018 was within these limits. We set limits on the amount invested in any individual company as well as stop-loss limits.

Distribution Channels

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

Branches

As of March 31, 2018, we had a total of 4,787 branches covering 2,691 cities and towns, which includes 33 banking outlets that were manned by our business correspondents. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

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

As part of its branch licensing conditions, the RBI requires that at least 25% of all incremental branches added during the year be located in unbanked rural areas that do not have a brick and mortar structure of any scheduled commercial bank for customer-based banking transactions. As per the guidelines of the RBI, a rural area is defined as a center with a population up to 9,999. As of March 31, 2018, 516 of our branches are in

unbanked areas. With the objective of liberalizing and rationalizing the branch licensing process, the RBI granted general permission, effective from October 2013, to banks like us to open branches in Tier 1 to Tier 6 centers, subject to a requirement to report to the RBI and other prescribed conditions. In May 2017, the RBI further liberalized the branch authorization policy. See *Supervision and Regulation Regulations Relating to the Opening of Branches* .

We have representative offices in the United Arab Emirates and Kenya and have a wholesale banking branch in Bahrain. We also have a full service banking branch in Hong Kong. In August 2014, we opened a branch in the Dubai International Financial Center (DIFC) in Dubai to offer advisory services to NRIs regarding treasury products, trade finance, loans and other related services. Through these branches, we provide services to NRIs, Indian corporates and their affiliates to cater to their international banking requirements. The Bank also opened an International Financial Service Centre Banking Unit at the Gujarat International Finance Tec-City (GIFT) in June 2017. The unit is regulated by the RBI.

Automated Teller Machines

As of March 31, 2018, we had a total of 12,635 ATMs, of which 5,867 were located at our branches or extension counters and 6,768 were located off site, including at large residential developments, or on major roads in metropolitan areas.

Customers can use our ATMs for a variety of functions, including withdrawing cash, monitoring bank balances, and paying utility bills. Customers can access their accounts from any of the HDFC Bank ATMs or non-HDFC Bank ATMs. ATM cards issued by American Express or other banks in the Rupay, Visa, MasterCard, Maestro, Cirrus, Citrus or Discover Financial Services networks can be used in our ATMs and we receive a fee for each transaction. Our debit cards can be used on ATMs of other banks while our ATM cards can be used on most of the ATM networks.

Telephone Banking

We provide telephone banking services to our customers in 2,691 cities and towns as at March 31, 2018. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, conduct balance inquiries and order stop payments of checks. In select cities, customers can also engage in financial transactions (such as opening deposits and ordering demand drafts). In certain cities, the Bank also has staff available during select hours to assist customers who want to speak directly to one of the Bank s telephone bankers.

Mobile Banking

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

Internet Banking

Our net banking seeks to be a virtual manifestation of a physical branch. Through our internet banking channel, customers can perform various transactions, such as access account information, track transactions, request check books, request stop check payments, transfer funds between accounts and to third parties who

maintain accounts with us or other banks, open fixed deposits, give instructions for the purchase and sale of units in mutual funds, pay bills and make demand draft requests. Customers can apply for cards and pre-approved loans online and even view details of existing ones. We encourage customer use of our internet banking service by offering some key services for free or at a lower cost.

Risk Management

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

Credit Risk

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

The asset quality of the Indian banking industry continued to be under severe pressure during fiscal 2017 and majority of fiscal 2018 due to macroeconomic factors as well as sector-specific issues. The banking industry on an overall basis saw a sharp increase in stress and non-performing assets. We did not witness any significant deterioration in overall asset quality.

Retail Credit Risk

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

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

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

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

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

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

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

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

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

Wholesale Credit Risk

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

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

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

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

Based on what we believe is an adequately comprehensive risk assessment, credit exposure limits are set on individual counterparties. These limits take into account the overall potential exposure on the counterparty, be it on balance sheet

or off balance sheet, across the banking book and the trading book, including foreign exchange and derivatives exposures. These limits are reviewed in detail at annual or more frequent intervals.

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

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

a) *Borrower/business group*: Exposure to a borrower/business group is subject to the general ceilings established by the RBI from time to time, or specific approval by the RBI. The exposure-ceiling limit for a single borrower is 15% of a bank s capital funds. This limit may be exceeded by an additional 5% (i.e. up to 20%), provided the additional credit exposure is on account of lending to infrastructure projects. The exposure-ceiling limit in the case of a borrower group is 40% of a bank s capital funds. This limit may be exceeded by an additional 10% (i.e., up to 50%), provided the additional credit exposure is on account of extensions of credit for infrastructure projects. In addition to the above exposure limit, a bank may, in exceptional circumstances and with the approval of its board, consider increasing its exposure to a borrower up to an additional 5% of its capital funds. Exposures (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC, NBFC-Asset Financing Company (AFC), or NBFC-Infrastructure Finance Company (IFC) should not exceed 10%, 15% and 15%, respectively, of a bank s capital funds. A bank may, however, assume exposures on a single NBFC, NBFC-AFC, or NBFC-IFC up to 15%, 20% and 20%, respectively, of its capital funds, provided the exposure in excess of 10%, 15% and 15% (referred to above) is on account of funds that the NBFC, NBFC-AFC, or NBFC-IFC has lent out to the infrastructure sector. In December 2016, the RBI issued the Large Exposure Framework, which aims to align the exposure norms for Indian Banks with the Basel Committee on Banking Supervision (BCBS). The guidelines are required to be fully implemented by March 31, 2019. See *Supervision and Regulation Large Exposures Framework* .

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

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

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

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

The RBI restricts us from lending to companies with which we have any directors in common. In addition, the RBI requires that we direct a portion of our lending to certain specified sectors according to its PSL norms. See also *Supervision and Regulation Directed Lending* .

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Market Risk

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

The market variables which affect the valuation of these instruments typically include interest rates, credit spreads, equity prices, commodity prices, exchange rates and implied volatilities. Any change in the relevant market risk variable has an adverse or favorable impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earn from the upside potential, there is always a possibility of downside risk. Thus, we must constantly review the positions to ensure that the risk on account of such positions is within our overall risk appetite. The Bank s overall risk appetite for various risks is defined by the Internal Capital Adequacy Assessment Process (ICAAP) review committee, by stipulating specific risk appetite for each category of risk. The risk appetite for trading risk is set through a pre-approved treasury limits package as well as through specific trading limits for a few product programs. In addition, the Bank s risk limits are guided by the Interbank Counterparty Exposure limit and the Bank s Asset Liability Management (ALM) limits prescribe the appetite for liquidity risk and interest rate risk in the banking book (IRRBB). The process for monitoring and reviewing risk exposure is outlined in the various risk policies.

The market risk department formulates procedures for portfolio risk valuation, assesses market risk factors along with the trading portfolio and recommends various market risk controls relating to limits and trigger levels for the treasury (including investment banking portfolios for primary undertaking and distribution) and non-treasury positions. The treasury mid-office is responsible for monitoring and reporting market risks arising from the trading desks. The market data cell in the mid-office maintains market data, performs market data scan to check market data sanctity and verifies the rates submitted by the treasury front office for polling various benchmarks.

Our Board of Directors has delegated the responsibility for market risk management of the balance sheet on an ongoing basis to the Asset Liability Committee (ALCO). This committee, which is chaired by the Managing Director and includes the heads of the business groups, generally meets fortnightly. The ALCO reviews the product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view and decides on future business strategy with respect to interest rates. It reviews and sets funding policy, also reviews developments in the markets and the economy and their impact on the balance sheet and business along with review of the trading levels. Moreover, it reviews the utilization of liquidity and interest rate risk limits set by the Board of Directors and decides on the inter-segment transfer pricing policy.

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

Policies and Procedures Trading and Asset Liability Management Risks

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

I. Trading Risk

Trading risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates, equity prices, commodity prices, exchange rates and the variations in their implied volatilities in respect of the trading portfolio held by the Bank. The trading portfolio includes holdings in the held-for-trading and

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available-for-sale-portfolios, as per RBI guidelines and consists of positions in bonds, securities, currencies, interest rate swaps and options, cross-currency interest rate swaps and currency options.

The trading risk is managed by putting in place a sound process for price validation and by setting various limits or trigger levels, such as value at risk limits, stop loss trigger levels, price value per basis point (PV01) limits, option Greek limits, position limits, namely, intraday and net overnight forex open position as well as gap limits (aggregate and individual gap limits). Additional controls such as order size and outstanding exposure limits are prescribed, wherever applicable, based on case by case review. Moreover, measures such as investment limits and deal size thresholds are prescribed as part of the investment policy for managing outstanding investment or trading positions.

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

The market risk policy sets the framework for market risk monitoring. The risk on account of semi-liquid or illiquid positions in trading is recognized in the non-standard product policy as part of the market risk policy. The non-standard product policy stipulates requirements for case specific evaluation of risk exposure in respect of non-standard products (that is, products which are not part of the standard product list decided by treasury and the market risk department). Additionally, limits have been assigned to restrict the aggregate exposure in non-standard positions. Further, the stress testing policy prescribes the stress scenarios that are applied on the outstanding trading positions to recognize and analyze the impact of the stress conditions on the trading portfolio. Stress tests are based on historical scenarios as well as on sensitivity factors, such as an assessment based on hypothetical/judgmental scenarios.

Validation of valuation models applied for validation of trading products are conducted by the treasury analytics team, which are then reviewed by the market risk department and governed by the Board of Directors approved independent valuation model validation policy . The Valuation Committee is apprised of the model validation results in its quarterly meetings. Moreover, the market data of major interest rate curves, captured in the valuation systems, are compared against an independent market data source on month-end basis for accurate valuation pursuant to the Independent Valuation Model Validation Policy of the Bank.

II. Asset Liability Management

The ALM risk management process consists of management of liquidity risk and IRRBB. Liquidity risk is the risk that the Bank may not be able to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses. IRRBB refers to the potential adverse financial impact on the Bank s banking book from changes in interest rates. The banking book is comprised of assets and liabilities that are incurred to create a steady income flow or to fulfill statutory obligations. Such assets and liabilities are generally held to maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks, exposing it to risks from changing interest rates. The Bank s objective is to maintain liquidity risk and IRRBB within certain tolerance limits. The ALM limits are reviewed by the market risk department and presented to the RPMC for its recommendation to the Board of Directors for approval. The limits are reviewed at least annually.

Structure and Organization

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

Board of Directors

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

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Risk Policy & Monitoring Committee of the Board

The RPMC is a Board-level committee, which supports the Board by supervising the implementation of risk strategy. It guides the development of policies, procedures and systems for managing risk. It ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank. It ensures that frameworks are established for assessing and managing liquidity and interest rate risks faced by the Bank. The RPMC meets at least once every quarter. The RPMC s role includes inter-alia:

1. to review and recommend for Board approval, the liquidity and interest rate risk policies or any other amendment thereto;

2. to ratify excess utilization of Board approved limits; and

3. to review the results of stress tests.

Asset Liability Committee (ALCO)

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

- product pricing for deposits and customer advances;
- deciding the desired maturity profile and mix of incremental assets and liabilities;
- articulating the Bank s interest rate view and deciding on its future business strategy;
- reviewing and articulating funding strategy;
- ensuring adherence to the liquidity and interest rate risk limits set by the Board of Directors;
- determining the structure, responsibilities and controls for managing liquidity and interest rate risk;
- ensuring operational independence of risk management function;
- reviewing stress test results; and

deciding on the transfer pricing policy of the Bank.

ALM Support Group

The ALM support group is responsible for analyzing, monitoring, and reporting the relevant risk profiles to senior management and relevant committees. The ALM support group comprises the balance sheet management desk (Treasury), market risk department, treasury mid-office and Finance and Control.

Risk Measurement Systems and Reporting

Liquidity Risk

Liquidity risk is measured using the flow approach and the stock approach. The flow approach involves comprehensive tracking of cash flow mismatches, whereas the stock approach involves the measurement of critical ratios in respect of liquidity risk.

For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates has been adopted as a standard tool. The time buckets for classification of assets and liabilities for the purposes of this statement is as per the RBI s prescribed guidelines.

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Stock approach involves measurement of certain critical ratios in respect of liquidity risk. Based on the RBI guidelines, a set of liquidity ratios under stock approach are monitored on a periodic basis.

In addition, the Bank is required to maintain Liquidity Coverage Ratio. The regulatory minimum requirement for the ratio is 80% starting from January 1, 2017 (which was 70% between Jan 2016 to Dec 2016) and will rise in equal steps of 10% each year to reach 100% on January 1, 2019.

Analysis of liquidity risk also involves examining how funding requirements are likely to be affected under crisis scenarios. The Bank has a Board approved liquidity stress framework guided by regulatory instructions. The Bank has an extensive intraday liquidity risk management framework for monitoring intraday positions during the day.

Interest Rate Risk in Banking Book

Interest rate risk is the risk where changes in market interest rates affect a bank s financial position. Changes in interest rates impact a bank s earnings through changes in its net interest income (NII). Changes in interest rates also impact a bank s market value of equity (MVE) or net worth through changes in the economic value of its rate sensitive assets, liabilities and off-balance sheet positions. The interest rate risk, when viewed from these two perspectives, is known as earnings perspective and economic value perspective , respectively.

The Bank measures and controls IRRBB using both the earnings perspective (measured using the traditional gap analysis method) and the economic value perspective (measured using the duration gap analysis method) as detailed below. These methods involve grouping of rate sensitive assets (RSA) and rate sensitive liabilities (RSL), including off-balance sheet items, based on the maturity or repricing dates.

The Bank classifies an asset or liability as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;

ii. the interest rate resets or reprices contractually during the interval; and

iii. the RBI changes the interest rates in cases where interest rates are administered.

A significant portion of non-maturing deposits are grouped in the over 1 year to 3 year category. Non-rate sensitive liabilities and assets primarily comprise capital, reserves and surplus, other liabilities, cash and balances with the RBI, current account balances with banks, fixed assets and other assets.

The banking book is represented by excluding from the total book the trading book (i.e., on and off-balance sheet items) and the commensurate liabilities in the form of short-term borrowings and deposits.

Earnings Perspective (impact on net interest income)

The traditional gap analysis (TGA) method measures the level of a bank s exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over a one-year horizon. It involves bucketing of all RSA, RSL and off-balance sheet items maturing or getting repriced in the next year and computing changes of income under 200

basis points upward and downward parallel rate shocks over a year s horizon.

Economic Value Perspective (impact on market value of equity)

While earnings perspective calculates the short-term impact of the rate changes, the Economic Value Perspective calculates the long-term impact on the MVE of the Bank through changes in the economic value of its rate sensitive assets, liabilities and off-balance sheet positions. Economic value perspective is measured using the duration gap analysis method (DGA). DGA involves computing of the modified duration gap between RSA

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and RSL and thereby the Duration of Equity (DoE). The DoE is a measure of sensitivity of MVE to changes in interest rates. Using the DoE, the Bank estimates the change in MVE under 200 basis points upward and downward parallel rate shocks.

Operational Risk Management

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

Organizational Structure for Managing Operational Risk

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

Risk Measurement and Monitoring

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

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

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

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

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

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

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

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Capital Requirement

Currently, the Bank follows the basic indicator approach for computing operational risk capital. The Bank has devised an operational risk measurement system compliant with an advanced measurement approach (AMA) for estimating operational risk capital for the standalone bank. The RBI has granted in-principle approval to the bank to migrate to AMA for calculating operational risk capital charge in parallel to the basic indicator approach followed currently.

Competition

We face intense competition in all of our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, NBFCs. In addition, new entrants into the financial services industry, including companies in the financial technology sector, may further intensify competition in the business environments, especially in the digital business environment, in which we operate. In February 2013, the RBI issued guidelines for the entry of new banks in the private sector, including eligibility criteria, capital requirements, shareholding structure, business plan and corporate governance practices. Pursuant to these guidelines, in fiscal 2016 IDFC Bank and Bandhan Bank commenced banking operations.

In November 2014, the RBI released guidelines for the licensing of payments banks and small finance banks in the private sector. Since promulgation, such banks have been established and operational pursuant to these guidelines, which have increased competition in the markets in which we operate.

In August 2016, the RBI released final guidelines for on-tap Licensing of Universal Banks in the Private Sector. The guidelines aim at moving from the current stop and go licensing approach (wherein the RBI notifies the licensing window during which a private entity may apply for a banking license) to a continuous or on-tap licensing regime. Among other things, the new guidelines specify conditions for the eligibility of promoters, corporate structure and foreign shareholdings. One of the key features of the new guidelines is that, unlike the February 2013 guidelines (mentioned above), the new guidelines make the Non-Operative Financial Holding Company structure non-mandatory in the case of promoters being individuals or standalone promoting/converting entities which do not have other group entities. See *Supervision and Regulation Entry of new banks in the private sector* .

Retail Banking

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

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

Wholesale Banking

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

Treasury

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

Employees

The number of our employees was 88,253 as of March 31, 2018. Most of our employees are located in India. We consider our relationship with our employees to be positive. Further to our acquisition of CBoP in 2008, several employees of CBoP continue to be part of a labor union. These employees represent less than 1% of our total employee strength.

Our compensation structure has fixed as well as variable pay components. Our variable pay plans are comprised of periodic performance linked pay (PLP), annual performance linked bonus and employee stock option plans.

In addition to basic compensation, employees are eligible to participate in our provident fund and other employee benefit plans. The provident fund, to which both we and our employees contribute, is a savings scheme required by government regulation under which the fund is required to pay to employees a minimum annual return, which is 8.55% at present. If such return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the fund. We have also set up a superannuation fund to which we contribute defined amounts. We also contribute specified amounts to a pension fund in respect of certain of our former-CBoP employees. In addition, we contribute specified amounts to a gratuity fund set up pursuant to Indian statutory requirements.

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

Properties

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

As of March 31, 2018, we had a network consisting of 4,787 branches and 12,635 ATMs, including 6,768 at non-branch locations. These facilities are located throughout India with the exception of three branches which are located in Bahrain, Hong Kong and Dubai. We also have representative offices in the United Arab Emirates and Kenya. The Bank set up and commenced business in an International Financial Service Centre Banking Unit at the Gujarat International Finance Tec-City in June 2017. This branch is treated as an overseas branch.

Intellectual Property

We utilize a number of different forms of intellectual property in our business including our HDFC Bank brand and the names of the various products we provide to our customers. We believe that we currently own, have licensed or otherwise possess the rights to use all intellectual property and other proprietary rights, including all trademarks,

domain names, copyrights, patents and trade secrets used in our business.

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Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business, including certain spurious or vexatious proceedings with significant financial claims present on the face of the complaint but that we believe lack any merit based on the historical dismissals of similar claims. Accordingly, we believe there are currently no legal proceedings, which if adversely determined, might materially affect our financial condition or the results of our operations.

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USE OF PROCEEDS

The gross proceeds from the Offering are expected to be approximately US$1,820.0 million. The net proceeds from the Offering, after deducting fees and commissions of the Offering, are expected to be approximately US$1,807.3 million (Net Proceeds). Subject to compliance with applicable laws and regulations, we intend to use the Net Proceeds of the Offering, together with the net proceeds of the QIP of approximately Rs.27,611.2 million and the Preferential Allotment of approximately Rs.85.0 billion, to strengthen our capital structure and ensure adequate capital to support growth and expansion, including enhancing our solvency and capital adequacy ratio.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2018 prepared in accordance with U.S. GAAP in Indian rupees and in U.S. dollars converted at the applicable exchange rate as of March 30, 2018 (Rs.65.11 per US$1.00):

on an actual basis;

on an as adjusted basis to give effect to the Preferential Allotment; and

on an as adjusted basis to give effect to the Preferential Allotment, this Offering and the QIP.

You should read this capitalization table together with *Selected Financial and Other Data* , *Management s Discussion and Analysis of Financial Condition and Results of Operations* and our financial statements and related notes included or incorporated by reference in the accompanying prospectus. Other than as disclosed in this prospectus supplement, there has been no material change in our capitalization and indebtedness since March 31, 2018:

	As of March 31, 2018					
	Actual		As Adjusted for the Preferential Allotment[5][7] (in millions)		As Adjusted for the Preferential Allotment, the Offering and the QIP[6][7]	
	Rs.	US$	Rs.	US$	Rs.	US$
Indebtedness						
Deposits	7,883,751.5	121,083.5	7,883,751.5	121,083.5	7,883,751.5	121,083.5
Securities sold under repurchase agreements	138,000.0	2,119.5	138,000.0	2,119.5	138,000.0	2,119.5
Short-term borrowings	779,201.7	11,967.5	779,201.7	11,967.5	779,201.7	11,967.5
Subordinated debt	231,060.8	3,548.9	231,060.8	3,548.9	231,060.8	3,548.9
Other long-term debt	701,845.5	10,780.0	701,845.5	10,780.0	701,845.5	10,780.0
Total indebtedness	**9,733,859.5**	**149,499.4**	**9,733,859.5**	**149,499.4**	**9,733,859.5**	**149,499.4**
Shareholders equity						
Equity shares[1]	5,190.2	79.7	5,268.4	80.9	5,399.1	82.9
Additional paid-in capital[2]	476,570.4	7,319.5	561,492.2	8,623.8	706,643.4	10,853.1
Retained earnings	462,876.2	7,109.2	462,876.2	7,109.2	462,876.2	7,109.2
Statutory reserve[3]	233,323.5	3,583.5	233,323.5	3,583.5	233,323.5	3,583.5
Accumulated other comprehensive income[4]	(3,796.7)	(58.3)	(3,796.7)	(58.3)	(3,796.7)	(58.3)
	1,174,163.6	**18,033.6**	**1,259,163.6**	**19,339.1**	**1,404,445.5**	**21,570.4**

Total shareholders equity						
Total capitalization	**10,908,023.1**	**167,533.0**	**10,993,023.1**	**168,838.5**	**11,138,305.0**	**171,069.8**

(1) Rs.2 par value; 3,250,000,000 equity shares authorized, 2,595,090,267 equity shares issued and outstanding.

(2) Estimated underwriting discounts and commissions payable by us of US$12.7 million or Rs.829.5 million, have been deducted from the gross proceeds of the sale of ADSs pursuant to the Offering. In addition, estimated commission payable by us of Rs.138.8 million has been deducted from the gross proceeds of the sale of equity shares pursuant to the QIP.

(3) Represents the amounts that are required under Indian law to be appropriated from net income computed as per Indian GAAP and transferred to a statutory reserve, which may not be distributed via dividends.

(4) Primarily represents unrealized gains and losses on investments available for sale, net of applicable income taxes.

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(5) As adjusted for the issuance of 39,096,817 equity shares issued to HDFC Limited in the Preferential Allotment at a price of Rs.2,174.09 per equity share.

(6) As adjusted for the Preferential Allotment (see footnote (5) above) and as further adjusted for the issuance of 65,347,222 equity shares issued in the Offering and the concurrent QIP. For the purposes of this capitalization table, the net proceeds of the Offering have been translated at the applicable exchange rate as of March 30, 2018 (Rs. 65.11 per US$1.00).

(7) This adjustment does not give effect to the equity shares allotted by the Bank after March 31, 2018 pursuant to the exercise of options granted under its employee stock option schemes. The Bank has allotted an aggregate of 9,067,600 equity shares during the three months ended June 30, 2018 pursuant to the exercise of options granted under its employee stock option schemes. As of the date of this prospectus supplement, 65,224,000 stock options granted by the Bank under nine employee stock option schemes are outstanding.

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DILUTION

If you invest in the ADSs offered by us in this Offering, your interest will be diluted to the extent of the difference between the offering price per ADS set forth on the cover of this prospectus supplement and the net tangible book value per ADS upon the completion of this Offering and the concurrent offering of equity shares in the QIP and the Preferential Allotment. Dilution results from the fact that the per share offering price of our ADSs is in excess of the book value per ADS attributable to existing shareholders.

As of March 31, 2018, our net tangible book value was Rs.1,174.2 billion (US$18.0 billion), or US$20.8 per ADS. Net tangible book value per ADS represents the book value of our total tangible assets minus our total liabilities, divided by the total number of ADSs that would have been outstanding as of March 31, 2018 if all of our outstanding shares as of such date were represented by ADSs.

After giving effect to (i) the sale of the ADSs sold by us in the Offering at the price of US$104.0 per ADS and (ii) after giving effect to the sale of equity shares sold by us in a concurrent offering of equity shares in the QIP and the Preferential Allotment and after deducting estimated underwriting discounts and commissions payable by us, but without taking into account any other changes in such tangible book value after March 31, 2018, our net tangible book value per ADS (based on an exchange rate as of March 30, 2018 of Rs.65.11 = US$1.00), would increase to US$24.0 per ADS. This represents an immediate increase of US$3.2 per ADS in net tangible book value to holders of our shares outstanding as of March 31, 2018 and an immediate dilution of US$80.0 per ADS in net tangible book value to investors purchasing ADSs in this Offering at the offering price.

The following table illustrates such dilution on the basis of U.S. GAAP:

	US$
Offering price per ADS	104.0
Net tangible book value per ADS as of March 31, 2018	20.8
Increase in net tangible book value per ADS attributable to the Offering, the QIP and the Preferential Allotment	3.2
Adjusted net tangible book value per ADS after the Offering, the QIP and the Preferential Allotment	24.0
Dilution in net tangible book value per ADS to new investors	80.0

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SELECTED FINANCIAL AND OTHER DATA

The following tables set forth our selected financial and other data. Our selected income statement data for the fiscal years ended March 31, 2016, 2017 and 2018 and the selected balance sheet data as of March 31, 2017 and 2018 are derived from our audited financial statements included or incorporated by reference in this prospectus supplement. Our selected balance sheet data as of March 31, 2014, 2015 and 2016 and selected income statement data for the fiscal years ended March 31, 2014 and 2015 are derived from our audited financial statements not included in this prospectus supplement.

For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2018 have been translated into U.S. dollars at the rate as of March 30, 2018 of Rs.65.11 per US$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

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

	Year ended March 31,					
	2014	**2015**	**2016**	**2017**	**2018**	**2018**
	(in millions, except per equity share data and ADS data)					
Selected income statement data:						
Interest and dividend revenue	Rs. 422,211.3	Rs. 500,787.2	Rs. 625,428.6	Rs. 725,554.3	Rs. 843,465.3	US$ 12,954.5
Interest expense	229,639.2	264,610.9	333,067.1	373,758.7	420,314.7	6,455.4
Net interest revenue	192,572.1	236,176.3	292,361.5	351,795.6	423,150.6	6,499.1
Provisions for credit losses	17,428.1	17,000.2	21,531.3	37,951.4	59,397.8	912.3
Net interest revenue after provisions for credit losses	175,144.0	219,176.1	270,830.2	313,844.2	363,752.8	5,586.8
Non-interest revenue, net	70,834.5	79,821.5	96,833.9	110,326.1	144,607.0	2,221.0
Net revenue	245,978.5	298,997.6	367,664.1	424,170.3	508,359.8	7,807.8
Non-interest expense	124,228.1	144,973.0	182,077.3	204,204.8	231,253.4	3,551.9
Income before income tax expense	121,750.4	154,024.6	185,586.8	219,965.5	277,106.4	4,255.9
Income tax expense	42,304.2	54,519.9	67,536.9	79,224.9	98,272.5	1,509.3
Net income before noncontrolling interest	79,446.2	99,504.7	118,049.9	140,740.6	178,833.9	2,746.6
Less: Net income attributable to shareholders of noncontrolling	126.5	267.0	134.6	210.8	319.0	4.9

interest												
Net income attributable to HDFC Bank Limited	Rs.	79,319.7	Rs.	99,237.7	Rs.	117,915.3	Rs.	140,529.8	Rs.	178,514.9	US$	2,741.7
Per equity share data:												
Earnings per equity share, basic	Rs.	33.18	Rs.	40.94	Rs.	46.84	Rs.	55.23	Rs.	69.18	US$	1.06
Earnings per equity share, diluted		32.94		40.55		46.33		54.57		68.29		1.05
Dividends per share		6.85		8.00		9.50		11.00		13.00		0.20
Book value[(1)]		221.71		299.32		343.85		400.41		452.45		6.95
Equity share data:												
Equity shares outstanding at end of period		2,399.1		2,506.5		2,528.2		2,562.5		2,595.1		2,595.1
Weighted average equity shares outstanding-basic		2,390.3		2,423.8		2,517.4		2,544.3		2,580.5		2,580.5
Weighted average equity shares outstanding-diluted		2,408.1		2,447.3		2,545.4		2,575.4		2,613.9		2,613.9
ADS data (where one ADS represents three shares):												
Earnings per ADS-basic		99.54		122.82		140.52		165.69		207.54		3.18
Earnings per ADS-diluted		98.82		121.65		138.99		163.71		204.87		3.15

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	As of March 31,					
	2014	2015	2016	2017	2018	2018
	(in millions)					
Selected balance sheet data:						
Cash and cash equivalents	Rs. 370,835.2	Rs. 341,124.3	Rs. 377,671.7	Rs. 430,708.6	Rs. 574,151.0	US$ 8,818.2
Term placements[2]	176,481.7	169,989.5	148,899.8	131,069.5	139,875.9	2,148.3
Loans, net of allowance	3,185,648.1	3,896,115.0	4,935,474.3	5,910,412.8	7,263,671.8	111,560.0
Investments:						
Investments held for trading	65,077.9	61,292.8	71,860.9	35,363.7	167,513.9	2,572.8
Investments available for sale	908,824.3	1,504,412.8	1,878,684.4	2,111,385.6	2,222,711.0	34,137.8
Total	973,902.2	1,565,705.6	1,950,545.3	2,146,749.3	2,390,224.9	36,710.6
Total assets	Rs. 5,125,407.3	Rs. 6,259,015.8	Rs. 7,736,723.3	Rs. 9,066,980.5	Rs. 11,367,308.8	US$ 174,586.3
Long-term debt	395,208.6	457,934.4	522,313.5	730,920.7	932,906.3	14,328.2
Short-term borrowings	150,775.5	214,191.9	253,562.4	322,265.6	779,201.7	11,967.5
Total deposits	3,670,000.1	4,501,710.8	5,457,860.3	6,431,322.9	7,883,751.5	121,083.5
Of which:						
Interest-bearing deposits	3,057,154.5	3,768,678.8	4,575,414.5	5,277,644.0	6,693,649.3	102,805.2
Non-interest bearing deposits	612,845.6	733,032.0	882,445.8	1,153,678.9	1,190,102.2	18,278.3
Total liabilities	4,592,406.6	5,507,448.2	6,865,928.1	8,039,079.4	10,190,815.5	156,516.9
Noncontrolling interest	1,094.0	1,315.5	1,485.0	1,847.5	2,329.7	35.8
HDFC Bank Limited shareholders equity	531,906.7	750,252.1	869,310.2	1,026,053.6	1,174,163.6	18,033.6
Total liabilities and shareholders equity	**Rs. 5,125,407.3**	**Rs. 6,259,015.8**	**Rs. 7,736,723.3**	**Rs. 9,066,980.5**	**Rs. 11,367,308.8**	**US$ 174,586.3**

	Year ended March 31,					
	2014	2015	2016	2017	2018	2018
	(in millions)					
Period average[3]						

Interest-earning assets	Rs.4,110,169.4	Rs.4,878,731.8	Rs.6,334,288.6	Rs.7,584,354.9	Rs.9,052,769.4	US$ 139,038.1
Loans, net of allowance	2,839,477.7	3,408,315.6	4,278,152.9	5,156,042.6	6,507,446.5	99,945.4
Total assets	4,505,119.5	5,289,353.5	6,776,037.8	8,099,122.2	9,634,335.7	147,970.1
Interest-bearing deposits	2,737,895.6	3,365,392.5	4,301,515.1	5,053,872.7	5,849,539.4	89,840.9
Non-interest bearing deposits	448,165.2	519,675.4	620,340.4	784,108.7	946,157.4	14,531.7
Total deposits	3,186,060.8	3,885,067.9	4,921,855.5	5,837,981.4	6,795,696.8	104,372.6
Interest-bearing liabilities	3,362,570.1	3,944,982.9	5,130,083.6	6,104,324.6	7,260,929.1	111,517.9
Long-term debt	296,782.8	449,057.2	485,713.4	646,512.9	881,556.7	13,539.5
Short-term borrowings	327,891.7	130,533.2	342,855.1	403,939.0	529,833.0	8,137.5
Total liabilities	3,997,363.1	4,673,939.3	5,955,268.7	7,155,571.9	8,553,295.8	131,366.9
Total shareholders equity	**Rs.507,756.4**	**Rs.615,414.2**	**Rs.820,769.1**	**Rs.943,550.3**	**Rs.1,081,039.9**	**US$ 16,603.3**

	As of or for the year ended March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
	(in percentage)				
Profitability:					
Net income attributable to HDFC Bank Limited as a percentage of:					
Average total assets	1.8	1.9	1.7	1.7	1.9
Average total shareholders equity	15.6	16.1	14.4	14.9	16.5
Dividend payout ratio(4)	20.7	20.2	20.4	20.1	18.9
Spread(5)	4.2	4.3	4.1	4.1	4.2
Net interest margin(6)	4.7	4.8	4.6	4.6	4.7
Cost-to-net revenue ratio(7)	50.5	48.5	49.5	48.1	45.5
Cost-to-average assets ratio(8)	2.8	2.7	2.7	2.5	2.4
Capital:					
Total capital adequacy ratio(9)	16.07	16.79	15.53	14.55	14.82
Tier I capital adequacy ratio(9)	11.77	13.66	13.22	12.79	13.25
Tier II capital adequacy ratio(9)	4.30	3.13	2.31	1.76	1.57
Average total shareholders equity as a percentage of average total assets	11.3	11.6	12.1	11.7	11.2
Asset quality:					
Gross non-performing customer assets as a percentage of gross customer assets(10)	1.2	1.0	1.0	1.3	1.4
Net non-performing customer assets as a percentage of net customer assets(10)	0.6	0.4	0.4	0.6	0.6
Total allowance for credit losses as a percentage of gross non-performing credit assets	**143.5**	**120.4**	**108.3**	**94.6**	**103.5**

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(1) Represents the difference between total assets and total liabilities, reduced by noncontrolling interests in subsidiaries, divided by the number of shares outstanding at the end of each reporting period.
(2) Includes placements with banks and financial institutions with original maturities of greater than three months.
(3) Average balances are the average of daily outstanding amounts.
(4) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends declared each year are typically paid in the following fiscal year. See *Dividend Policy* .
(5) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities includes non-interest bearing current accounts.
(6) Represents the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, the net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, the net interest margin is less than the spread.
(7) Represents the ratio of non-interest expense to the sum of net interest revenue after provision for credit losses and non-interest revenue.
(8) Represents the ratio of non-interest expense to average total assets.
(9) Calculated in accordance with RBI guidelines (Basel III Capital Regulations, generally referred to as Basel III). See also *Supervision and Regulation* .
(10) Customer assets consist of loans and credit substitutes.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements for the years ended March 31, 2016, March 31, 2017 and March 31, 2018 included in the documents incorporated by reference. Also refer to the sections Selected Financial and Other Data and Selected Statistical Information included in this prospectus supplement.

The following discussion is based on our audited consolidated annual financial statements, which have been prepared in accordance with U.S. GAAP. Our fiscal year ends on March 31 of each year. Accordingly, all references to a particular fiscal year are to the twelve-month period ended on March 31 of that year. Unless otherwise specified, all information regarding cost, yield and average balances are based on daily average of balances outstanding during the relevant period.

This discussion contains forward-looking statements and reflects our current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the section Forward-Looking Statements on page 4 of the accompanying prospectus, the section Risk Factors on page S-20 and elsewhere in this prospectus supplement. Certain portions of the following discussion include information publicly available from the RBI and other sources.

Introduction

Overview

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

Certain Factors Affecting our Results of Operations

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

Two important measures of our results of operations are net interest revenue, which is equal to our interest and dividend revenue net of interest expense, and net interest revenue after allowance for credit losses. Interest expense includes interest on deposits as well as on borrowings. Our interest revenue and expense are affected by

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fluctuations in interest rates as well as volume of activity. Our interest expense is also affected by the extent to which we fund our activities with low-interest and non-interest bearing deposits, and the extent to which we rely on borrowings. Our allowance for credit losses is comprised of specific and unallocated allowances for loan loss. Impairments of credit substitutes are not included in our loan loss provision, but are reflected under Non-interest revenue other than temporary losses on available for sale securities in our consolidated statements of income.

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

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

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

Our financial condition and results of operations are affected by general economic conditions prevailing in India. During fiscal 2017, economic growth moderated as compared to fiscal 2016. As per the estimates of the Indian Central Statistics Office (CSO), real GDP growth slowed down to 7.1% in fiscal 2017 from 8.2% in fiscal 2016. While the slowdown reflected the impact of demonetization, there was also an upward revision of previously reported growth for fiscal 2016 (from 7.6% earlier to 8.2%). This moderation intensified in the first quarter of fiscal 2018 as GDP growth slowed down to a 13-quarter low at 5.6%, sharply lower than last year s 8.1% expansion in the same quarter. The transitional impact of the GST and lingering residual effects of demonetization were in part responsible for the slowdown. As the negative effects of GST, demonetization shock and supply disruptions seem to be gradually fading, the economy seems to be slowly regaining momentum. The GDP growth bounced back to 6.3% in the second, 7.0% in the third and 7.7% in the fourth quarter of fiscal 2018. The 2018 Union Budget puts the focus of fiscal policy in the coming year on the revival of the rural economy and infrastructure expenditure. Notwithstanding some positive reversal in private investment growth over the course of fiscal 2018, (rising to 14.4% in the fourth quarter from 9.1%, 6.1% from 0.8% in Q3, Q2 and Q1 of fiscal 2018, respectively), we believe the incremental pick up in private capital expenditures is likely to be sector and sub-sector specific and very gradual.

While our results may not necessarily track the GDP figures directly, how the economy performs affects the environment in which we operate. For instance, a strong GDP growth may lead businesses to plan and invest confidently, in turn causing a stronger demand for bank credit. On the other hand, inflation also moderated during fiscal 2017, with the average level of CPI declining to 4.5% in fiscal 2017 from 4.9% in fiscal 2016. A range of supply side measures, including prudent food stock management, appropriate monetary policy action and subdued global commodity prices led to the decline in inflation. As a result of, inter alia, declining inflationary pressures, the RBI reduced the policy repo rate by 75 basis points from 7.5% to 6.75% in fiscal 2016, by 50 basis points from 6.75% to 6.25% in fiscal 2017 and by 25 basis points from 6.25% to 6.00% in fiscal 2018. Higher inflation generally leads to higher interest rates and raises the cost of funds for businesses, making it difficult for them to borrow. Higher interest rates also affect us as our spreads could compress. In June 2018, considering higher inflationary pressures, the RBI has increased the policy repo rate to 6.25%. Alternatively, a lower interest rate scenario, adds to the economic growth and is generally beneficial to the environment in which we operate, provided inflation is under control.

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On the fiscal side, the government appears to be committed to fiscal consolidation by reducing the fiscal deficit from 4.5% in fiscal 2014 to 3.5% in fiscal 2017. However, given rising pressures on the fiscal side, the government strayed slightly from its fiscal consolidation path. The fiscal deficit as a percentage of GDP stood at 3.5% in fiscal 2018 versus the 3.2% target, and for fiscal 2019 the budget outlined a 3.3% fiscal deficit target. The focus of this year s budget has been primarily on the agriculture sector, reviving the rural economy, infrastructure, health, employment generation and smaller businesses. Declining fiscal deficits tend to have a favorable impact on our operations, as lower fiscal deficit allows the central bank to reduce rates, given a sustainable level of inflation and also does not crowd out private investments.

Notwithstanding the pace of growth in India, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2018, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.6% of net customer assets. In addition, our net customer assets represented 96.2% of our deposits and our deposits represented 69.4% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 42.2% of our average total deposits for the period ended March 31, 2018. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) for fiscal 2018 of 4.4%.

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

In conjunction with the implementation of IND-AS for our local Indian results, we may adopt IFRS for the purposes of our filings pursuant to section 13 or 15(d) of, and our reports pursuant to rule 13a-16 or 15d-16 under, the Exchange Act. Should we choose to do so, our first year of reporting in accordance with IFRS would be for the accounting period commencing on April 1, 2019 and, as such, we would be permitted to file two years, rather than three years, of statements of income, changes in shareholders equity and cash flows prepared in accordance with IFRS.

The implementation of IND-AS is expected to result in significant changes to the way we prepare and present our financial statements under Indian GAAP. The areas that are expected to have significant accounting impact on the adoption of IND-AS are summarized below:

(a) Financial assets shall be classified under amortized cost, fair value through other comprehensive income or fair value through profit/loss categories on the basis of the nature of the cash flows and the intention of holding the financial assets.

(b) Interest will be recognized in the income statement using the effective interest method, whereby the coupon, fees net of transaction costs and all other premiums or discounts will be amortized over the life of the financial instrument.

(c) Stock options will be required to be fair valued on the date of grant and be recognized as staff expense in the income statement over the vesting period of the stock options.

(d) The impairment requirements of IND-AS 109, Financial Instruments, are based on an Expected Credit Loss (ECL) model that replaces the incurred loss model under the extant framework. We will be

generally required to recognize either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. IND-AS 109 will change our current methodology for calculating the provision for standard assets and non-performing assets (NPAs). We will be required to apply a three-stage approach to measure ECL on financial instruments accounted for at amortized cost or fair value through other comprehensive income. Financial assets will migrate through the following three stages based on the changes in credit quality since initial recognition:

Stage 1: 12 months ECL

For exposures which have not been assessed as credit-impaired or where there has not been a significant increase in credit risk since initial recognition, the portion of the ECL associated with the probability of default events occurring within the next twelve months will need to be recognized.

Stage 2: Lifetime ECL not credit-impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL will need to be recognized.

Stage 3: Lifetime ECL credit impaired

Financial assets will be assessed as credit impaired when one or more events having a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will need to be recognized.

Interest revenue will be recognized at the original effective interest rate applied on the gross carrying amount for assets falling under stages 1 and 2 and on written down amount for the assets falling under stage 3.

(e) Accounting impact on the application of IND-AS at the transition date shall be recognized in Equity.

Critical Accounting Policies

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

Allowance for Credit Losses

We provide 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

Our retail loan loss allowance consists of specific and unallocated allowances.

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

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

Wholesale

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

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

We establish 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.

We have also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate our wholesale unallocated allowance based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

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. We amortize the annual fees on credit cards over the contractual period of the fees.

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Investments in Securities

Investments consist of securities purchased as part of our treasury operations, such as government securities and other debt and equity securities, and investments purchased as part of our wholesale banking operations, such as credit substitute securities issued by our wholesale banking customers. Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and we bear the same customer credit risk as we do for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer. As our exposures to such securities are similar to our exposures on our loan portfolio, additional disclosures have been provided on impairment status in note 8 of the consolidated financial statements and on concentrations of credit risk in note 12 of the consolidated financial statements.

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

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

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

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

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

Declines in the fair values of held to maturity and available for sale securities below their carrying value that are other than temporary are reflected in net income as realized losses, based on management s best estimate of the fair value of the investment. We conduct a review each year to identify other than temporary declines based on an evaluation of all significant factors. Our 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 analyses, as required under business policies. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. We do not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increase and we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

Business Combination

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the

determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact our future results of operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of Bank s interest and the acquiree s net fair value of identifiable assets and liabilities is recognized as goodwill.

Goodwill and Other Intangibles

Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step is to be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. ASC 350-20 Goodwill stipulates that goodwill of a reporting unit shall be tested on an annual basis and in the interim period under certain circumstances. Accordingly, we have determined that we will test the goodwill on our books for impairment at annual rests, unless circumstances warrant us to carry out impairment tests in an interim period. We examined our goodwill that had arisen on acquisition of CBoP for possible impairment as of March 31, 2018. The results of the first step of the impairment test showed no indication of impairment. Accordingly, we did not perform the second step of the impairment test.

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

	Useful lives (years)	Amortization method
Branch network	6	Straight-line
Customer lists	2	Straight-line
Core deposit	5	Straight-line
Favorable leases	1 to 15	Straight-line

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

Branch network intangible represents the benefit that we received through the acquisition of a ready branch network from 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 we would have generated if we had set up our 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

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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 we 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. We 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. We 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 us and future economic benefit until the lease expiry.

Fair Value Measurements

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

- whether the asset or liability is transacted in an active market with a quoted market price that is readily available;
- the size of transactions occurring in an active market;
- the level of bid-ask spreads;
- whether only a few transactions are observed over a significant period of time;
- whether the inputs to the valuation techniques can be derived from or corroborated with market data; and

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

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

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

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all such items qualify as Level 2 measurements. Level 2 items are fair valued using quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

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

We review and update our fair value hierarchy classifications semi-annually. Changes from one half year to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels. Imprecision in estimating unobservable market inputs can impact the amount of revenue, loss or changes in common shareholder s equity recorded for a particular financial instrument. Furthermore, while we believe our valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial assets and liabilities could result in a different estimate of fair value at the reporting date. See Note 32 of the consolidated financial statements, *Fair Value Measurement* for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

As of March 31, 2018, our Level 3 instruments recorded at fair value on a recurring basis were available-for-sale mortgage and asset-backed securities aggregating Rs.18,534.6 million. The Level 3 instruments comprised 0.8% of our total securities portfolio and 0.2% of our total assets, as of March 31, 2018. The valuation of these mortgage and asset-backed securities is dependent on the estimated cash flows that the underlying trust would pay out. The cash flows for mortgage and asset-backed securities are discounted at the yield-to-maturity rates and credit spreads published by Fixed Income Money Market and Derivatives Association on month ends. There were no transfers between Level 1, 2 and 3 during fiscal 2017. Available-for-sale securities aggregating Rs.6.6 billion and classified as Level 1 as of March 31, 2017 were transferred to Level 2 during fiscal 2018.

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

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

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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 modifies the principles for revenue recognition in transactions involving contracts with customers. On March 17, 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) , that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) . This update clarifies in regard to identifying performance obligations and licensing. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606) . The above referred guidance will be effective for the interim and annual reporting periods beginning after December 15, 2017. The Bank expects to adopt the guidance in fiscal 2019. The ASU requires that revenue from contracts with customers is to be recognized upon transfer of goods and services in the amount of consideration expected to be recognized and transfer of nonfinancial assets, unless those contracts are within the scope of other guidance. The ASU also clarifies the guidance related to reporting revenue as a principal versus net as an agent. The ASU also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. On adoption we will describe our key sources of revenue that are within the scope of the new guidance, and include qualitative disclosures to describe how revenue is recognized for the types of services performed. We do not expect our accounting policies to change materially since the principals of revenue recognition are essentially consistent with our present guidance and practices. The Bank has examined the effect that the guidance will likely have on other revenue streams as well as changes in disclosures required by the new guidance is not expected to be material on the Bank s financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments- Overall (Subtopic 825-10) . The update requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any. The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments also require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank expects to adopt the guidance in fiscal 2019. The preliminary examination carried out by the Bank indicates that the adoption of this guidance is not expected to have a material impact on the Bank s financial condition, results of operations, or disclosures.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842) . The update generally requires recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. In particular, the guidance requires a lessee, of operating or finance leases, to recognize on the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. However, for leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. Under previous GAAP, a lessee was not required to recognize lease assets and lease liabilities arising from operating leases. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Bank does not plan to early adopt the ASU. The Bank expects to adopt the guidance in fiscal 2020. In January 2018, the FASB released an exposure draft wherein an amendment is proposed, if accepted, would allow the option to apply provisions of the ASU prospectively as of the effective date, without adjusting comparative periods presented. The Bank expects to recognize lease liabilities and corresponding assets at their present value predominantly related to all of the Rs.79.3 billion of

future minimum lease payments required under operating leases as disclosed in Note 27. However, these Leases which will be subject to consolidated balance sheet recognition and their initial measurement is under our evaluation. The effect of the adoption will depend on the lease portfolio at the time of transition.

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In March 2016, the FASB issued ASU 2016-04 Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products . The update addresses the current and potential future diversity in practice related to de-recognition of a prepaid stored-value product liability that may be unused wholly or partially for an indefinite time period. The current amendments specify how prepaid stored-value product liabilities within the update s scope should be derecognized, thereby eliminating the current and potential future diversity in practice. The amendments in this update are to be applied either using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective or retrospectively to each period presented. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2017. The Bank expects to adopt the guidance in fiscal 2019. This guidance will not impact the Bank s financial condition, results of operations, or disclosures.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses, while also providing transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans, held to maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses is required to be adjusted each period for changes in expected lifetime credit losses. The update requires use of judgment in determining the relevant information and estimation methods that are appropriate for measurement of expected credit losses which is to be based on relevant information about past events, historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In regard to Available-for-Sale Debt Securities, the credit losses is required to be recorded through an allowance and the ASU limits the amount of the allowance for credit losses to the amount by which fair value is below amortized cost. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. While early adoption is permitted beginning fiscal 2020, we do not expect to elect that option. The Bank expects to adopt the guidance in fiscal 2021. The amendments represent a significant departure from the existing GAAP. The Bank expects the update will result in an increase in the allowance for credit losses given the change to estimated losses over the contractual life adjusted for expected prepayments with an anticipated material impact from longer duration portfolios, as well as the addition of an allowance for debt securities. The Bank is evaluating the effect the ASU 2016-13 will have on its Consolidated Financial Statements and related disclosures which will also depend on the nature of the Bank s portfolio s at the date of adoption.

In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230) . This is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank expects to adopt the guidance in fiscal 2019. The preliminary evaluation carried out by the Bank indicate that the guidance will not have a material impact, on the presentation and classification in the consolidated statement of cash flows. The adoption of this guidance is not expected to have any impact on the Bank s financial condition, results of operations, except for presentation classification in the Consolidated Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory . In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2019. This guidance is not expected to impact the Bank s financial condition, results of operations, or disclosures.

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash . The amendments in this update require that a statement of cash flows explain the change during the period

in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2019. The update is to be applied using a retrospective transition method for each period presented. The update will not affect the Bank s financial condition, or results of operations, except the disclosures pertaining to restricted cash and restricted cash equivalents which is to be included with cash and cash equivalents while reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805) - Clarifying the Definition of a Business . The amendment in this update narrows the definition of a business by introducing a quantitative screen as the first step, such that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the first step is not met, then an entity needs to evaluate whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendment in this update will be applied prospectively, with early adoption permitted. The Bank expects to adopt the guidance in fiscal 2019. The impact of this update will depend upon the acquisition and disposal activities of the Bank, if any.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles-Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment . The amendment in this update simplifies the subsequent measurement of goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e., the current Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. The impairment test is simply the comparison of the fair value of a reporting unit with its carrying amount (the current Step 1), with the impairment charge being the deficit in fair value but not exceeding the total amount of goodwill allocated to that reporting unit. The simplified one-step impairment test applies to all reporting units (including those with zero or negative carrying amounts). The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank expects to adopt the guidance in fiscal 2021. Early adoption is permitted for interim and annual goodwill impairment testing dates after January 1, 2017. The impact of the amendments in this update will depend upon the performance of the reporting units and the market conditions impacting the fair value of each reporting unit going forward.

In March 2017, the FASB issued ASU 2017-07 Compensation Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost . The amendment in this update changes the income statement presentation of net benefit expense and also requires restating the Company s financial statements for each of the earlier periods presented in annual and interim financial statements. The amendment requires that only the service cost component of net benefit expense be included in the Compensation and benefits line on the income statement. The other components of net benefit expense will be required to be presented outside of the Compensation and benefits line and will be presented in other operating expense. The total Operating expenses will not change. The new standard also changes the components of net benefit expense that are eligible for capitalization when employee costs are capitalized in connection with various activities, such as internally developed software, construction-in-progress, and loan origination costs. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this update is to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net

periodic postretirement benefit in assets. The Bank expects to adopt the guidance in fiscal 2019. This guidance is not expected to impact the Bank s financial condition and results of operations.

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In March 2017, the FASB issued ASU 2017-08 Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20)-Premium Amortization on Purchased Callable Debt Securities . This update amends the amortization period for certain purchased callable debt securities held at a premium. The update requires entities to amortize premiums on debt securities by the first call date when the securities have fixed and determinable call dates and prices. ASU 2017-08 does not change the accounting for discounts, which continue to be recognized over the contractual life of a security. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period but such adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Adoption of the ASU is on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Bank expects to adopt the guidance in fiscal 2020. The impact of this ASU will depend upon the position of purchased callable debt securities held at a premium on date of adoption.

In May 2017, the FASB issued ASU 2017-09 Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting. The amendment in this update clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award s fair value, (ii) the award s vesting conditions and (iii) the award s classification as an equity or liability instrument. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Bank expects to adopt the guidance in fiscal 2019. The impact of this update will depend upon the modification, if any, to the terms or conditions of a share-based payment award on or after adoption of the guidance in fiscal 2019.

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities . The amendment in the update better aligns the accounting and reporting of hedging relationships with the economics of risk management activities. ASU 2017-12 provides administrative reliefs to simplify the application of hedge accounting. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The transition requirements and elections in this update is to be applied to hedging relationships existing on the date of adoption. The amendment in the update requires the effect of adoption to be reflected as of the beginning of the fiscal year of adoption. The Bank expects to adopt the guidance in fiscal 2019. This guidance is not expected to impact the Bank s financial condition and results of operations.

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Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Net Interest Revenue after Allowance for Credit Losses

Our net interest revenue after allowances for credit losses increased by 15.9% from Rs.313.8 billion in fiscal 2017 to Rs.363.8 billion in fiscal 2018. Our net interest margin was 4.7% for fiscal 2018. The following table sets out the components of net interest revenue after allowance for credit losses:

	Year ended March 31,			
	2017	2018	Increase/ Decrease	% Increase/ Decrease
	(in million, except percentages)			
Interest on loans	Rs. 552,686.8	Rs. 667,458.7	Rs. 114,771.9	20.8
Interest on securities, including dividends and interest on trading assets	159,660.4	162,258.3	2,597.9	1.6
Other interest revenue	13,207.1	13,748.3	541.2	4.1
Total interest and dividend revenue	**725,554.3**	**843,465.3**	**117,911.0**	**16.3**
Interest on deposits	308,078.3	326,717.8	18,639.5	6.1
Interest on short-term borrowings	21,821.9	26,004.4	4,182.5	19.2
Interest on long-term debt	43,781.1	67,297.5	23,516.4	53.7
Other interest expense	77.4	295.0	217.6	281.1
Total interest expense	**373,758.7**	**420,314.7**	**46,556.0**	**12.5**
Net interest revenue	**Rs. 351,795.6**	**Rs. 423,150.6**	**Rs. 71,355.0**	**20.3**
Less: Allowance for credit losses:				
Retail	31,341.7	52,577.0	21,235.3	67.8
Wholesale	6,609.7	6,820.8	211.1	3.2
Total	**Rs. 37,951.4**	**Rs. 59,397.8**	**Rs. 21,446.4**	**56.5**
Net interest revenue after allowance for credit losses	**Rs. 313,844.2**	**Rs. 363,752.8**	**Rs. 49,908.6**	**15.9**

Interest and Dividend Revenue

Interest income on loans increased by 20.8%, primarily due to an increase in our average loan book. The average balance of our total loan book increased by 26.2% from Rs.5,156.0 billion in fiscal 2017 to Rs.6,507.4 billion in fiscal 2018. Our average balance of retail loans increased by 27.1% from Rs.3,641.1 billion in fiscal 2017 to Rs.4,629.2 billion in fiscal 2018. The growth in retail loans was across the product segments. Our average balance of wholesale loans increased by 24.0% from Rs.1,514.9 billion in fiscal 2017 to Rs.1,878.2 billion in fiscal 2018. Retail loan yields decreased to 11.1% in fiscal 2018 as compared to 11.5% in fiscal 2017. Wholesale loan yields decreased from 8.9% in fiscal 2017 to 8.1% in fiscal 2018.

Interest on securities, including dividends, increased by 1.6% from Rs.159.7 billion in fiscal 2017 to Rs.162.3 billion in fiscal 2018. This was primarily driven by an increase in the average balance of investments. The average balance of our investments increased by Rs.111.3 billion from Rs.2,152.5 billion in fiscal 2017 to Rs.2,263.8 billion in fiscal

2018. This increase was partially offset by a decline in yield on investments from 7.4% in fiscal 2017 to 7.2% in fiscal 2018.

Other interest revenue increased by 4.1% from Rs.13.2 billion in fiscal 2017 to Rs.13.7 billion in fiscal 2018, primarily due to an increase in our average balance of cash equivalents and term placements. Average balance of our cash equivalents and term placements increased by 2.1% from Rs.275.8 billion in fiscal 2017 to Rs.281.5 billion in fiscal 2018.

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Interest Expense

Our interest expense on deposits increased by 6.1% from Rs.308.1 billion in fiscal 2017 to Rs.326.7 billion in fiscal 2018. This increase was primarily due to an increase in our average interest bearing deposits, which increased by 15.7% from Rs.5,053.9 billion in fiscal 2017 to Rs.5,849.5 billion in fiscal 2018. This increase was partially offset by a decline in the average cost of our deposits, including non-interest bearing deposits, which decreased from 5.3% in fiscal 2017 to 4.8% in fiscal 2018.

The average balance of our savings account deposits increased from Rs.1,598.6 billion in fiscal 2017 to Rs.1,919.7 billion in fiscal 2018 and the average balance of our time deposits increased from Rs.3,455.3 billion in fiscal 2017 to Rs.3,929.8 billion in fiscal 2018. Cost of time deposits decreased from 7.1% in fiscal 2017 to 6.5% in fiscal 2018.

Interest expense on our short-term borrowings increased by 20.1% from Rs.21.9 billion in fiscal 2017 to Rs.26.3 billion in fiscal 2018 on account of an increase in our average balance of short-term borrowings and offset by a decrease in the cost of our short-term borrowings. The average balance of our short-term borrowings increased by 31.2% from Rs.403.9 billion in fiscal 2017 to Rs.529.8 billion in fiscal 2018. The cost of our short-term borrowings decreased from 5.4% in fiscal 2017 to 5.0% in fiscal 2018. Interest expense on our long-term debt increased by 53.7% primarily on account of an increase in our average balance of long-term debt from Rs.646.5 billion in fiscal 2017 to Rs.881.6 billion in fiscal 2018. This increase was further augmented by an increase in the cost of our long-term debt, which increased from 6.8% in fiscal 2017 to 7.6% in fiscal 2018. During fiscal 2018, we raised debt capital instruments eligible for inclusion in Additional Tier I and Tier II capital under the Basel III capital regulations amounting to Rs.80.0 billion and Rs.20.0 billion respectively.

Allowance for Credit Losses

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses increased by 56.5% from Rs.38.0 billion in fiscal 2017 to Rs.59.4 billion in fiscal 2018.

Our loan loss allowance for credit losses in our retail loan portfolio increased by 67.8% from Rs.31.3 billion in fiscal 2017 to Rs.52.6 billion in fiscal 2018. Our specific loan loss allowance increased from Rs.25.8 billion in fiscal 2017 to Rs.38.6 billion in fiscal 2018. This increase was primarily due to higher allowances in our agriculture and personal loans segments. The increase was further augmented by higher retail unallocated allowances, which increased from Rs.5.6 billion in fiscal 2017 to Rs.14.0 billion in fiscal 2018. This increase was attributable to the growth in our retail loan portfolio and an increase in our estimate of losses primarily in our agriculture and auto loans segments, partially offset by a decrease in our estimate of losses primarily in our personal loans and credit cards segment.

Our loan loss allowance for credit losses in our wholesale loan portfolio increased by 3.2% from Rs.6.6 billion in fiscal 2017 to Rs.6.8 billion in fiscal 2018. Our specific loan loss allowance decreased from Rs.5.8 billion in fiscal 2017 to Rs.3.7 billion in fiscal 2018. Our wholesale unallocated loan loss allowance increased from Rs.0.9 billion in fiscal 2017 to Rs.3.1 billion in fiscal 2018. This increase was attributable to the growth in our wholesale loan portfolio and estimated losses thereon.

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Non-Interest Revenue

Our non-interest revenue increased by 31.1% from Rs.110.3 billion in fiscal 2017 to Rs.144.6 billion in fiscal 2018. The following table sets forth the components of our non-interest revenue:

	Years ended March 31,			
	2017	**2018**	**Increase/ Decrease**	**% Increase/ Decrease**
	(in million, except percentages)			
Fees and commissions	Rs. 94,120.3	Rs. 120,060.9	Rs. 25,940.6	27.6
Realized gains/(loss) on AFS securities	9,592.8	10,704.1	1,111.3	11.6
Trading securities gains/(loss), net	467.2	(63.4)	(530.6)	(113.6)
Foreign exchange transactions	11,282.7	6,209.5	(5,073.2)	(45.0)
Derivatives gains/(loss)	(5,738.5)	6,742.6	12,481.1	(217.5)
Other	601.6	953.3	351.7	58.5
Total non-interest revenue	**Rs. 110,326.1**	**Rs. 144,607.0**	**Rs. 34,280.9**	**31.1**

Fees and commissions increased by 27.6% from Rs.94.1 billion in fiscal 2017 to Rs.120.1 billion in fiscal 2018, primarily on account of an increase in fees and charges on retail assets, fees on debit and credit cards and commissions on distribution of mutual funds and insurance products.

The gain on AFS securities was primarily attributable to the sale of government of India securities.

In fiscal 2018, derivative transactions (unadjusted for credit spread) resulted in a gain of Rs.6.0 billion, primarily on account of a gain of Rs.6.9 billion from forward exchange contracts due to mark-to-market gains and gains on cancellations of forward exchange contracts. In fiscal 2018, currency swaps and currency options resulted in a loss of Rs.1.9 billion (unadjusted for credit spreads), partially offset by a gain of Rs.1.0 billion (unadjusted for credit spreads) from interest rate derivatives and forward rate agreements. In fiscal 2017, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs.5.8 billion, primarily on account of a loss of Rs.4.4 billion from forward exchange contracts due to mark-to-market loss, partially offset by gains on cancellations of forward exchange contracts. In fiscal 2017, currency swaps resulted in a loss of Rs.2.4 billion (unadjusted for credit spread), partially offset by a gain of Rs.1.0 billion (unadjusted for credit spread) from currency options, interest rate derivatives, and forward rate agreements. The gain from derivative transactions (including gain of Rs.0.8 billion on account of credit spread) was Rs.6.7 billion as compared to a loss from derivative transactions (net of gain of Rs.0.1 billion on account of credit spread) of Rs.5.7 billion in fiscal 2017. Income from foreign exchange transactions amounted to Rs.6.2 billion during fiscal 2018 as compared to Rs.11.3 billion during fiscal 2017. As a result, income from foreign exchange transactions and derivatives increased from Rs.5.5 billion in fiscal 2017 to Rs.13.0 billion in fiscal 2018.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Years ended March 31,					
	2017	**2018**	**Increase/ Decrease**	**% Increase/**	**2017 % of net revenues**	**2018 % of net revenues**

					Decrease			
			(in million, except percentages)					
Salaries and staff benefits	Rs.	93,060.5	Rs.	98,714.6	Rs.	5,654.1	6.1	21.9	19.4
Premises and equipment		28,024.2		29,816.9		1,792.7	6.4	6.6	5.9
Depreciation and amortization		8,876.9		9,678.9		802.0	9.0	2.1	1.9
Administrative and other		74,240.2		93,042.0		18,801.8	25.3	17.5	18.3
Amortization of intangibles		3.0		1.0		(2.0)	(66.7)	0.0	0.0
Total non-interest expense	**Rs.**	**204,204.8**	**Rs.**	**231,253.4**	**Rs.**	**27,048.6**	**13.2**	**48.1**	**45.5**

Total non-interest expense increased by 13.2% from Rs.204.2 billion in fiscal 2017 to Rs.231.3 billion in fiscal 2018. Our net interest revenue after allowances for credit losses increased by 15.9% from Rs.313.8 billion in fiscal 2017 to Rs.363.8 billion in fiscal 2018. As a result, our non-interest expense as a percentage of our net revenues was 45.5% in fiscal 2018 as compared to 48.1% in fiscal 2017.

Salaries and staff benefits increased by 6.1% from Rs.93.1 billion in fiscal 2017 to Rs.98.7 billion in fiscal 2018 primarily attributable to wage revisions. The number of our employees increased from 84,325 as of March 31, 2017 to 88,253 as of March 31, 2018

Premises and equipment costs increased by 6.4% from Rs.28.0 billion in fiscal 2017 to Rs.29.8 billion in fiscal 2018 on account of an increase in rent, electricity, equipment maintenance and other infrastructure costs. Depreciation and amortization expenses increased from Rs.8.9 billion in fiscal 2017 to Rs.9.7 billion in fiscal 2018.

Administrative and other expenses increased by 25.3% from Rs.74.2 billion in fiscal 2017 to Rs.93.0 billion in fiscal 2018, primarily on account of higher cards related costs backed by an increase in cards spends, expenditure for the purchase of priority sector lending certificates and insurance expenses. As of March 31, 2018, we had 4,787 branches and 12,635 ATMs across 2,691 locations, which increased from 4,715 branches and 12,260 ATMs across 2,657 locations as of March 31, 2017. This also led to an overall increase in our non-interest expense. We continued to amortize the intangible assets (i.e., favorable leases) that were acquired on the merger of CBoP over their estimated remaining useful life. This amortization resulted in a charge of Rs.1.0 million in fiscal 2018.

Income Tax

Our income tax expense, net of interest earned on income tax refunds, increased by 24.0%, from Rs.79.2 billion in fiscal 2017 to Rs.98.3 billion in fiscal 2018. Our effective tax rate was 36.0% in fiscal 2017 and 35.5% in fiscal 2018. The effective tax rate was lower in fiscal 2018 primarily on account of lower stock-based compensation in fiscal 2018 as compared to in fiscal 2017.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2017 and 2018:

	Year ended March 31,	
	2017	**2018**
Effective statutory income tax rate	34.61%	34.61%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	1.29	0.82
Income exempt from taxes	(0.45)	(0.19)
Effect of change in statutory tax rate		(0.08)
Other, net	0.57	0.30
Annual effective income tax rate	**36.02%**	**35.46%**

Net Income

As a result of the foregoing factors, our net income after taxes increased by 27.0% from Rs.140.5 billion in fiscal 2017 to Rs.178.5 billion in fiscal 2018.

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Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Net Interest Revenue after Allowance for Credit Losses

Our net interest revenue after allowances for credit losses increased by 15.9% from Rs.270.8 billion in fiscal 2016 to Rs.313.8 billion in fiscal 2017. Our net interest margin was 4.6% for fiscal 2017. The following table sets out the components of net interest revenue after allowance for credit losses:

	Year ended March 31,			
	2016	**2017**	**Increase/ Decrease**	**% Increase/ Decrease**
	(in million, except percentages)			
Interest on loans	Rs. 470,818.5	Rs. 552,686.8	Rs. 81,868.3	17.4
Interest on securities, including dividends and interest on trading assets	141,722.3	159,660.4	17,938.1	12.7
Other interest revenue	12,887.8	13,207.1	319.3	2.5
Total interest and dividend revenue	**625,428.6**	**725,554.3**	**100,125.7**	**16.0**
Interest on deposits	283,764.7	308,078.3	24,313.6	8.6
Interest on short-term borrowings	16,265.2	21,821.9	5,556.7	34.2
Interest on long-term debt	32,811.0	43,781.1	10,970.1	33.4
Other interest expense	226.2	77.4	(148.8)	(65.8)
Total interest expense	**333,067.1**	**373,758.7**	**40,691.6**	**12.2**
Net interest revenue	**Rs. 292,361.5**	**Rs. 351,795.6**	**Rs. 59,434.1**	**20.3**
Less: Allowance for credit losses:				
Retail	19,103.0	31,341.7	12,238.7	64.1
Wholesale	2,428.3	6,609.7	4,181.4	172.2
Total	**Rs. 21,531.3**	**Rs. 37,951.4**	**Rs. 16,420.1**	**76.3**
Net interest revenue after allowance for credit losses	**Rs. 270,830.2**	**Rs. 313,844.2**	**Rs. 43,014.0**	**15.9**

Interest and Dividend Revenue

Interest income on loans increased by 17.4%, primarily due to an increase in our average loan book. The average balance of our total loan book increased by 20.5% from Rs.4,278.2 billion in fiscal 2016 to Rs.5,156.0 billion in fiscal 2017. Our average balance of retail loans increased by 20.4% from Rs.3,023.6 billion in fiscal 2016 to Rs.3,641.1 billion in fiscal 2017. The growth in retail loans was across the product segments. Our average balance of wholesale loans increased by 20.8% from Rs.1,254.5 billion in fiscal 2016 to Rs.1,514.9 billion in fiscal 2017. Retail loan yields were 11.5% in fiscal 2017 as compared to 11.7% in fiscal 2016. Wholesale loan yields decreased from 9.3% in fiscal 2016 to 8.9% in fiscal 2017.

Interest on securities, including dividends, increased by 12.7% from Rs.141.7 billion in fiscal 2016 to Rs.159.7 billion in fiscal 2017, due to an increase of Rs.331.7 billion in the average balance of investments offset by decrease in yields from 7.8% in fiscal 2016 to 7.4% in fiscal 2017.

Other interest revenue increased by 2.5% from Rs.12.9 billion in fiscal 2016 to Rs.13.2 billion in fiscal 2017, primarily due to an increase in our average balance of cash equivalents and term placements. Average balance of our cash equivalents and term placements increased by 17.2% from Rs.235.3 billion in fiscal 2016 to Rs.275.8 billion in

fiscal 2017. This increase was partially offset by a decrease in the yield on average balance of cash equivalents and term placements, which declined from 5.5% in fiscal 2016 to 4.8% in fiscal 2017.

Interest Expense

Our interest expense on deposits increased by 8.6% from Rs.283.8 billion in fiscal 2016 to Rs.308.1 billion in fiscal 2017 primarily due to an increase in average interest bearing deposits by 17.5% from Rs.4,301.5 billion

in fiscal 2016 to Rs.5,053.9 billion in fiscal 2017. Our average cost of deposits, including non-interest bearing deposits, decreased from 5.8% in fiscal 2016 to 5.3% in fiscal 2017.

The average balance of our savings account deposits increased from Rs.1,258.2 billion in fiscal 2016 to Rs.1,598.6 billion in fiscal 2017 and the average balance of our time deposits increased from Rs.3,043.3 billion in fiscal 2016 to Rs.3,455.3 billion in fiscal 2017. Cost of time deposits decreased from 7.7% in fiscal 2016 to 7.1% in fiscal 2017. Interest expense on our short-term borrowings increased by 32.8% from Rs.16.5 billion in fiscal 2016 to Rs.21.9 billion in fiscal 2017 on account of an increase in our average balance of short-term borrowings and further augmented by an increase in the cost of our short-term borrowings. The average balance of our short-term borrowings increased by 17.8% from Rs.342.9 billion in fiscal 2016 to Rs.403.9 billion in fiscal 2017. The cost of our short-term borrowings increased from 4.8% in fiscal 2016 to 5.4% in fiscal 2017. Interest expense on our long-term debt increased by 33.4% primarily on account of an increase in our average balance of long-term debt from Rs.485.7 billion in fiscal 2016 to Rs.646.5 billion in fiscal 2017. Cost of our long-term debt remained stable at 6.8% in fiscal 2017 as compared to that in fiscal 2016.

Allowance for Credit Losses

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses increased by 76.3% from Rs.21.5 billion in fiscal 2016 to Rs.38.0 billion in fiscal 2017.

Our loan loss allowance for credit losses in our wholesale loan portfolio increased by 172.2% from Rs.2.4 billion in fiscal 2016 to Rs.6.6 billion in fiscal 2017. Our specific loan loss allowance increased from Rs.1.9 billion in fiscal 2016 to Rs.5.8 billion in fiscal 2017. This was primarily on account of classification of our share in a loan to a state government, as non-performing. A consortium of banks, including us, provide credit facilities to state governments for procurement of food grains under the Targeted Public Distribution and Other Welfare Schemes of the Government of India. The credit limit for procurement of food grains is authorized by the RBI and consented to by the Ministry of Finance under Article 293 (3) of the Constitution of India. The outstanding balance of the state governments generally do not exceed the food stock and receivables at any point in time. However, in the case of this state government, there was a gap between the outstanding balance and the food stock and receivables. This gap has been funded by the consortium through a term loan repayable over 20 years in equated monthly installments with credit enhancements, including a letter of comfort from the Government of India. As of March 31, 2017, this term loan has been serviced in accordance with the terms of the sanction. Our wholesale unallocated loan loss allowance increased from Rs.0.6 billion in fiscal 2016 to Rs.0.9 billion in fiscal 2017.

Our loan loss allowance for credit losses in our retail loan portfolio increased by 64.1% from Rs.19.1 billion in fiscal 2016 to Rs.31.3 billion in fiscal 2017. Our specific loan loss allowance increased from Rs.15.9 billion in fiscal 2016 to Rs.25.8 billion in fiscal 2017. The increase was primarily due to higher allowances in our personal loans and credit card segment. This increase was further augmented by higher retail unallocated allowances, which increased from Rs.3.2 billion in fiscal 2016 to Rs.5.6 billion in fiscal 2017. This increase was attributable to the growth in our retail loan portfolio and expected losses thereon.

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Non-Interest Revenue

Our non-interest revenue increased by 13.9% from Rs.96.8 billion in fiscal 2016 to Rs.110.3 billion in fiscal 2017. The following table sets forth the components of our non-interest revenue:

	Years ended March 31,			
	2016	2017	Increase/ Decrease	% Increase/ Decrease
	(in million, except percentages)			
Fees and commissions	Rs. 83,762.8	Rs. 94,120.3	Rs. 10,357.5	12.4
Realized gains/(loss) on AFS securities	5,591.1	9,592.8	4,001.7	71.6
Trading securities gains/(loss), net	1,519.3	467.2	(1,052.1)	(69.2)
Foreign exchange transactions	(10,145.4)	11,282.7	21,428.1	*
Derivatives gains/(loss)	15,067.2	(5,738.5)	(20,805.7)	(138.1)
Other	1,038.9	601.6	(437.3)	(42.1)
Total non-interest revenue	**Rs. 96,833.9**	**Rs. 110,326.1**	**Rs. 13,492.2**	**13.9**

* Not meaningful

Fees and commissions increased by 12.4% from Rs.83.8 billion in fiscal 2016 to Rs.94.1 billion in fiscal 2017, primarily on account of an increase in fees and commissions generated by the retail segment. This increase was largely attributable to fees on debit and credit cards, transactional charges, fees on deposit accounts, fees on retail assets and commissions on distribution of mutual funds and insurance products

The gain on AFS securities was primarily attributable to the sale of government of India securities.

In fiscal 2017, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs.5.8 billion, primarily on account of a loss of Rs.4.4 billion from forward exchange contracts due to mark-to-market loss partially offset by gains on cancellations of forward exchange contracts. In fiscal 2017, currency swaps resulted in a loss of Rs.2.4 billion (unadjusted for credit spread) partially offset by a gain of Rs.1.0 billion (unadjusted for credit spread) from currency options, interest rate derivatives, and forward rate agreements. In fiscal 2016, derivative transactions (unadjusted for credit spread) resulted in a gain of Rs.15.4 billion, primarily on account of a gain of Rs.15.1 billion from forward exchange contracts due to mark-to-market gains and gains on cancellations of forward exchange contracts. This was further augmented by a gain of Rs.1.4 billion (unadjusted for credit spread) from currency options, currency swaps and forward rate agreements and partially offset by a loss of Rs.1.0 billion (unadjusted for credit spread) from interest rate derivatives. Loss from derivative transactions (net of gain of Rs.0.1 billion on account of credit spread) was Rs.5.7 billion in fiscal 2017 as compared to a gain of Rs.15.1 billion from derivative transactions (net of loss of Rs.0.3 billion on account of credit spread) in fiscal 2016. Income from foreign exchange transactions amounted to positive Rs.11.3 billion during fiscal 2017 as compared to negative Rs.10.1 billion during fiscal 2016. As a result, income from foreign exchange transactions and derivatives increased from Rs.4.9 billion in fiscal 2016 to Rs.5.5 billion in fiscal 2017.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Years ended March 31,					
	2016	**2017**	**Increase/ Decrease**	**% Increase/ Decrease**	**2016 % of net revenues**	**2017 % of net revenues**
	(in million, except percentages)					
Salaries and staff benefits	Rs. 85,932.9	Rs. 93,060.5	Rs. 7,127.6	8.3	23.4	21.9
Premises and equipment	24,102.6	28,024.2	3,921.6	16.3	6.6	6.6
Depreciation and amortization	7,427.5	8,876.9	1,449.4	19.5	2.0	2.1
Administrative and other	64,607.3	74,240.2	9,632.9	14.9	17.6	17.5
Amortization of intangibles	7.0	3.0	(4.0)	(57.1)	0.0	0.0
Total non-interest expense	**Rs. 182,077.3**	**Rs. 204,204.8**	**Rs. 22,127.5**	**12.2**	**49.6**	**48.1**

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Total non-interest expense increased by 12.2% from Rs.182.1 billion in fiscal 2016 to Rs.204.2 billion in fiscal 2017. As of March 31, 2017, we had 4,715 branches and 12,260 ATMs across 2,657 locations, which increased from 4,520 branches and 12,000 ATMs across 2,587 locations as of March 31, 2016. This along with the growth in our loan portfolio resulted in higher infrastructure, administrative and staff expenses resulting in an overall increase in our non-interest expense. Our net interest revenue after allowances for credit losses increased by 15.9% from Rs.270.8 billion in fiscal 2016 to Rs.313.8 billion in fiscal 2017. As a result, our non-interest expense as a percentage of our net revenues was 48.1% in fiscal 2017 as compared to 49.6% in fiscal 2016.

Salaries and staff benefits increased by 8.3% from Rs.85.9 billion in fiscal 2016 to Rs.93.1 billion in fiscal 2017. This increase was primarily attributable to annual wage revisions.

Premises and equipment costs increased by 16.3% from Rs.24.1 billion in fiscal 2016 to Rs.28.0 billion in fiscal 2017 on account of an increase in rent, electricity, security, equipment maintenance and other infrastructure costs relating to the expanded branch network. Depreciation and amortization expenses increased from Rs.7.4 billion in fiscal 2016 to Rs.8.9 billion in fiscal 2017.

Administrative and other expenses increased by 14.9% from Rs.64.6 billion in fiscal 2016 to Rs.74.2 billion in fiscal 2017 primarily on account of higher operating expenses for our cards and transactional banking businesses, insurance and printing and stationery expenses. We continued to amortize the intangible assets (i.e., favorable leases) that were acquired on the merger of CBoP over their estimated remaining useful life. This amortization resulted in a charge of Rs.3.0 million in fiscal 2017.

Income Tax

Our income tax expense, net of interest earned on income tax refunds, increased by 17.3%, from Rs.67.5 billion in fiscal 2016 to Rs.79.2 billion in fiscal 2017. Our effective tax rate was 36.4% in fiscal 2016 and 36.0% in fiscal 2017. The effective tax rate was lower in fiscal 2017 primarily on account of lower stock-based compensation in fiscal 2017 as compared to in fiscal 2016.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2016 and 2017:

	Year ended March 31,	
	2016	**2017**
Effective statutory income tax rate	34.61%	34.61%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	2.35	1.29
Income exempt from taxes	(0.61)	(0.45)
Effect of change in statutory tax rate	(0.15)	
Other, net	0.20	0.57
Annual effective income tax rate	36.40%	36.02%

Net Income

As a result of the foregoing factors, our net income after taxes increased by 19.2% from Rs.117.9 billion in fiscal 2016 to Rs.140.5 billion in fiscal 2017.

Liquidity and Capital Resources

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

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

	Year ended March 31,		
	2016	**2017**	**2018**
		(in million)	
Cash Flows from Operating Activities:			
Net income before non-controlling interest	Rs. 118,049.9	Rs. 140,740.6	Rs. 178,833.9
Non-cash adjustments to net income	43,091.7	51,339.4	69,065.3
Net change in other assets and liabilities	8,931.6	187,192.2	(153,625.0)
Net cash provided by operating activities	**Rs. 170,073.2**	**Rs. 379,272.2**	**Rs. 94,274.2**
Cash Flows from Investing Activities:			
Net change in term placements	21,089.7	17,830.3	(8,806.4)
Net change in investments	(367,840.3)	(202,859.4)	(149,589.6)
Net change in repurchase and resell agreements	256,632.7	(355,040.1)	(462,018.6)
Loans purchased net of repayments	(77,455.5)	(68,686.5)	21,777.2
Increase in loans originated, net of principal collections	(967,395.6)	(956,914.2)	(1,440,601.9)
Net additions to property and equipment	(9,871.9)	(12,534.2)	(9,086.4)
Net cash used in investing activities	**Rs. (1,144,840.9)**	**Rs. (1,578,204.1)**	**Rs. (2,048,325.7)**
Cash Flows from Financing Activities:			
Net increase in deposits	930,935.7	979,662.7	1,447,097.0
Net increase in short-term borrowings	39,370.5	68,703.2	456,558.6
Proceeds from issuance of shares by subsidiaries to non-controlling interest	33.9	301.9	366.5
Net increase in long-term debt	49,729.8	211,974.6	200,366.9
Proceeds from issuance of equity shares for options exercised	12,229.0	22,615.1	27,259.1
Proceeds from issuance of equity shares			
Payment of dividends and dividend tax	(24,367.9)	(29,280.9)	(34,490.3)
			(143.3)

Purchase of subsidiary shares from noncontrolling interest			
Net cash provided by financing activities	**Rs. 1,007,931.0**	**Rs. 1,253,976.6**	**Rs. 2,097,014.5**
Effect of exchange rate changes on cash and cash equivalents	3,384.1	(2,007.8)	479.4
Net change in cash and cash equivalents	**36,547.4**	**53,036.9**	**143,442.4**
Cash and cash equivalents, beginning of year	341,124.3	377,671.7	430,708.6
Cash and cash equivalents, end of year	**Rs. 377,671.7**	**Rs. 430,708.6**	**Rs. 574,151.0**

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Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Cash Flows from Operating Activities

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges (such as depreciation and amortization), as well as changes in other assets and liabilities. Our net cash provided by operating activities decreased from Rs.379.3 billion in fiscal 2017 to Rs.94.3 billion in fiscal 2018, mainly due to lower cash flows in fiscal 2018 as compared to fiscal 2017. This was largely a result of a decrease in our bills payable and remittances in transit and an increase in our investments held for trading, partially offset by an increase in our net income.

Cash Flows from Investing Activities

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. Loans originated and purchased, net of principal collections and repayments, increased from Rs.1,025.6 billion in fiscal 2017 to Rs.1,418.8 billion in fiscal 2018, largely on account of an increase in both retail and wholesale loan portfolios. The increase in investments in fiscal 2018 was Rs.149.6 billion, primarily on account of an increase in available-for-sale Government of India securities, partially offset by a decrease in our investments in credit substitutes and other debt securities.

Cash Flows from Financing Activities

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 22.6% from Rs.6,431.3 billion in fiscal 2017 to Rs.7,883.8 billion in fiscal 2018. There was a 33.3% increase in our time deposits from Rs.3,341.9 billion in fiscal 2017 to Rs.4,455.7 billion in fiscal 2018. Of the US $ 3.4 billion FCNR deposits, raised in fiscal 2014 under the RBI swap window, US $ 3.03 billion were redeemed up to March 2018. Savings account deposits increased by 15.6% from Rs.1,935.8 billion as of March 31, 2017 to Rs.2,238.0 billion as of March 31, 2018. Our non-interest-bearing current account deposits increased by 3.2% from Rs.1,153.7 billion as of March 31, 2017 to Rs.1,190.1 billion as of March 31, 2018. Savings account deposits at Rs.2,238.0 billion and current account deposits at Rs.1,190.1 billion accounted for 43.5% of total deposits as of March 31, 2018. Our short-term borrowings increased by Rs.456.9 billion from Rs.322.3 billion in fiscal 2017 to Rs.779.2 billion in fiscal 2018. Our long-term debt increased by 27.6% from Rs.730.9 billion in fiscal 2017 to Rs.932.9 billion in fiscal 2018. During fiscal 2018, we raised debt capital instruments eligible for inclusion in Additional Tier I capital and Tier II capital under the Basel III capital regulations amounting to Rs.80.0 billion and Rs.20.0 billion, respectively. During fiscal 2018, we also raised Rs.23.0 billion by an overseas issuance of Rupee denominated bonds.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Cash Flows from Operating Activities

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges (such as depreciation and amortization), as well as changes in other assets and liabilities. Our net cash provided by operating activities increased from Rs.170.1 billion in fiscal 2016 to Rs.379.3 billion in fiscal 2017, mainly due to higher cash flows in fiscal 2017 as compared to fiscal 2016. Higher cash flows were largely a result of an increase in our net income, bills payable, remittances in transit and a decrease in our investments held for trading.

Cash Flows from Investing Activities

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. The increase in loans originated and purchased, net of principal collections and repayments was Rs.1,044.9 billion in fiscal 2016 and Rs.1,025.6 billion in fiscal 2017, largely on account of increase in both

retail and wholesale loan portfolios. The increase in investments in fiscal 2017 was Rs.202.9 billion, primarily on account of an increase in available-for-sale Government of India securities and in our investments in credit substitutes.

Cash Flows from Financing Activities

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 17.8% from Rs.5,457.9 billion in fiscal 2016 to Rs.6,431.3 billion in fiscal 2017. Savings account deposits at Rs.1,935.8 billion and current account deposits at Rs.1,153.7 billion accounted for 48% of total deposits as of March 31, 2017. There was a 7.9% increase in our time deposits from Rs.3,096.6 billion in fiscal 2016 to Rs.3,341.9 billion in fiscal 2017. Of the US $ 3.4 billion FCNR deposits, raised in fiscal 2014 under the RBI swap window, US $ 3.0 billion matured during fiscal 2017. Savings account deposits increased by 30.9% from Rs.1,478.9 billion as of March 31, 2016 to Rs.1,935.8 billion as of March 31, 2017. Our non-interest-bearing deposits increased by 30.7% from Rs.882.4 billion as of March 31, 2016 to Rs.1,153.7 billion as of March 31, 2017. Our savings account and non-interest bearing deposits also grew on account of the demonetization exercise carried out by the RBI. Our short-term borrowings increased by Rs.68.7 billion from Rs.253.6 billion in fiscal 2016 to Rs.322.3 billion in fiscal 2017. There was an increase in long-term debt from Rs.522.3 billion in fiscal 2016 to Rs.730.9 billion in fiscal 2017. During fiscal 2017, we raised long-term debt amounting to Rs.335.0 billion including the long-term debt of Rs.67.0 billion for lending to the affordable housing sector and financing infrastructure project loans.

Financial Condition

Assets

The following table sets forth the principal components of our assets as of March 31, 2017 and March 31, 2018:

	As of March 31,			
	2017	**2018**	**Increase/ (decrease)**	**% Increase/ (decrease)**
	(in million except percentages)			
Cash and cash equivalents	Rs. 430,708.6	Rs. 574,151.0	Rs. 143,442.4	33.3
Term placements	131,069.5	139,875.9	8,806.4	6.7
Investments held for trading	35,363.7	167,513.9	132,150.2	373.7
Investments available for sale	2,111,385.6	2,222,711.0	111,325.4	5.3
Securities purchased under agreements to resell	50,000.0	650,018.6	600,018.6	1,200.0
Loans, net	5,910,412.8	7,263,671.8	1,353,259.0	22.9
Accrued interest receivable	67,356.6	77,894.7	10,538.1	15.6
Property and equipment	38,969.3	38,968.1	(1.2)	
Intangibles	2.0	1.0	(1.0)	(50.0)
Goodwill	74,937.9	74,937.9		
Other assets	216,774.5	157,564.9	(59,209.6)	(27.3)
Total assets	**Rs. 9,066,980.5**	**Rs. 11,367,308.8**	**Rs. 2,300,328.3**	**25.4**

Our total assets increased by 25.4% from Rs.9,067.0 billion as of March 31, 2017 to Rs.11,367.3 billion as of March 31, 2018.

Our cash and cash equivalents increased from Rs.430.7 billion as of March 31, 2017 to Rs.574.2 billion as of March 31, 2018, primarily on account of net cash provided by our operating and financing activities, partially offset by net cash used in our investing activities. Cash and cash equivalents comprise of cash, balances due from banks and deposits that have original maturities of 90 days or less. We are also required to maintain cash

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balances with the RBI to meet our cash reserve ratio requirement. Banks in India, including us, are required to maintain a specific percentage of our demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system.

Term placements consist of placements with banks and financial institutions in the ordinary course of business. These have original maturities for periods ranging between three months and fifteen years. Term placements increased primarily on account of increase in our placements with central government bodies. Placements with central government bodies are made to comply with the extant RBI guidelines on shortfalls in priority sector lending sub-limits and account for 95.5% of term placements as of March 31, 2018.

Securities held under the trading portfolio are for trading purposes and are generally sold within 90 days from purchase. Investments held for trading increased by 373.7% from Rs.35.4 billion as of March 31, 2017 to Rs.167.5 billion as of March 31, 2018 primarily on account of the increase in our investments in mutual fund units and corporate bonds.

Investments available for sale increased by 5.3% primarily on account of an increase in our Government securities, partially offset by a decrease in our investments in commercial papers.

Net loans increased primarily on account of an increase in our retail loan portfolio. Our gross retail loan portfolio increased by 28.8% from Rs.4,049.0 billion as of March 31, 2017 to Rs.5,213.4 billion as of March 31, 2018. The growth in retail loans was across product segments. Our gross wholesale loan book increased by 11.5% from Rs.1,940.0 billion as of March 31, 2017 to Rs.2,162.8 billion as of March 31, 2018.

Accrued interest receivable increased by 15.6% from Rs.67.4 billion as at March 31, 2017 to Rs.77.9 billion as of March 31, 2018, primarily on account of an increase in our loans and investment securities.

Our property and equipment decreased by Rs.1.2 million. We added 195 branches and 260 ATMs in fiscal 2017 and 72 branches and 375 ATMs in fiscal 2018.

We acquired a branch network representing contractual and non-contractual customer relationships, customer lists, core deposits and favorable leases as identified intangible assets on account of our acquisition of CBoP in 2008. These intangibles amounted to Rs.16.0 billion as of the date of acquisition. We have amortized these intangibles over their estimated remaining useful life, resulting in a charge of Rs.3.0 million and Rs.1.0 million in fiscals 2017 and 2018, respectively. Consequently, these intangibles were carried at an amortized value of Rs.2.0 million and Rs.1.0 million as of March 31, 2017 and March 31, 2018, respectively.

We paid a purchase consideration of Rs.102.8 billion to acquire the net assets of CBoP at a fair value of Rs.27.8 billion, thereby recognizing unidentified intangibles (goodwill) of Rs.74.9 billion during fiscal 2009. The primary purpose of the acquisition was to realize potential synergies, growth opportunities and cost savings from combining our businesses. The goodwill arising from the business combination is tested on an annual basis for impairment. The said goodwill has not been impaired as of March 31, 2018 and has been carried forward at the same value as the value at the acquisition date.

Other assets decreased by 27.3% from Rs.216.8 billion as of March 31, 2017 to Rs.157.6 billion as of March 31, 2018, primarily on account of a decrease in derivatives from Rs.139.2 billion as of March 31, 2017 to Rs.50.8 billion as of March 31, 2018. This was largely attributable to a decrease in mark-to-market gains from forward exchange contracts.

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Liabilities and Shareholders Equity

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2017 and March 31, 2018:

	As of March 31,			
	2017	2018	Increase/ (decrease)	Increase/ (decrease)
	(in million, except percentages)			%
Liabilities				
Interest bearing deposits	Rs. 5,277,644.0	Rs. 6,693,649.3	Rs. 1,416,005.3	26.8
Non-interest bearing deposits	1,153,678.9	1,190,102.2	36,423.3	3.2
Total deposits	**6,431,322.9**	**7,883,751.5**	**1,452,428.6**	**22.6**
Securities sold under repurchase agreements		138,000.0	138,000.0	*
Short-term borrowings	322,265.6	779,201.7	456,936.1	141.8
Accrued interest payable	44,487.6	65,514.4	21,026.8	47.3
Long-term debt	730,920.7	932,906.3	201,985.6	27.6
Accrued expenses and other liabilities	510,082.6	391,441.6	(118,641.0)	(23.3)
Total liabilities	**8,039,079.4**	**10,190,815.5**	**2,151,736.1**	**26.8**
Non-controlling interest in subsidiaries	1,847.5	2,329.7	482.2	26.1
HDFC Bank Limited shareholders equity	1,026,053.6	1,174,163.6	148,110.0	14.4
Total liabilities and shareholders equity	**Rs. 9,066,980.5**	**Rs. 11,367,308.8**	**Rs. 2,300,328.3**	**25.4**

* Not meaningful

Our total liabilities increased by 26.8% from Rs.8,039.1 billion as of March 31, 2017 to Rs.10,190.8 billion as of March 31, 2018. This increase was primarily attributable to the growth in our deposits and borrowings. The increase in our interest-bearing deposits was on account of an increase in time deposits and savings deposits. Time deposits increased by 33.3% from Rs.3,341.9 billion as of March 31, 2017 to Rs.4,455.7 billion as of March 31, 2018. We had mobilized US $3.4 billion in special FCNR deposits from NRI clients under the RBI swap window in fiscal 2014. A major portion of these deposits were issued for a 3-year tenor. These came up for redemption starting fiscal 2017 and US$ 3.03 billion of the FCNR deposits were redeemed up to March 31, 2018. Savings account deposits increased by 15.6% from Rs.1,935.8 billion as of March 31, 2017 to Rs.2,238.0 billion as of March 31, 2018. Our non-interest bearing demand deposits increased by 3.2% from Rs.1,153.7 billion as of March 31, 2017 to Rs.1,190.1 billion as of March 31, 2018. In fiscal 2017, there was a spurt in our savings account and non-interest bearing demand deposits largely attributable to the demonetization exercise carried out by the RBI, whereby the Rs.500 and Rs.1,000 denominations of bank notes ceased to be legal tender with effect from November 9, 2016.

Most of our funding requirements are met through short-term and medium-term funding sources. Of our total non-equity sources of funding, primarily comprised of deposits and borrowings, deposits accounted for 77.4%, short-term borrowings accounted for 7.6% and long-term debt accounted for 9.2% as of March 31, 2018. Our

short-term borrowings, comprised primarily of money market borrowings, increased by Rs.456.9 billion from Rs.322.3 billion as of March 31, 2017 to Rs.779.2 billion as of March 31, 2018. Our long-term debt increased by 27.6% from Rs.730.9 billion as of March 31, 2017 to Rs.932.9 billion as of March 31, 2018. During fiscal 2018, we raised debt capital instruments eligible for inclusion in Additional Tier I capital and Tier II capital under the Basel III capital regulations amounting to Rs.80.0 billion and Rs.20.0 billion respectively. During fiscal 2018 we also raised Rs.23.0 billion by an overseas issuance of Rupee denominated bonds.

Accrued interest payable increased by Rs.21.0 billion from Rs.44.5 billion as of March 31, 2017 to Rs.65.5 billion as of March 31, 2018. This increase was primarily on account of interest accrued on our long-term debt.

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Accrued expenses and other liabilities decreased by 23.3% from Rs.510.1 billion as of March 31, 2017 to Rs.391.4 billion as of March 31, 2018. This was largely attributable to a decrease in our derivatives, bills payable and remittances in transit.

Shareholders equity increased on exercise of 32,544,550 stock options by employees and an increase in our retained earnings partially offset by a decrease in our accumulated other comprehensive income (primarily on account of mark-to-market losses on available for sale securities).

Capital

We are a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on our financial position. The RBI issued detailed guidelines for implementation of Basel III capital regulations in May 2012. The minimum capital requirements under Basel III are being phased-in as per the guidelines prescribed by the RBI. Accordingly, we are required to maintain a minimum common equity tier I ratio of 7.375%, a minimum total Tier I capital ratio of 8.875% and a minimum total capital ratio of 10.875% (each including capital conservation buffer of 1.875%) as of March 31, 2018.

During fiscal 2018, the RBI identified us as a Domestic-Systemically Important Bank (D-SIB), under the bucketing structure as provided in the D-SIB framework. As an identified D-SIB, we are required to maintain additional CET-I capital of 0.15% effective April 1, 2018 and will be required to maintain additional CET-I capital of 0.20% effective April 1, 2019.

Our regulatory capital and capital adequacy ratios measured in accordance with Indian GAAP and calculated under Basel III as of March 31, 2017 and March 31, 2018 are as follows:

	As of March 31,		
	2017	**2018**	**2018**
	(in million, except percentages)		
Tier I capital	Rs. 818,293.0	Rs. 1,060,049.0	US$ 16,280.9
Tier II capital	113,026.6	125,354.7	1,925.3
Total capital	**Rs. 931,319.6**	**Rs. 1,185,403.7**	**US$ 18,206.2**
Total risk weighted assets	Rs. 6,400,299.3	Rs. 8,001,259.8	US$ 122,888.3
Capital ratios of the Bank:			
Common Equity Tier I	12.79%	12.25%	12.25%
Tier I	12.79%	13.25%	13.25%
Total capital	14.55%	14.82%	14.82%
Minimum capital ratios required by the RBI:*			
Tier I	8.25%	8.875%	8.875%
Total capital	10.25%	10.875%	10.875%

* The Tier I and Total capital ratio includes capital conservation buffer.

Capital Expenditure

Our capital expenditures consist principally of expenditures relating to our branch network expansion, as well as investments in our technology and communications infrastructure. Our capital expenditure was Rs.9.2 billion in fiscal 2018. We have current plans for capital expenditures of approximately Rs.20.2 billion in fiscal 2019. Our budgeted capital expenditure is primarily to expand our branch and ATM network, to upgrade and expand our hardware, data center, network and other systems, to add new equipment in and expand our existing premises and to relocate our branches and back-offices. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, and consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

Financial Instruments and Off-Balance Sheet Arrangements

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

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

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

We earn profit on customer transactions by way of a margin as a mark-up over the inter-bank exchange or interest rate. We earn profit on inter-bank transactions by way of a spread between the purchase rate and the sale rate. These profits are recorded as income from foreign exchange and derivative transactions. The Bank s Board of Directors imposes limits on our ability to hold overnight positions in foreign exchange and derivatives and the same are intimated to RBI. The following table presents the aggregate notional principal amounts of the Bank s outstanding forward exchange and derivative contracts as of March 31, 2018, together with the fair values on each reporting date:

	As of March 31, 2018					
	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
	(In million)					
Interest rate derivatives	Rs. 3,084,700.1	Rs. 10,618.3	Rs. 9,520.9	Rs. 1,097.4	US$ 47,376.7	US$ 16.9
Forward rate agreements	2,073.1	2.5	2.6	(0.1)	31.8	
Currency options	234,613.3	1,863.1	2,361.6	(498.5)	3,603.3	(7.7)
Currency swaps	161,301.3	4,929.0	4,882.5	46.5	2,477.4	0.7
Forward exchange contracts	4,344,675.7	33,423.3	39,357.1	(5,933.8)	66,728.2	(91.1)

Total	**Rs. 7,827,363.5**	**Rs. 50,836.2**	**Rs. 56,124.7**	**Rs. (5,288.5)**	**US$ 120,217.4**	**US$ (81.2)**

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

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Guarantees and Documentary Credits

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

	As of March 31,		
	2017	**2018**	**2018**
		(In million)	
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs. 202,430.1	Rs. 237,417.3	US$ 3,646.4
Performance guarantees	166,964.2	214,088.3	3,288.1
Documentary credits	359,613.7	395,452.7	6,073.6
Total	**Rs. 729,008.0**	**Rs. 846,958.3**	**US$ 13,008.1**

Guarantees and documentary credits outstanding increased by 16.2% to Rs.847.0 billion as of March 31, 2018 from Rs.729.0 billion as of March 31, 2017, principally due to growth in our trade finance business.

Undrawn commitments

The Bank has outstanding undrawn commitments to provide loans and financing to customers. These loan commitments aggregated to Rs.419.0 billion and Rs.452.0 billion (US$ 6.9 billion) as of March 31, 2017 and March 31, 2018, respectively. Among other things, the making of a loan is subject to a review of the creditworthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. Further, the Bank has unconditional cancellable commitments aggregating to Rs.2,159.0 billion and Rs.2,738.5 billion (US$ 42.1 billion) as of March 31, 2017 and March 31, 2018, respectively. See also note 24 to our consolidated financial statements included elsewhere in this report.

Contractual Obligations and Commercial Commitments

The table below summarizes our principal contractual obligations as of March 31, 2018:

Contractual Obligations

	Payments due by period, as of March 31, 2018				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
			(in million)		
Subordinated debt[(a)]	Rs. 151,063.5	Rs. 12,999.6	Rs.	Rs. 6,000.0	Rs. 132,063.9

Other long-term debt	701,845.5	159,123.2	322,809.0	70,169.7	149,743.6
Operating leases[b]	79,346.3	10,124.2	18,174.9	14,791.5	36,255.7
Short-term borrowings	779,201.7	779,201.7			
Securities sold under repurchase agreements	138,000.0	138,000.0			
Unconditional purchase obligations[c]	5,196.7	5,196.7			
Total	**Rs. 1,854,653.7**	**Rs. 1,104,645.4**	**Rs. 340,983.9**	**Rs. 90,961.2**	**Rs. 318,063.2**

(a) Scheduled maturities of subordinated debt do not include perpetual bonds of Rs.79,997.3 million (net of debt issuance cost).

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(b) Operating leases are principally for the lease of office, branch and ATM premises, residential premises for executives and office equipments.
(c) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2018. See *Note 27 Commitments and contingencies* of our consolidated financial statements.

Commercial Commitments

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

We have recognized a liability of Rs.2.8 billion as of March 31, 2018, in accordance with FASB ASC 460-10 in respect of guarantees issued or modified. Based on historical trends, in accordance with FASB ASC 450, we have recognized a liability of Rs.2.5 billion as of March 31, 2018.

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

The residual maturities of the above commitments as of March 31, 2018 are set forth in the following table:

	Amount of commitment expiration per period, as of March 31, 2018				
	Total amounts Committed*	**Up to 1 year**	**1-3 years (in million)**	**3-5 years**	**Over 5 years**
Documentary credits	Rs. 395,452.7	Rs. 374,805.5	Rs. 20,132.7	Rs. 446.7	Rs. 67.8
Guarantees	451,505.6	310,257.4	109,916.6	18,781.5	12,550.1
Forward exchange and derivative contracts	7,827,363.5	5,874,226.3	886,716.4	891,452.5	174,968.3
Total	**Rs. 8,674,321.8**	**Rs. 6,559,289.2**	**Rs. 1,016,765.7**	**Rs. 910,680.7**	**Rs. 187,586.2**

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

Extent of dependence on single customer exposures

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

or 20.0%, respectively, if it is on account of funds on-lent by the NBFC or NBFC-AFC to the infrastructure sector.
Our exposure to infrastructure finance companies (IFC) should not exceed 15.0% of our capital funds. However, this may be exceeded by an additional 5% (i.e. up to 20%) if the same is on account of funds on-lent by the IFC to the infrastructure sector.

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Our exposures to our ten largest borrowers as of March 31, 2018, computed as per RBI guidelines, based on the higher of the outstanding balances of or limits on, funded and non-funded exposures as per Indian GAAP were as follows. None of these exposures were impaired as of March 31, 2018:

	March 31, 2018				
	Borrower Industry	Funded Exposure	Non-Funded Exposure	Total Exposure	Total Exposure
		(in million)			
Borrower 1	Coal & Petroleum Products	Rs. 11,615.0	Rs. 79,373.2	Rs. 90,988.2	US$ 1,397.5
Borrower 2	NBFC / Financial Intermediaries	80,006.2	87.1	80,093.3	1,230.1
Borrower 3	Coal & Petroleum Products	27,567.3	48,406.0	75,973.3	1,166.8
Borrower 4	Telecom	59,631.9	13,790.6	73,422.5	1,127.7
Borrower 5	NBFC / Financial Intermediaries	70,012.7		70,012.7	1,075.3
Borrower 6	Iron and Steel	34,673.6	22,396.4	57,070.0	876.5
Borrower 7	Non-ferrous Metals	13,054.6	43,324.0	56,378.6	865.9
Borrower 8	Engineering	6,001.5	48,749.4	54,750.9	840.9
Borrower 9	Power	44,367.1	3,300.0	47,667.1	732.1
Borrower 10	NBFC / Financial Intermediaries	45,000.0		45,000.0	691.1

Of the total exposure to these ten borrowers, approximately 51% was secured by collateral. As of March 31, 2018, of our exposure to our ten largest borrowers, exposure to 5 borrowers was equal to or more than 5% of our capital funds and was mainly comprised of large credit facilities to these borrowers.

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

Cross border exposures

The RBI requires banks in India to implement RBI prescribed guidelines on country risk management in respect of those countries where a bank has net funded exposure in excess of a prescribed percentage of its total assets. In the normal course of business, we have both direct and indirect exposure to risks related to counter parties and entities in foreign countries. We monitor such cross-border exposures on an ongoing basis. As of March 31, 2018, our aggregate country risk exposure was 3% of our total assets and our net funded exposure to any other country did not exceed 1% of our total assets.

Cyber Security

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

data or our customer information or to extort money.

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

Phishing: We identify phishing sites and trojans targeting our customers and then shut down such sites. Forensic information such as customers details which may have been compromised are retrieved from

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such sites and acted upon. We have implemented Secure Access which provides an additional layer of security in addition to the customer identification (id) and password requirement for internet banking transactions. This system evaluates every transaction based on our risk model and helps us to determine whether the incumbent transaction is genuine or suspicious. Should the transaction be deemed suspicious, the system has the option of either declining the transaction or asking for additional authentication. As a practice, we send awareness mails to our customers educating them about phishing and the measures that they need to take to protect themselves from falling prey to it.

Hacking and Data Theft: We have implemented firewalls and intrusion prevention system at the perimeter of our network to block any attempts made to hack or intrude into our network. Our 24 by 7 security operations center analyzes logs of its perimeter defenses to identify any attempts made to intrude into our network. We have an incident management process to ensure that in the event of any incident, relevant stakeholders are made aware of what their role is in resolving the incident. We also test our internet-facing infrastructure and applications for vulnerability. Any vulnerability thus identified is remediated in a time-bound manner. We have defined baseline security standards for the technologies in use. These standards were created taking into consideration industry-best practices and are reviewed on a regular basis to counter new threat vectors and avoid obsolescence. We have also subscribed to anti- DDOS services (Distributed Denial Of Services).

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

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

Laptop Encryption: Data Encryption helps ensure that business-critical and sensitive data does not fall into the wrong hands, thereby preventing reputational damage or curtailing any monetary losses. The cost arising out of loss of data residing in a laptop is far higher than the cost of replacing the actual device. We have therefore implemented a laptop encryption tool on the Bank s laptops.

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SELECTED STATISTICAL INFORMATION

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

Average Balance Sheet

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

	Year ended March 31,								
	2016			2017			2018		
	Average balance	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense	Ave yi c
				(in millions, except percentages)					
s:									
st-earning									
equivalents[(1)]	Rs. 77,428.7	Rs. 3,339.8	4.3%	Rs. 135,626.9	Rs. 5,792.1	4.3%	Rs. 155,134.1	Rs. 6,969.3	
placements	157,896.4	9,548.0	6.0	140,172.9	7,415.0	5.3	126,380.7	6,779.0	
ments available e	1,718,127.8	136,062.4	7.9	2,062,484.8	154,618.6	7.5	2,186,886.3	158,209.2	
ments held for g	102,682.8	5,659.9	5.5	90,027.7	5,041.8	5.6	76,921.8	4,049.1	
, net:									
loans	3,023,627.7	354,229.3	11.7	3,641,118.5	418,143.7	11.5	4,629,220.5	515,334.1	1
esale loans	1,254,525.2	116,589.2	9.3	1,514,924.1	134,543.1	8.9	1,878,226.0	152,124.6	
st-earning :	Rs. 6,334,288.6	Rs. 625,428.6	9.9%	Rs. 7,584,354.9	Rs. 725,554.3	9.6%	Rs. 9,052,769.4	Rs. 843,465.3	
nterest-earning									
	247,757.0			309,118.0			346,111.0		
rty and ment	34,786.6			37,805.7			38,790.1		
assets	159,205.6			167,843.6			196,665.2		
non-interest ng assets	441,749.2			514,767.3			581,566.3		

assets	Rs. 6,776,037.8	Rs. 625,428.6	9.2%	Rs. 8,099,122.2	Rs. 725,554.3	9.0%	Rs. 9,634,335.7	Rs. 843,465.3
ities:								
st-bearing ties:								
gs account ts	Rs. 1,258,166.0	Rs. 50,336.0	4.0%	Rs. 1,598,619.0	Rs. 63,784.0	4.0%	Rs. 1,919,734.0	Rs. 72,103.0
deposits	3,043,349.1	233,428.7	7.7	3,455,253.7	244,294.3	7.1	3,929,805.4	254,614.8
term vings[(2)]	342,855.1	16,491.4	4.8	403,939.0	21,899.3	5.4	529,833.0	26,299.4
term debt	485,713.4	32,811.0	6.8	646,512.9	43,781.1	6.8	881,556.7	67,297.5
st-bearing ties	Rs. 5,130,083.6	Rs. 333,067.1	6.5%	Rs. 6,104,324.6	Rs. 373,758.7	6.1%	Rs. 7,260,929.1	Rs. 420,314.7
nterest-bearing ties:								
nterest-bearing ts	620,340.4			784,108.7			946,157.4	
liabilities	204,844.7			267,138.6			346,209.3	
nterest-bearing ties	825,185.1			1,051,247.3			1,292,366.7	
liabilities	Rs. 5,955,268.7	Rs. 333,067.1	5.6%	Rs. 7,155,571.9	Rs. 373,758.7	5.2%	Rs. 8,553,295.8	Rs. 420,314.7
shareholders	820,769.1			943,550.3			1,081,039.9	
liabilities and holders equity	Rs. 6,776,037.8	Rs. 333,067.1	4.9%	Rs. 8,099,122.2	Rs. 373,758.7	4.6%	Rs. 9,634,335.7	Rs. 420,314.7

(1) Includes securities purchased under agreements to resell.

(2) Includes securities sold under repurchase agreements.

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Analysis of Changes in Interest Revenue and Interest Expense

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

	Fiscal 2017 vs. Fiscal 2016 Increase (decrease)[1] due to			Fiscal 2018 vs. Fiscal 2017 Increase (decrease)[1] due to		
	Net change	Change in Average balance	Change in average rate	Net change	Change in Average balance	Change in average rate
	(in millions)					
Interest revenue:						
Cash equivalents	Rs. 2,452.3	Rs. 2,510.3	Rs. (58.0)	Rs. 1,177.2	Rs. 833.1	Rs. 344.1
Term placements	(2,133.0)	(1,071.7)	(1,061.3)	(636.0)	(729.6)	93.6
Investments available for sale	18,556.2	27,564.1	(9,007.9)	3,590.6	9,419.6	(5,829.0)
Investments held for trading	(618.1)	(697.6)	79.5	(992.7)	(734.0)	(258.7)
Loans, net:						
Retail loans	63,914.4	72,341.4	(8,427.0)	97,190.4	113,473.0	(16,282.6)
Wholesale loans	17,953.9	24,200.2	(6,246.3)	17,581.5	32,265.5	(14,684.0)
Total interest-earning assets	Rs. 100,125.7	Rs. 124,846.7	Rs. (24,721.0)	Rs. 117,911.0	Rs. 154,527.6	Rs. (36,616.6)
Interest expense:						
Savings account deposits	Rs. 13,448.0	Rs. 13,448.0	Rs.	Rs. 8,319.0	Rs. 12,812.3	Rs. (4,493.3)
Time deposits	10,865.6	31,593.6	(20,728.0)	10,320.5	33,551.9	(23,231.4)
Short-term borrowings	5,407.9	2,938.1	2,469.8	4,400.1	6,825.3	(2,425.2)
Long-term debt	10,970.1	10,862.4	107.7	23,516.4	15,916.9	7,599.5
Total interest-bearing liabilities	Rs. 40,691.6	Rs. 58,842.1	Rs. (18,150.5)	Rs. 46,556.0	Rs. 69,106.4	Rs. (22,550.4)
Net interest revenue	Rs. 59,434.1	Rs. 66,004.6	Rs. (6,570.5)	Rs. 71,355.0	Rs. 85,421.2	Rs. (14,066.2)

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

Yields, Spreads and Margins

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

	Year ended March 31,		
	2016	**2017**	**2018**
	(in millions, except percentages)		
Interest revenue	Rs. 625,428.6	Rs. 725,554.3	Rs. 843,465.3
Average interest-earning assets	6,334,288.6	7,584,354.9	9,052,769.4
Interest expense	333,067.1	373,758.7	420,314.7
Average interest-bearing liabilities	5,130,083.6	6,104,324.6	7,260,929.1
Average total assets	6,776,037.8	8,099,122.2	9,634,335.7
Average interest-earning assets as a percentage of average total assets	93.5%	93.6%	94.0%
Average interest-bearing liabilities as a percentage of average total assets	75.7%	75.4%	75.4%
Average interest-earning assets as a percentage of average interest-bearing liabilities	123.5%	124.2%	124.7%
Yield	9.9%	9.6%	9.3%
Cost of funds(1)	5.6%	5.2%	4.9%
Spread(2)	4.1%	4.1%	4.2%
Net interest margin(3)	4.6%	4.6%	4.7%

(1) Excludes total shareholders equity.

(2) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. The yield on average interest-earning assets is the ratio of interest revenue to

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average interest-earning assets. The cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts.

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

Return on Equity and Assets

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

	Year ended March 31,		
	2016	**2017**	**2018**
	(in millions, except percentages)		
Net income	Rs. 117,915.3	Rs. 140,529.8	Rs. 178,514.9
Average total assets	6,776,037.8	8,099,122.2	9,634,335.7
Average total shareholders equity	820,769.1	943,550.3	1,081,039.9
Net income as a percentage of average total assets	1.7%	1.7%	1.9%
Net income as a percentage of average total shareholders equity	14.4%	14.9%	16.5%
Average total shareholders equity as a percentage of average total assets	12.1%	11.7%	11.2%
Dividend payout-ratio	20.4%	20.1%	18.9%

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Investment Portfolio

Available for Sale Investments

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

At March 31,								
2016			2017				2	
Gross realized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain
			(in millions)					
15,978.2	Rs. 168.0	Rs. 1,551,828.1	Rs. 1,619,137.6	Rs. 40,733.3	Rs. 2,811.3	Rs. 1,657,059.6	Rs. 1,872,187.9	Rs. 11,519.
							4,223.8	
335.8	235.4	305,797.0	429,973.5	1,041.4	749.9	430,265.0	333,385.3	495.
16,314.0	Rs. 403.4	Rs. 1,857,625.1	Rs. 2,049,111.1	Rs. 41,774.7	Rs. 3,561.2	Rs. 2,087,324.6	Rs. 2,209,797.0	Rs. 12,014.
653.7	430.8	21,059.3	23,648.3	861.5	448.8	24,061.0	20,041.9	478.
16,967.7	Rs. 834.2	Rs. 1,878,684.4	Rs. 2,072,759.4	Rs. 42,636.2	Rs. 4,010.0	Rs. 2,111,385.6	Rs. 2,229,838.9	Rs. 12,493.

(1) Excludes asset and mortgage-backed securities.
(2) Includes asset and mortgage-backed securities.

Held for Trading Investments

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

At March 31,										
2016				2017				2018		
Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss
				(in millions)						
Rs. 56,954.3	Rs. 41.9	Rs.	Rs. 56,996.2	Rs. 18,230.8	Rs. 38.5	Rs. 1.5	Rs. 18,267.8	Rs. 25,962.2	Rs. 19.0	Rs. 8.0
14,749.1	115.6		14,864.7	17,106.4	5.1	15.6	17,095.9	49,982.3	62.8	0.4
Rs. 71,703.4	Rs. 157.5	Rs.	Rs. 71,860.9	Rs. 35,337.2	Rs. 43.6	Rs. 17.1	Rs. 35,363.7	Rs. 75,944.5	Rs. 81.8	Rs. 8.4

																	91,488.6		7.4		
Rs.	71,703.4	Rs.	157.5	Rs.		Rs.	71,860.9	Rs.	35,337.2	Rs.	43.6	Rs.	17.1	Rs.	35,363.7	Rs.	167,433.1	Rs.	89.2	Rs.	8.4

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Residual Maturity Profile

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

	At March 31, 2018							
	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(in millions, except percentages)							
Government securities	Rs. 469,492.0	6.2%	Rs. 323,766.7	7.1%	Rs. 734,494.2	7.4%	Rs. 338,381.2	7.7%
Government securities outside India	4,217.0	1.2						
Other debt securities	83,665.5	7.4	228,310.7	7.9	19,774.5	8.4	448.0	8.1
Total debt securities, fair value	Rs. 557,374.5	6.4%	Rs. 552,077.4	7.4%	Rs. 754,268.7	7.4%	Rs. 338,829.2	7.7%
Total amortized cost	Rs. 557,314.1		Rs. 548,402.5		Rs. 762,418.9		Rs. 341,661.5	

Funding

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 79% and 74% of total deposits, as of March 31, 2017 and March 31, 2018, respectively. Wholesale banking deposits represented 21% and 26% of total deposits, as of March 31, 2017 and March 31, 2018, respectively.

Total Deposits

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of the daily balance for the relevant period) of savings deposits was 4.0% in fiscal 2016, 4.0% in fiscal 2017 and 3.8% in fiscal 2018. The average cost of time deposits was 7.7% in fiscal 2016, 7.1% in fiscal 2017 and 6.5% in fiscal 2018. The average deposits for the periods set forth are as follows:

	Year ended March 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
Current deposits	Rs. 620,340.4	12.6%	Rs. 784,108.7	13.4%	Rs. 946,157.4	14.0%
Savings deposits	1,258,166.0	25.6	1,598,619.0	27.4	1,919,734.0	28.2
Time deposits	3,043,349.1	61.8	3,455,253.7	59.2	3,929,805.4	57.8
Total	Rs. 4,921,855.5	100.0%	Rs. 5,837,981.4	100.0%	Rs. 6,795,696.8	100.0%

As of March 31, 2018, individual time deposits in excess of Rs.0.1 million had a balance to maturity profile as follows:

	At March 31, 2018			
	Up to three months	Three to six months	Six to twelve months	More than one year
	(in millions)			
Balance to maturity for time deposits exceeding Rs.0.1 million each	Rs. 1,285,778.3	Rs. 967,785.5	Rs. 1,513,940.8	Rs. 514,521.4

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Short-term Borrowings

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

	Years ended March 31,		
	2016	2017	2018
	(in millions, except percentages)		
Period end	Rs. 559,622.4	Rs. 322,265.6	Rs. 917,201.7
Average balance during the period	Rs. 342,855.1	Rs. 403,939.0	Rs. 529,833.0
Maximum outstanding	Rs. 613,882.4	Rs. 696,832.3	Rs. 917,619.6
Average interest rate during the period[(1)]	4.8%	5.4%	5.0%
Average interest rate at period end[(2)]	5.2%	3.4%	5.1%

(1) Represents the ratio of interest expense on short-term borrowings to the average of daily balances of short-term borrowings.
(2) Represents the weighted average rate of short-term borrowings outstanding as of March 31, 2016, 2017 and 2018.

Subordinated Debt

We also obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier I or Tier II risk-based capital under the RBI s guidelines for assessing capital adequacy. Subordinated debt (Lower Tier II capital), Upper Tier II capital and Innovative Perpetual Debt Instruments outstanding as of March 31, 2018 were Rs.124.27 billion (previous year: Rs.121.22 billion), Rs.26.80 billion (previous year: Rs.27.80 billion), and Rs.80.00 billion (previous year: nil), respectively. The breakup of the same is shown hereunder:

Type	Currency	Year of issue	Year of maturity	Average tenor (years)	Interest rate (%)	Year of call	Step-up rate (%)	Face value (Rupees in billions)
Lower Tier II	INR	2008-09	2018-19	10.0	10.70			11.50
Lower Tier II	INR	2008-09	2018-19	10.0	9.75			1.50
Lower Tier II	INR	2011-12	2026-27	15.0	9.48	2021-22		36.50
Lower Tier II	INR	2012-13	2027-28	15.2	9.45	2022-23		34.77
Lower Tier II	INR	2017-18	2027-28	10.0	7.56			20.00
Lower Tier II	INR	2017-18	2027-28	10.0	8.42			1.50
Lower Tier II	INR	2017-18	2027-28	10.0	8.45			1.30
Lower Tier II	INR	2016-17	2026-27	10.0	8.79			2.20
Lower Tier II	INR	2016-17	2026-27	10.0	8.05			1.70
Lower Tier II	INR	2014-15	2024-25	10.0	9.55			2.00
Lower Tier II	INR	2014-15	2024-25	10.0	9.55			1.00
Lower Tier II	INR	2014-15	2024-25	10.0	9.70			2.00

Lower Tier II	INR	2013-14	2023-24	10.0	10.19			0.80
Lower Tier II	INR	2013-14	2023-24	10.0	10.05			0.50
Lower Tier II	INR	2013-14	2023-24	10.0	10.20			1.00
Lower Tier II	INR	2012-13	2022-23	10.0	9.60			2.00
Lower Tier II	INR	2012-13	2022-23	10.0	9.70			1.50
Lower Tier II	INR	2012-13	2022-23	10.0	10.20			2.50
Upper Tier II	INR	2008-09	2023-24	15.0	10.85	2018-19	11.35	5.78
Upper Tier II	INR	2008-09	2023-24	15.0	9.95	2018-19	10.45	2.00
Upper Tier II	INR	2008-09	2023-24	15.0	9.85	2018-19	10.35	7.97
Upper Tier II	INR	2010-11	2025-26	15.0	8.70	2020-21	9.20	11.05
Perpetual Bond	INR	2017-18			8.85	2022-23		80.00

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We have a right to redeem certain of the issuances as noted above under year of call . If not called, the interest rate on some of the debt instruments increases to the step-up rate.

Asset Liability Gap

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

	As of March 31, 2018[1]							
	0-28 days	29-90 days	91-180 days	6-12 months	Total within one year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	(in millions, except percentages)							
	290,960.5	28,761.0	29,027.8	44,628.1	393,377.4	120,516.9	6,013.0	54,243.7
	545.0	1,424.9	18,066.2	15,509.0	35,545.1	42,620.3	40,418.4	21,292.1
d	121,730.7	45,783.2			167,513.9			
	617,946.1	136,431.5	169,222.6	240,940.1	1,164,540.3	696,711.1	101,677.1	259,782.5
r	650,018.6				650,018.6			
	565,774.3	659,000.0	671,619.4	796,809.8	2,693,203.5	3,265,781.8	744,812.0	559,874.5
t	42,162.9	22,893.1	9,297.9	3,027.7	77,381.6	449.9	63.1	0.1
	421.4	2,099.6			2,521.0	120,757.8		
	2,289,559.5	896,393.3	897,233.9	1,100,914.7	5,184,101.4	4,246,837.8	892,983.6	895,192.9
	748,325.6	725,128.1	739,628.8	1,115,025.6	3,328,108.1	3,102,545.4	147,335.3	1,305,762.7
	214,329.9	201,564.8	328,385.7	243,804.3	988,084.7	331,175.0	208,871.2	183,977.1
e	138,000.0				138,000.0			
	262,946.5	33,109.9	3,241.4	3,322.4	302,620.2	154,315.6	20.2	
	1,363,602.0	959,802.8	1,071,255.9	1,362,152.3	4,756,813.0	3,588,036.0	356,226.7	1,489,739.8
	925,957.5	(63,409.5)	(174,022.0)	(261,237.6)	427,288.4	658,801.8	536,756.9	(594,546.9)
	925,957.5	862,548.0	688,526.0	427,288.4	427,288.4	1,086,090.2	1,622,847.1	1,028,300.2
	40.4%	27.1%	16.9%	8.2%	8.2%	11.5%	15.7%	9.2%
l								

(1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.
(2) Cash on hand is classified in the 0-28 days category.
(3) Cash and cash equivalents include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances as part of the applicable maturity categories on a basis proportionate to the classification of related deposits.
(4) Securities in the trading book are classified based on the expected time of realization for such investments. Units of open ended mutual funds, if any, are classified in 0-28 days category.
(5) Securities held towards satisfying the statutory liquidity requirement prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.
(6) Shares in the available-for-sale investment portfolio are classified in the over 5 years category. Units of open ended mutual funds, if any, are classified in 0-28 days category.
(7) Includes net non-performing loans which are classified in the Over 3 years to 5 years and Over 5 years categories.

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(8) Ambiguous maturity overdrafts are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such advances.
(9) Current and savings deposits are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.
(10) Time deposits under Rs.10 million are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits taking into account rollovers and premature withdrawals. The rest have been classified under various maturity categories based on the residual maturity.
(11) Includes short-term borrowings and long-term debt.
(12) Cash floats are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such floats.
(13) Other assets and other liabilities are classified under various maturity categories based on historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such other assets and other liabilities.

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

Loan Portfolio and Credit Substitutes

As of March 31, 2018, our gross loan portfolio amounted to Rs.7,376.2 billion. As of that date, our gross credit substitutes outstanding were Rs.324.0 billion. Almost all our gross loans and credit substitutes are to borrowers in India and approximately 90% are denominated in rupees. For a description of our retail and wholesale loan products, see *Business Retail Banking Retail Loans and Other Asset Products* and *Business Wholesale Banking Commercial Banking Products Commercial Loan Products and Credit Substitutes* .

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

	At March 31, (in millions)				
	2014	**2015**	**2016**	**2017**	**2018**
Retail loans	Rs. 2,188,337.7	Rs. 2,720,988.5	Rs. 3,458,565.7	Rs. 4,048,961.3	Rs. 5,213,364.6
Wholesale loans	1,039,923.6	1,222,460.6	1,534,268.7	1,939,948.4	2,162,814.4
Gross loans	Rs. 3,228,261.3	Rs. 3,943,449.1	Rs. 4,992,834.4	Rs. 5,988,909.7	Rs. 7,376,179.0
Credit substitutes (at fair value)	65,147.1	195,058.9	297,241.0	419,540.6	324,031.5
Gross loans plus credit substitutes	Rs. 3,293,408.4	Rs. 4,138,508.0	Rs. 5,290,075.4	Rs. 6,408,450.3	Rs. 7,700,210.5

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Maturity and Interest Rate Sensitivity of Loans and Credit Substitutes

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

	At March 31, 2018		
	Due in one year or less	Due in one to five years	Due after five years
		(in millions)	
Retail loans	Rs. 1,573,881.8	Rs. 3,308,893.4	Rs. 330,589.4
Wholesale loans	1,119,321.7	724,666.2	318,826.5
Gross loans	Rs. 2,693,203.5	Rs. 4,033,559.6	Rs. 649,415.9
Credit substitutes (at fair value)	77,881.9	225,927.1	20,222.5
Gross loans plus credit substitutes	Rs. 2,771,085.4	Rs. 4,259,486.7	Rs. 669,638.4

	At March 31, 2018		
	Due in one year or less	Due in one to five years	Due after five years
		(in millions)	
Interest rate classification of loans by maturity:			
Variable rates	Rs. 505,197.7	Rs. 1,741,867.6	Rs. 636,766.4
Fixed rates	2,188,005.8	2,291,692.0	12,649.5
Gross loans	Rs. 2,693,203.5	Rs. 4,033,559.6	Rs. 649,415.9
Interest rate classification of credit substitutes by maturity:			
Variable rates	Rs.	Rs.	Rs.
Fixed rates	77,881.9	225,927.1	20,222.5
Gross credit substitutes	Rs. 77,881.9	Rs. 225,927.1	Rs. 20,222.5
Interest rate classification of loans and credit substitutes by maturity:			
Variable rates	Rs. 505,197.7	Rs. 1,741,867.6	Rs. 636,766.4
Fixed rates	2,265,887.7	2,517,619.1	32,872.0
Gross loans and credit substitutes	Rs. 2,771,085.4	Rs. 4,259,486.7	Rs. 669,638.4

Concentration of Loans and Credit Substitutes

Pursuant to the guidelines of the RBI, our exposure to individual borrowers is limited to 15% of our capital funds (as defined by the RBI and calculated under Indian GAAP), and our exposure to a group of companies under the same management is limited to 40% of our capital funds. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect

of individual borrowers and up to 10% in respect of group borrowers. We may, in exceptional circumstances and with the approval of our Board of Directors, consider enhancement of exposure to a borrower by a further 5% of capital funds. See *Supervision and Regulation Credit Exposure Limits* .

The following table sets forth, for the periods indicated, our gross loans and fair value of credit substitutes outstanding by the borrower s industry or economic activity and as a percentage of our gross loans and fair value of credit substitutes (where such percentage exceeds 2.0% of the total). For the purpose of industry-wise classification of retail loans, from fiscal 2015, the end use (i.e., business purpose or personal use) is taken into consideration. Accordingly, exposures to individual and non-individual borrowers, where the credit facilities are for business purposes, are being reported under the industry relating to the activity of the borrower. Where the credit facilities are for personal use, the exposure to the individual borrower is classified under Consumer Loans. From fiscal 2017, Agriculture and allied activities is classified under Agriculture Production Food, Agriculture Production Non food, Agriculture Allied, and Animal Husbandry, respectively. Services are classified under

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Business Services, and Consumer Services, respectively, and Wholesale Trade is classified under Wholesale Trade non consumer goods (now named as Wholesale Trade Industrial), and Wholesale Trade consumer goods (now named as Wholesale Trade non industrial), respectively. Credit Card receivables and Housing Loans hitherto classified under retail loans are classified under Consumer Loans from fiscal 2017. From fiscal 2018, Agri produce trade is added by classifying certain sub segments from Wholesale Trade industrial, Wholesale Trade non industrial and Retail trade.

	At March 31,								
	2014		2015		2016		2017		2018
	(in millions, except percentages)								
oans	Rs.	%	Rs. 479,467.5	11.6%	Rs. 670,622.8	12.7%	Rs. 1,526,978.2	23.8%	Rs. 1,948,328.
	90,086.2	2.7	190,434.7	4.6	258,095.4	4.9	323,818.6	5.1	386,399.
g es	80,993.0	2.5	154,730.5	3.7	220,012.7	4.2	338,599.3	5.3	341,744.
Food							284,748.8	4.4	319,141.
& ary	150,954.5	4.6	215,063.9	5.2	210,699.3	4.0	271,963.5	4.2	312,786.
							264,554.4	4.1	311,794.
on	150,177.4	4.6	131,762.3	3.2	184,398.2	3.5	241,771.3	3.8	310,740.
& rvices			91,871.9	2.2	125,193.8	2.4	170,245.8	2.7	235,683.
erage	100,588.6	3.1	128,212.4	3.1	155,489.6	2.9	178,848.8	2.8	211,367.
rvices							161,452.2	2.5	208,815.
Non							202,350.3	3.2	199,451.
	72,469.7	2.2	112,016.5	2.7	119,207.9	2.3	145,608.7	2.3	193,978.
							237,302.7	3.7	183,081.
ance							143,236.6	2.2	171,780.
strial							170,084.4	2.7	167,357.
									164,476.
Allied							129,207.9	2.0	163,496.
							129,510.8	2.0	
and ities	155,559.1	4.7	422,894.4	10.2	550,848.4	10.4			
rade	235,811.8	7.2	314,066.2	7.6	362,316.5	6.8			

	96,580.6	2.9	230,486.5	5.6	310,019.3	5.9			
el	85,283.2	2.6	86,389.7	2.1	117,845.3	2.2			
	69,725.4	2.1							
uding									
	2,005,178.9	60.8	1,581,111.5	38.2	2,005,326.2	37.8	1,488,168.0	23.2	1,869,789.
	Rs. 3,293,408.4	100.0%	Rs. 4,138,508.0	100.0%	Rs. 5,290,075.4	100.0%	Rs. 6,408,450.3	100.0%	Rs. 7,700,210.

As of March 31, 2018, our ten largest exposures totaled approximately Rs.651.4 billion and represented 69.9% of our capital funds as per RBI guidelines. The largest group of companies under the same management control accounted for 32.9% of our capital funds as per RBI guidelines.

Directed Lending

The RBI has established guidelines requiring Indian banks to lend 40% of their adjusted net bank credit (ANBC), as computed in accordance with RBI guidelines, or the credit equivalent amount of off balance sheet exposures, whichever is higher, as of the corresponding date of the preceding year, to certain sectors called priority sectors. Priority sectors are broadly comprised of agriculture, micro enterprises and other PSL, which includes small and medium enterprises, residential mortgages, education, renewal energy and social infrastructure, among others, subject to satisfying certain criteria.

We are required to comply with the PSL requirements as of March 31 of each fiscal year, a date specified by the RBI for reporting. From fiscal 2017, the assessment of whether we have achieved the PSL requirements is made at the end of the fiscal year based on the average of priority sector target/sub-target achievement as at the end of each quarter. Accordingly, on the basis of average calculation, the bank s total PSL achievement for fiscal 2018 stood at 41.2%. However, in fiscal 2018, agricultural loans made to small and marginal farmers were 7.3% of ANBC, against the requirement of 8.0%, with a shortfall of Rs.32.7 billion, and advances to sections termed

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weaker by the RBI were 10.2% against the requirement of 10.0%. The PSL master circular mentions that Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the RIDF established with NABARD and other Funds with NABARD, NHB, SIDBI or MUDRA Ltd., as decided by the RBI from time to time.

We may be required by the RBI to deposit with the Indian Development Banks certain amounts as specified by the RBI in the coming year due to the shortfall in certain sub-categories of priority sector lending targets. As of March 31, 2018, our total investments as directed by RBI in such deposits were Rs.133.6 billion yielding returns ranging from 4% to 8.3%.

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

	As of March 31, (in millions)				
	2014	2015	2016	2017	2018
Directed lending:					
Agriculture	Rs. 324,173.2	Rs. 392,441.4	Rs. 528,672.4	Rs. 631,861.6	Rs. 735,135.0
Micro small and medium enterprises[1]	363,485.8	454,716.8	682,621.9	785,715.9	814,006.9
Other	214,786.0	221,829.8	217,302.5	223,502.7	205,145.0
Total directed lending	Rs. 902,445.0	Rs. 1,068,988.0	Rs. 1,428,596.8	Rs. 1,641,080.2	Rs. 1,754,286.9

(1) Includes medium enterprises from fiscal 2016

Non-Performing Loans

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

	As of March 31, (in millions, except percentages)				
	2014	2015	2016	2017	2018
Non-performing loans:					
Retail loans	Rs. 20,928.3	Rs. 25,835.2	Rs. 37,423.0	Rs. 52,704.0	Rs. 75,904.5
Wholesale loans	8,758.2	13,489.6	15,559.7	30,275.7	32,812.8
Gross non-performing loans	Rs. 29,686.5	Rs. 39,324.8	Rs. 52,982.7	Rs. 82,979.7	Rs. 108,717.3
Allowances for credit losses	Rs. 20,649.2	Rs. 24,709.0	Rs. 31,008.1	Rs. 45,730.1	Rs. 62,600.5
Unallocated allowances for credit losses	21,964.0	22,625.1	26,352.0	32,766.8	49,906.7
	9,037.3	14,615.8	21,974.6	37,249.6	46,116.8

Non-performing loans net of specific allowances for credit losses										
Gross loan assets		3,228,261.3		3,943,449.1		4,992,834.4		5,988,909.7		7,376,179.0
Net loan assets	Rs.	3,185,648.1	Rs.	3,896,115.0	Rs.	4,935,474.3	Rs.	5,910,412.8	Rs.	7,263,671.8
Gross non-performing loans as a percentage of gross loans		0.9%		1.0%		1.1%		1.4%		1.5%
Gross unsecured non-performing loans as a percentage of gross non-performing loans		15.8%		13.9%		11.1%		31.4%		27.9%
Gross unsecured non-performing loans as a percentage of gross unsecured loans.		0.7%		0.6%		0.5%		1.7%		1.5%
Non-performing loans net of specific allowances for credit losses as a percentage of net loan assets		0.3%		0.4%		0.4%		0.6%		0.6%
Specific allowances for credit losses as a percentage of gross non-performing loans		69.6%		62.8%		58.5%		55.1%		57.6%
Total allowances for credit losses as a percentage of gross non-performing loans		143.5%		120.4%		108.3%		94.6%		103.5%

Recognition of Non-Performing Loans

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

	At March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
			(in millions)		
Performing	Rs. 3,198,574.8	Rs. 3,904,124.3	Rs. 4,939,851.7	Rs. 5,905,930.0	Rs. 7,267,461.7
Non-performing or impaired:					
On accrual status	271.8	2,431.2	4,291.3		
On non-accrual status	29,414.7	36,893.6	48,691.4	82,979.7	108,717.3
Total non-performing or impaired	29,686.5	39,324.8	52,982.7	82,979.7	108,717.3
Total	Rs. 3,228,261.3	Rs. 3,943,449.1	Rs. 4,992,834.4	Rs. 5,988,909.7	Rs. 7,376,179.0

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

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

Retail

Our retail loan loss allowance consists of specific and unallocated allowances.

We establish a specific allowance on our retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally we monitor loan to value ratios for loans against securities. The loans are charged off against allowances typically when the account becomes 180 to 1,083 days past due depending on the type of loans. The defined delinquency levels at which major loan types are charged off are 180 days past due for personal loans, credit card receivables, auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when we believe 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.

We also record unallocated allowances for retail loans by product type. Our retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. We establish an unallocated allowance for loans in each product group based on our estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate unallocated allowance for retail loans based on an internal credit slippage matrix, which measures our historic losses for our 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 us and is based upon our 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.

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

We establish 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. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

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. We estimate our wholesale unallocated allowance based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

Analysis of Non-Performing Loans by Industry Sector

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

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		As of March 31,								
		2015			2016			2017		
Non orming oans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry
					(in millions, except percentages)					
	%	Rs. 5,895.8	Rs. 1,635.1	27.7%	Rs. 8,111.7	Rs. 1,727.1	21.3%	Rs. 10,165.3	Rs. 1,701.0	16.7%
								232,111.9	15,722.9	6.8
548.4	3.0	26,216.3	859.4	3.3	28,610.4	178.5	0.6	31,448.5	1,634.9	5.2
								282,673.8	4,217.1	1.5
								129,207.9	3,218.8	2.5
534.1	0.5	121,172.2	1,101.1	0.9	152,253.7	1,871.7	1.2	166,494.3	3,361.2	2.0
1,811.8	2.2	84,913.9	4,793.8	5.6	97,934.7	4,712.7	4.8	106,816.0	4,499.4	4.2
64.0	0.2	63,146.3	870.9	1.4	63,931.9	2,991.7	4.7	88,135.0	2,738.2	3.1
								202,350.3	2,854.5	1.4
								166,940.1	3,905.8	2.3
136.3	0.2	88,264.9	846.9	1.0	121,992.9	3,559.2	2.9	168,660.4	3,822.8	2.3
								24,393.9	124.7	0.5
147.9	0.2	189,593.5	1,769.0	0.9	253,373.6	2,450.3	1.0	320,876.9	3,731.5	1.2
693.5	1.5	64,183.5	801.9	1.2	92,386.0	996.0	1.1	109,393.7	1,511.8	1.4
253.8	0.9	34,481.7	372.3	1.1	69,659.9	449.8	0.6	69,339.0	789.1	1.1
5.7	0.1	6,324.2	188.1	3.0	8,482.6	291.0	3.4	10,994.0	345.4	3.1
								159,666.1	1,450.0	0.9
2,077.9	1.4	131,240.2	1,849.8	1.4	183,707.5	1,826.0	1.0	241,771.3	2,518.7	1.0
								315,497.4	5,426.8	1.7
								260,053.9	2,331.4	0.9
360.0	0.2	192,017.4	1,404.7	0.7	199,606.7	1,789.3	0.9	240,301.6	2,353.5	1.0
		479,467.5	2,392.3	0.5	670,622.8	3,818.7	0.6	1,526,978.2	10,760.3	0.7
		40,114.5	386.7	1.0	36,854.5	372.0	1.0	31,133.3	381.7	1.2
1,220.3	2.1	79,747.2	1,596.1	2.0	95,022.6	1,112.1	1.2	110,827.8	538.5	0.5

		5,235.3	19.8	0.4	6,189.0	27.1	0.4	6,898.0	78.1	1.1
504.4	3.0	45,844.4	761.2	1.7	54,165.4	534.5	1.0	57,585.4	1,183.8	2.1
		9,727.9	55.2	0.6	13,694.2	153.2	1.1	16,761.1	137.4	0.8
		41,137.6	14.0		69,477.6	54.6	0.1	108,104.6	47.4	
		8,192.3	22.7	0.3	10,785.2	55.1	0.5	18,499.9	45.6	0.2
		21,586.7	67.1	0.3	32,864.7	161.3	0.5	43,224.5	174.2	0.4
9.2	0.1	16,909.0	36.6	0.2	24,351.8	283.9	1.2	32,751.4	278.5	0.9
31.3	0.1	40,031.1	107.8	0.3	38,095.6	68.7	0.2	49,020.6	102.7	0.2
		9,579.2	80.0	0.8	9,246.2	83.7	0.9	11,819.7	87.5	0.7
		14,642.5	44.2	0.3	23,968.0	41.1	0.2	33,010.3	247.7	0.8
479.8	4.0	21,913.3	591.5	2.7	15,365.5	200.4	1.3	23,518.6	171.5	0.7
		40,153.4	74.5	0.2	46,279.5	97.3	0.2	48,513.8	119.7	0.2
		26,789.7	22.7	0.1	37,872.7	43.4	0.1	38,204.8	56.5	0.1
		3,788.7	6.1	0.2	5,117.6	19.9	0.4	7,188.8	11.4	0.2
48.6	0.1	96,169.7	103.4	0.1	103,437.7	114.5	0.1	125,213.0	94.2	0.1
		5,418.8	140.2	2.6	5,767.0	159.0	2.8	7,483.4	116.5	1.6
		2,475.7	14.8	0.6	2,096.9	6.2	0.3	2,289.8	8.9	0.4
891.4	1.5	94,744.7	981.5	1.0	130,684.6	957.5	0.7	180,220.7	76.6	
		49,186.2	1.4		69,044.6	2.3		64,778.6	1.5	
		305.6	1.7	0.6						
		19,791.3	36.8	0.2	18,583.0	37.3	0.2			
		1,068.0	0.7	0.1						
		529.5	7.6	1.4	531.1	4.4	0.8			
		21,511.5	0.4		14,494.9	13.0	0.1			
260.1	0.2	422,894.4	5,369.3	1.3	550,848.4	7,397.1	1.3			
780.5	0.3	308,806.4	3,608.2	1.2	349,927.1	4,671.8	1.3			
16.3		230,040.6	1,712.3	0.7	306,593.9	2,473.7	0.8			
86.7	0.3	69,377.7	1,436.4	2.1	47,072.1	1,057.5	2.2			

8,724.5	1.4	658,489.4	3,138.6	0.5	842,772.6	6,118.1	0.7	
39,686.5			**39,324.8**			**52,982.7**		**82,979.7**
20,649.2			24,709.0			31,008.1		45,730.1
9,037.3			**14,615.8**			**21,974.6**		**37,249.6**

As of March 31, 2018, our gross non-performing loan as a percentage of gross loans in the respective industries was the highest in glass and Glass Products, Wholesale Trade Non Industrial and Paper, Printing & Stationery.

Glass and Glass Products

Due to existing competition and government policy, despite entry barriers, there is intense competition in the glass industry as the players face pricing pressures from domestic players as well as cheap imports from China, Indonesia and Saudi Arabia. The risk of substitution from PET bottles exists in the container glass segment. Also, since soda ash and natural gas are imported and dollar traded commodities, manufacturers are exposed to forex risks. The exchange rate from Rs. to US$ has hit an all-time low of Rs.69 per US$ in May 2018, which does not bode well for importers.

Wholesale Trade Non Industrial

A consortium of banks, including us, provide credit facilities to state governments for procurement of food grains under the Targeted Public Distribution and Other Welfare Schemes of the Government of India. The credit limit for procurement of food grains is authorized by the RBI and consented to by the Ministry of Finance under Article 293 (3) of the Constitution of India. The outstanding balance of the state governments generally do not exceed the food stock and receivables at any point in time. However, in the case of a state government, there was a gap between outstanding balance and the food stock and receivables. This gap has been funded by the consortium through a term loan repayable over 20 years in equated monthly installments with credit enhancements, including a letter of comfort from the Government of India.

Paper, Printing & Stationery

Paper demand has been slowing down on a global level due to rising digitization, penetration of e-books, e-newspapers, rising smartphone penetration, online advertisement etc. However, India s paperboard demand has experienced growth of 4.5-5.5% CAGR during 2012 to 2017. Increased government and corporate spending, which also provides a thrust on education, supports the demand growth but is limited mainly to urban areas. Under the free trade agreement with South Korea and ASEAN countries, import duties on paper, paperboard and newsprint have been reduced to 0%, leading to more than 40% increase in the imports from overseas suppliers. Further, prices of most books have increased due to increased GST on printing and related articles (12%). On the raw material side, the cost of wood and agricultural residue are increasing broadly due to increased demand for wood in other segments. Increasing input cost of wood and agricultural residue along with energy cost has resulted in declined profitability of certain industry players.

Top Ten Non-Performing Loans

As of March 31, 2018, we had 255 wholesale non-performing loans outstanding. Our top ten non-performing loans represented 23.0% of our gross non-performing loans and 0.3% of our gross loan portfolio.

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The following table sets forth information regarding our ten largest non-performing loans. The table also sets forth our share of collateral value. We periodically obtain details of collateral from borrowers and external valuation reports and carry out certain procedures for updating and assessing fair values of collateral, however these procedures may not be conclusive to determine the precise net realizable values of any such collateral, which may be substantially less. None of the loans is collateral dependent (i.e. the borrower has no means of repaying the impaired loan other than the collateral). Interest payments not being serviced as of fiscal 2018 for these loans is because of specific factors which have temporarily resulted in inadequate cash flows. The fair value of the collateral and our share thereof and the present value of expected future cash flows from these loans are adequate to cover the principal outstanding net of allowances for credit losses. Our top non-performing loan is to a state government which is backed by credit enhancements including letter of comfort from the Government of India.

	At March 31, 2018					
	Industry	**Type of banking arrangement**	**Gross principal outstanding**	**Principal outstanding net of allowance for credit losses**	**Our share in Collateral value**	**Currently servicing all Interest payments**
			(in millions)			
Borrower 1	Wholesale Trade-Non Industrial	Consortium	Rs. 12,299.9	Rs. 11,119.9	Rs.	Yes
Borrower 2	Iron and Steel	Consortium	3,126.5	1,909.0	7,531.0	No
Borrower 3	Real Estate & Property Services	Multiple	2,502.7	810.7	3,209.4	No
Borrower 4	Glass & Glass Products	Consortium	1,950.2	1,191.6	5,044.0	No
Borrower 5	Food and Beverage	Multiple	1,350.3			No
Borrower 6	Infrastructure Development	Consortium	1,039.5	138.6	1,037.7	No
Borrower 7	Paper, Printing and Stationery	Multiple	810.7			No
Borrower 8	Wholesale Trade-Non Industrial	Multiple	699.5			No
Borrower 9	Paper, Printing and Stationery	Multiple	610.0			No
Borrower 10	Consumer Services	Multiple	563.2	209.4	400.1	No
			Rs. 24,952.5	Rs. 15,379.2		

Restructuring of Non-Performing Loans

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

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

	At March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
	(in millions, except percentages)				
Gross restructured loans	Rs. 3,382.3	Rs. 4,165.6	Rs. 4,245.8	Rs. 3,069.3	Rs. 3,012.9
Allowance for credit losses	2,687.4	2,056.9	2,090.2	686.4	1,561.7
Net restructured loan	Rs. 694.9	Rs. 2,108.7	Rs. 2,155.6	Rs. 2,382.9	Rs. 1,451.2

Gross restructured loans as a percentage of gross non-performing loans	11.4%	10.6%	8.0%	3.7%	2.8%
Net restructured loans as a percentage of net non-performing loans	7.7%	14.4%	9.8%	6.4%	3.1%

If there is a failure to meet payment or other terms of a restructured loan, it may be considered a failed restructuring, in which case it is no longer classified as a restructured loan. See Note 10 of the consolidated financial statements and see also *Supervision and Regulation Restructured Assets* and *Supervision and Regulation Resolution of Stressed Assets*.

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Remediation Strategy for Non-Performing Loans

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

Allowance for Credit Losses on Loans

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

	For the years ended March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
			(in millions)		
Specific allowance for credit losses at the beginning of the period	Rs. 16,466.9	Rs. 20,649.2	Rs. 24,709.0	Rs. 31,008.1	Rs. 45,730.1
Additions during the period					
Retail	16,815.3	19,615.7	24,446.1	34,723.4	50,794.5
Wholesale	2,276.1	4,248.1	2,071.6	6,561.8	4,054.2
Less allowances no longer required on account of write-offs	(14,909.1)	(19,804.0)	(20,218.6)	(26,563.2)	(37,978.3)
Specific allowance for credit losses at the end of period	Rs. 20,649.2	Rs. 24,709.0	Rs. 31,008.1	Rs. 45,730.1	Rs. 62,600.5
Unallocated allowance for credit losses at the beginning of the period	Rs. 17,227.3	Rs. 21,964.0	Rs. 22,625.1	Rs. 26,352.0	Rs. 32,766.8
Additions during the period	4,736.7	661.1	3,726.9	6,414.8	17,139.9
Unallocated allowance for credit losses at the end of the period	Rs. 21,964.0	Rs. 22,625.1	Rs. 26,352.0	Rs. 32,766.8	Rs. 49,906.7
Total allowance for credit losses at the beginning of the period	Rs. 33,694.2	Rs. 42,613.2	Rs. 47,334.1	Rs. 57,360.1	Rs. 78,496.9
Allowance no longer required on account of write-offs	(14,909.1)	(19,804.0)	(20,218.6)	(26,563.2)	(37,978.3)

Additions during the period	23,828.1	24,524.9	30,244.6	47,700.0	71,988.6
Total allowance for credit losses at the end of the period	Rs. 42,613.2	Rs. 47,334.1	Rs. 57,360.1	Rs. 78,496.9	Rs. 112,507.2

Movements in our allowances for credit losses charged to expense do not include recoveries against write-off cases amounting to Rs.9,748.6 million and Rs.12,590.8 million for fiscals 2017 and 2018, respectively. Allowances for credit losses for the periods presented have been disclosed net of recoveries.

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

	As of March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
			(in millions)		
Wholesale					
Allocated	Rs. 7,316.1	Rs. 8,083.8	Rs. 7,413.4	Rs. 11,713.5	Rs. 15,323.0
Unallocated	2,738.5	3,248.4	3,803.4	4,656.2	7,759.3
Subtotal	Rs. 10,054.6	Rs. 11,332.2	Rs. 11,216.8	Rs. 16,369.7	Rs. 23,082.3
Retail					
Allocated	13,333.1	16,625.2	23,594.7	34,016.6	47,277.5
Unallocated	19,225.5	19,376.7	22,548.6	28,110.6	42,147.4
Subtotal	Rs. 32,558.6	Rs. 36,001.9	Rs. 46,143.3	Rs. 62,127.2	Rs. 89,424.9
Allowance for credit losses	Rs. 42,613.2	Rs. 47,334.1	Rs. 57,360.1	Rs. 78,496.9	Rs. 112,507.2

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MANAGEMENT

Directors and Senior Management

Our Articles of Association (Articles) provide that, until otherwise determined by the general meeting of shareholders, the number of our directors shall not be less than 3 or more than 15, excluding any directors appointed pursuant to the terms of issued debt. Our Board of Directors consisted of 11 members as of July 27, 2018.

As per the Indian Companies Act, 2013 (the Companies Act), unless the Articles provide for the retirement of all directors at every annual general meeting, not less than two-thirds of the total number of directors shall be persons whose period of office is liable to determination by retirement of directors by rotation. However, any retiring director may be re-appointed by resolution of the shareholders. Pursuant to the Companies Act, every company shall have at least one director who has stayed in India for a total period of not less than 182 days in the previous calendar year (i.e. an Indian resident).

Under the terms of our Articles, our promoter, Housing Development Finance Corporation Limited (HDFC Limited), has a right to nominate the non-retiring directors to our Board, so long as HDFC Limited, its subsidiaries or any other company promoted by HDFC Limited, either singly or in the aggregate, holds not less than 20% of our paid-up equity share capital. The directors so nominated by HDFC Limited currently are the Chairperson and the Managing Director of the Bank.

The Banking Regulation Act and subsequent RBI notification dated November 24, 2016 requires that not less than 51% of the board members shall consist of persons who have specialized knowledge or practical experience in one or more of the following areas: accounting, finance, agriculture and rural economy, banking, co-operation, economics, law, small-scale industry, information technology, payment and settlement systems, human resources, risk management, business management and any other matter which in the opinion of the RBI will be useful to the banking company. Of these, not less than two directors shall have specialized knowledge or practical experience in respect of agriculture and the rural economy, co-operation or small-scale industry. Mr. Malay Patel is the Independent Director on the Board having specialized knowledge and practical experience in small scale industry and Mr. Umesh Chandra Sarangi is the Independent Director on the Board having specialized knowledge and practical experience in agriculture and rural economy. Mr. Srikanth Nadhamuni is the Non-Executive Director on the Board of the Bank having expertise in Information Technology.

Interested directors may not vote at board proceedings, except in relation to contracts or arrangements with a company in which that director (or two or more directors together) holds not more than 2% of the paid-up share capital.

None of our directors or members of our senior management holds 1% or more of our equity shares.

Our Board of Directors, as of July 27, 2018, comprised of:

Name	Position	Age
Mrs. Shyamala Gopinath	Part-time Non-Executive Chairperson	69
Mr. Aditya Puri	Managing Director	67
Mr. Paresh Sukthankar	Deputy Managing Director	55
Mr. Kaizad Bharucha	Executive Director	53
Mr. Bobby Parikh	Non-Executive Director	54

Mr. Malay Patel	Non-Executive Director	41
Mr. Partho Datta	Non-Executive Director	69
Mr. Keki Mistry	Non-Executive Director	63
Mr. Umesh Chandra Sarangi	Non-Executive Director	66
Mr. Srikanth Nadhamuni	Non-Executive Director	54
Mr. Sanjiv Sachar	Additional Director	60

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The following are brief biographies of our directors:

Mrs. Shyamala Gopinath is the part-time Non-Executive Chairperson of the Bank. She holds a master s degree in commerce and is a certified associate of the Indian Institute of Bankers. She has 39 years of experience in financial sector policy formulation in different capacities at the RBI. As Deputy Governor of the RBI for seven years and a member of the RBI s board of directors, she guided and influenced national policies in diverse areas such as regulation and supervision of financial sector, financial markets and capital account management. During 2001 to 2003, she worked as senior financial sector expert in the then Monetary Affairs and Exchange Department of the International Monetary Fund (Financial Institutions Division). She is an independent director in a few listed and unlisted companies including not for profit entities. She served as the Chairperson on the Advisory Board on Bank, Commercial and Financial Frauds for two years from 2012 to 2014 and the Corporate Bonds and Securitisation Advisory Committee of SEBI from August 2011 until January 2018. She currently chairs the Board of Governors of Indian Institute of Management, Raipur.

Mr. Aditya Puri is and has been the Managing Director of the Bank since September 1994. He holds a bachelor s degree in commerce from Punjab University and is an associate member of ICAI. Prior to joining the Bank, he was the chief executive officer of Citibank, Malaysia from 1992 to 1994. He has over 40 years of experience in the banking sector in India and abroad. He was named amongst the best 30 chief executive officers in the world in the Barron s list for the years 2015 and 2017. He is the Non-Executive Chairman of HDBFSL, a subsidiary of the Bank.

Mr. Paresh Sukthankar is the Deputy Managing Director of the Bank. He completed his graduation from Sydenham College, Mumbai and holds a bachelor s degree in commerce from the University of Mumbai. He has done his masters in management studies from Jamnalal Bajaj Institute (Mumbai). He has also completed the Advanced Management Program from Harvard Business School. He has been associated with the Bank since its inception. At the Bank, he has direct or supervisory oversight over various key areas of the Bank including Credit, Risk Management, Finance, Human Resources, Investor Relations, Corporate Communications, Corporate Social Responsibility and Information Security.

Mr. Kaizad Bharucha is an Executive Director of the Bank. He holds a bachelor s degree in commerce from the University of Mumbai. He has been associated with the Bank since 1995. In his current position as Executive Director, he is responsible for Wholesale Banking covering areas of Corporate Banking, Emerging Corporate Group, Business Banking, Healthcare Finance, Agricultural Lending and Department for Special Operations. In his previous position as Group Head Credit & Market Risk, he was responsible for the Risk Management activities in the Bank, which are Credit Risk, Market Risk, Debt Management, Risk Intelligence and Control functions. He is a career banker with over three decades of banking experience. Prior to joining the Bank, he worked at SBI Commercial and International Bank in various areas including Trade Finance and Corporate Banking. He has represented HDFC Bank as a member of the working group constituted by the RBI to examine the role of Credit Information Bureau and on the