RAM

CREDIT RATING RATIONALE

July 2013

HDFC BANK

- Financial Institution Ratings

RAM Ratings (Lanka) Ltd
P B - 1636

No. 11, Melbourne Avenue,
Colombo 4
Sri Lanka

T +9411 2553089
F +9411 2553090
E ram@ram.com.lk
www.ram.com.lk

RAM RATINGS

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FINANCIAL INSTITUTION RATINGS

July 2013

Analysts:
Kuleesha Gamage
ACMA, BBA (Hons)
(9411) 2503551
kuleesha@ram.com.lk

Senila Jawfer
ACMA
(9411) 2553089
senila@ram.com.my

Principal Activities:
Provision of housing loans

Ratings:
Long-term: BBB [Assigned]
Short-term: P3 [Assigned]

Rating Outlook:
Stable

Housing Development Finance Corporation Bank – Initial Rating

Summary

RAM Ratings Lanka has assigned respective long- and short-term financial institution ratings of BBB and P3 to Housing Development Finance Corporation Bank ("HDFC" or "the Bank"). The long-term rating carries a stable outlook. The ratings are upheld by the state's majority ownership of the Bank and the ongoing support of the government of Sri Lanka ("GOSL") as well as a good capital cushioning level. On the other hand, the ratings are tempered by HDFC's below-average asset quality and performance and its small stature.

HDFC is a licensed specialised bank ("LSB") under the Housing Development Finance Corporation Act (No. 7 of 1997) and falls under the purview of the Ministry of Finance and Planning. The GOSL remains its largest shareholder with a 51% stake through the National Housing Development Authority ("NHDA"). Notably, HDFC is one of only 2 LSBs authorised to provide housing loans backed by the borrower's Employee Provident Fund ("EPF") savings. The financial flexibility that the Bank derives from the state is reflected by the EPF's annual reimbursement of all dues on EPF-backed loans in arrears for over 3 months. This together with the majority shareholding of the GOSL and its vision of providing affordable housing to the masses underpins HDFC's systemic importance to the government. In view of this, we opine that state support would be forthcoming should the need arise, albeit to a lesser extent compared to larger state-owned banks which are deemed to be more systemically important.

HDFC's asset quality is deemed below average owing to high delinquency rates in respect of its mortgage-backed housing loans and the risks inherent in housing finance, due to possible delays in repossession and disposal of collateral. The Bank's overall gross non-performing loans ("NPL") ratio clocked in at 20.95% as at end-FYE 31 December 2012 ("end-FY Dec 2012"). The ratio was, however, skewed by the high default rate of EPF-backed loans, which bear minimal credit risk as all dues on loans in arrears for over 3 months are reimbursed by the EPF annually. The Bank's gross NPL ratio, excluding the latter, stood at 7.95% as at end-FY Dec 2012 (end-FY Dec 2011: 11.62%), moderating slightly to 8.14% as at end-March 2013 with new NPLs. Given its aggressive expansion plans compared to FY Dec 2012, our concerns hinge on the lack of seasonality in its loan book which may give rise to NPLs.

Meanwhile, HDFC's performance was dampened in fiscal 2012 by a weaker core performance, resulting in its pre-tax profit plunging to LKR 72.77 million from LKR 320.66 million a year earlier. While the Bank's deposits repriced faster in line with higher interest rates, it was unable to promptly revise the rates on its existing housing loans – which comprised fixed-rated, long-tenure loans – exacerbating the pressure on its margins. HDFC's net interest margin ("NIM") narrowed to 4.16% in fiscal 2012 (fiscal 2011: 5.39%) owing to the higher cost of funds that outpaced interest yields amid rising interest rates. Elsewhere, its cost to income ratio clocked in at 91.62% in fiscal 2012, higher than that of LSB peers. Nevertheless, with its intention to ramp up lending activity focusing on better-yielding products, we expect the Bank's profitability to normalise over the short to medium term; its NIM and profitability had improved in 1Q fiscal 2013.

Presently, HDFC's funding needs are largely fulfilled by more stable customer deposits, which made up 71.36% of its funding mix as at end-March 2013. The broader deposit base is reflected in the Bank's diminished LD ratio of 118.06% as at the same date, compared to 204.86% as at end-FY Dec 2009.

On the other hand, we understand that HDFC's exposure to liquidity risk is somewhat greater than that of other LSBs, given the longer tenure of housing loans that are funded by much shorter-term customer deposits; this has led to considerable ALMM in its short- and medium-term maturities.

HDFC's capitalisation is deemed good, underscored by its respective tier-1 and overall RWCARs of 21.91% and 22.58% as at end-FY Dec 2012. We acknowledge that its capital-adequacy levels are also upheld by the zero-risk weighted EPF-backed loans that made up around 50% of its entire loan portfolio.

Company Background

Majority state ownership

Established as a building society in 1984, HDFC was converted into a LSB in 2003 and subsequently listed on the Colombo Stock Exchange ("CSE") in 2005. The GOSL remains its largest shareholder with a 51% interest through the NHDA, while Lanka Orix Leasing Company PLC and Perpetual Capital (Pvt) Ltd respectively hold 15% and 14.03% stakes. The Bank predominantly provides housing loans targeting the low- and middle-income segments.

Act amended to diversify lending scope

The guidelines of HDFC Act No.7 had, until 2011, limited the Bank's business to the provision of housing loans and related activities. Subsequent to amendments to the Act, HDFC has widened the scope of its lending activities. The Bank now disburses short-term financing such as gold loans, micro-financing and agriculture loans, and has aggressive expansion plans in light of the rising demand for these products. In addition, the Bank intends to venture into leasing and hire-purchase ("HP") financing upon obtaining approval from the CBSL. Although these initiatives are still in the early stages, we expect them to contribute towards easing HDFC's maturity mismatches in the long run. This has been a key concern, given that funds are locked in housing loans with high average tenures of around 10 years. Nonetheless, housing finance will continue to remain the Bank's forte.

State support

Notably, HDFC is one of only 2 LSBs authorised to provide housing loans backed by the borrower's EPF savings, the other being State Mortgage and Investment Bank ("SMIB"). The financial flexibility that the Bank derives from the state is reflected by the EPF's annual reimbursement of all dues on EPF-backed loans in arrears for over 3 months. This together with the GOSL's majority shareholding and its vision of providing affordable housing to the masses demonstrates HDFC's systemic importance to the government. However, the Bank is viewed to rank lower in priority than large state-owned financial institutions within the GOSL's overall economic framework. Therefore, we opine that although state support will be forthcoming if required, it will be provided to a lesser extent than to these larger banks.

Business Strategies

Majority of board represent state institutions

HDFC's 8-member board is chaired by Mrs Siromi Wickramasinghe and assisted by 5 sub-committees – integrated risk management, recovery, audit, nomination and remuneration. The board members represent state institutions such as the Ministry of Housing, the Ministry of Finance and Planning, the Department of Labour and the NHDA.

EPF-backed loans to be mainstay

HDFC is expected to focus on the low- and middle-income customer segments in supporting government initiatives. The quality of housing loans is anchored by the fact that they are EPF-backed, and hence bear minimal credit risk as all dues on loans in arrears for more than 3 months are reimbursed by the EPF annually. Accordingly, the Bank aims to increase its focus on this product as opposed to mortgage-backed housing loans in boosting its loan book..

Diversified lending

While housing loans continue to be the Bank's mainstay, we note that it had ventured into high-yield and relatively shorter-tenure loan products such as gold-backed loans, micro-financing and agriculture loans, and has plans to offer leasing and HP financing facilities. That said, HDFC's provision of collateralised lending to the masses at affordable rates is expected to mitigate its exposure to credit risk. The management anticipates growth emanating from these segments over the immediate term. The Bank also plans to introduce housing loans at variable interest rates, which will be repriced annually in line with market rates; this is expected to minimise the interest-rate risk to some extent.

Stronger mobile banking unit to leverage on micro-financing

HDFC operates with 35 branches, on which it plans to leverage over the medium term. However, the Bank intends to strengthen its mobile banking unit in line with its plans to venture into micro-financing, in which geographical reach is crucial. This unit operates on a commission basis and undertakes both disbursement and collection of loans. HDFC's micro-lending segment focuses on the low-income echelons of society, which are generally perceived to be more vulnerable to economic downturns. The management believes that this target market is still under-served, and thus has much potential for growth.

Broader non-interest revenue stream

In line with its efforts to diversify its revenue streams, HDFC plans to expand its services in the remittance market through Western Union. In addition, the Bank has facilitated utility bill payment as a source of fee-based income. The facility was expanded to include door-to-door utility bill payment with the support of its mobile banking unit.

Strategies to better manage maturity mismatches

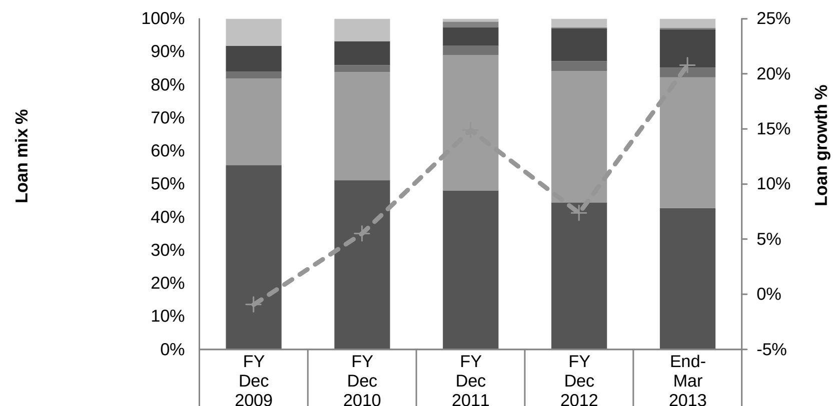
Meanwhile, we note that the Bank has an inherent ALMM, as the bulk of its loans span 10 years or longer, while its deposits are skewed towards shorter-tenure deposits. Therefore, HDFC plans to obtain long-term funding through debentures and foreign funding agencies in the medium term while also focusing on relatively cheaper savings deposits, aimed at increasing their prominence in its deposit mix and aiding in the management of the Bank's liquidity position.

■ Risk Profile

Asset base dominated by credit assets

HDFC's total assets edged up only 4.47% y-o-y to LKR 20.80 billion as at end-FY Dec 2012 (end-FY Dec 2011: +29.39%) as a result of the relatively subdued growth of (due to slower expansion in?) housing loans. Nevertheless, credit assets continued to make up the bulk of its assets, accounting for 76.76% of the total, while financial investments (fixed deposits, government securities and investment property) (18.74%) made up the remainder.

Chart 1: HDFC's loan composition



	FY Dec 2009	FY Dec 2010	FY Dec 2011	FY Dec 2012	End-Mar 2013
Other loans	8.17%	6.79%	0.85%	2.63%	2.72%
Gold Loans & Advances	0.00%	0.00%	1.77%	0.31%	0.45%
Other housing loans	7.86%	7.26%	5.58%	9.87%	11.63%
Staff Loans & Advances	2.06%	2.05%	2.82%	2.99%	2.95%
Housing loans against EPF	26.27%	32.81%	40.96%	39.80%	39.53%
Mortgage housing loans	55.65%	51.09%	48.02%	44.40%	42.72%
Loan growth	-0.94%	5.50%	14.90%	7.37%	20.79%

Sources: HDFC, RAM Ratings Lanka

Sluggish loan growth

Loan growth slowed in fiscal 2012 in view of the management's efforts to curtail lending due to HDFC's inability to reprice loans to match rising interest rates as well as regulatory restrictions on housing-loan interest rates. The decelerated credit growth was partly attributable to the transitory period before the appointment of the Bank's new CEO. Meanwhile, HDFC's loan mix has tilted towards EPF-backed housing loans – a segment bearing minimal risk – over the years, accounting for an increased 39.53% of the mix as at end-March 2013. However, mortgage housing loans made up the bulk of the mix at 42.72% (Chart 1).

Plans to grow credit assets

HDFC expects a 30% loan growth in fiscal 2013, mainly driven by short-tenure loan products which the Bank recently ventured into as well as EPF-backed housing loans. Its growth target is expected to be further supported by lower interest rates. In accordance with its target, HDFC posted an annualised loan growth of 20.98% in 1Q fiscal 2013. Its venture into leasing and hire-purchase financing will target the SME segment and rural masses. HDFC's increased focus on low-income earners is viewed with concern as this segment is generally perceived to be more vulnerable to economic downturns. Given the relatively high risk associated with this segment, it usually falls outside the risk appetite of the banking sector and is typically catered to by dedicated micro-financing institutions, government programmes and a few licensed finance companies ("LFCs"). We will closely monitor developments in this regard.

Table 1: NPL breakdown by product

	FY Dec 2010	FY Dec 2011	FY Dec 2012	1Q Dec 2013
Total NPLs (LKR million)	2,596.94	3,281.42	3,291.28	3,559.38
NPLs from EPF-backed loans (LKR million)	1741.90	2,274.90	2,542.05	2,755.27
Overall gross NPL ratio	20.64%	22.30%	20.95%	21.71%
Gross NPL ratio (excl. EPF-backed loans)	9.95%	11.62%	7.95%	8.14%

Source: HDFC

Table 2: Delinquency rates product-wise

	FY Dec 2011	FY Dec 2012	1Q Dec 2013
Mortgage housing loans	12.37%	9.22%	9.94%
Housing loans against EPF	37.75%	40.66%	42.52%
Staff loans	1.57%	0.76%	0.74%
Other housing loans	9.55%	4.11%	3.75%
Other loans	37.92%	9.37%	7.43%
Total	22.30%	20.95%	21.71%

Source: HDFC

Improving credit quality

Notably, HDFC's credit quality has improved, as reflected in the drop in NPLs. Despite sluggish loan growth, its overall gross NPL ratio had eased to 20.95% as at end-FY Dec 2012 (end-FY Dec 2011: 22.30%). Nonetheless, we note that the ratio is skewed by the large number of delinquencies stemming from EPF-backed loans (Table 1). Given the EPF's annual reimbursement of all dues in arrears for more than 3 months, the credit risk pertaining to these loans is deemed minimal. Meanwhile, loans excluding EPF loans demonstrated an improving trend in quality, with NPLs declining 25.56% to LKR 749.23 million as at end-FY Dec 2012 (end-FY Dec 2011: LKR 1.06 billion) as a result of an increased focus on recovery efforts. As such, HDFC's gross NPL ratio excluding EPF-backed loans ameliorated to 7.95% compared to 11.62% a year earlier.

Inability to keep NPLs in check

Meanwhile, the Bank's loan quality deteriorated slightly in 1Q FY Dec 2013 as a result of new NPLs; its absolute NPLs had climbed to LKR 3.56 billion as at end-March 2013 (end-FY Dec 2012: LKR 3.29 billion). As such, HDFC's gross NPL ratio moderated to 8.14% as at the same date. Although we anticipate the Bank's gross NPL ratio easing following robust loan expansion, our concerns hinge on possible new NPLs as its loan book seasons, given that it lends to a segment which is more vulnerable to economic fluctuations. RAM Ratings Lanka will closely monitor the Bank's ability to rein in its NPLs.

Impairment provisioning based on historical probability estimations

Following its adoption of Sri Lanka Financial Reporting Standards/Sri Lanka Accounting Standards ("SLFRS/LKAS"), the Bank altered its provisioning approach by using historical probability in the estimation of its individual and collective impairment provisions. HDFC individually impairs structured loans – loans without monthly instalments – such as project loans and vested property. On the other hand, collective impairment provisions are measured based on the roll rate method according to historical loss experience. Under this method, individually unimpaired loans and unstructured loans are classified into several categories based on homogenous risk factors; this essentially reflects the loan category.

Lengthy recovery processes

New amendments introduced to the Recovery of Loans by Banks (Amendment) Act No. 1 of 2011 restricts the parate rights of licensed banks to principal amounts exceeding LKR 5 million. Accordingly, HDFC can only recover collateral through legal action, given that the greater proportion of its mortgage-backed loans are for sums below the set threshold. We acknowledge that this may delay and lengthen the recovery process.

Low provisioning due to collateralised lending

Meanwhile, HDFC's provisioning levels have remained low due to its collateralised lending approach; all of its NPLs are backed by property or EPF funds. Subsequent to the adoption of SLFRS, impairment provisions also followed a similar trend, demonstrating lower gross NPL coverage of 9.38% as at end-March 2013. The relatively low coverage is viewed with some concern, given the lengthy recovery procedures.

Conservative investment strategy

HDFC's investment portfolio is mainly driven by investments in fixed deposits and government securities which collectively constituted more than 80% of the portfolio; this in turn has supported the Bank's liquidity position. Thus, it is viewed as adopting a conservative investment strategy. Elsewhere, we note that HDFC also had investments in property amounting to LKR 738.68 million as at end-FY Dec 2012, which are expected to be disposed of in the near term.

Below-average asset quality

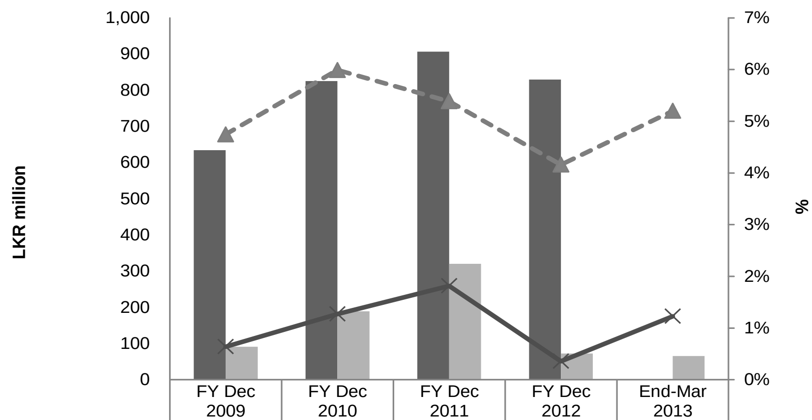
HDFC's asset quality is deemed below average, owing to its high gross NPL ratio, largely stemming from mortgage-backed housing loans which make up the bulk of its loan book. The relatively slow recoverability of these loans is also viewed with concern. Elsewhere, the Bank's planned aggressive lending drive may give rise to NPLs, thus seasoning remains a concern, going forward.

Financial Performance

Weaker core performance in fiscal 2012

In line with slower credit expansion, the Bank's core performance weakened in fiscal 2012. HDFC's net interest income declined 8.52% y-o-y (Chart 2) as its deposits repriced faster in line with higher market interest rates, whilst the Bank was unable to promptly revise the rates on its existing housing loans, comprising fixed-rated, long-tenure loans. However, HDFC's net interest income followed an uptrend with an annualised growth of 30.86% in 1 Q fiscal 2013 on the back of a revamp of its lending activity.

Chart 2: HDFC's performance trends



	FY Dec 2009	FY Dec 2010	FY Dec 2011	FY Dec 2012	End-Mar 2013
Net interest income (LKR million)	634.26	825.63	906.67	829.44	
Pre-tax profit (LKR million)	91.07	188.91	320.66	72.77	65.40
NIM (%)	4.75%	5.99%	5.39%	4.16%	5.20%
ROA (%)	0.64%	1.27%	1.82%	0.36%	1.23%

Sources: HDFC, RAM Ratings Lanka

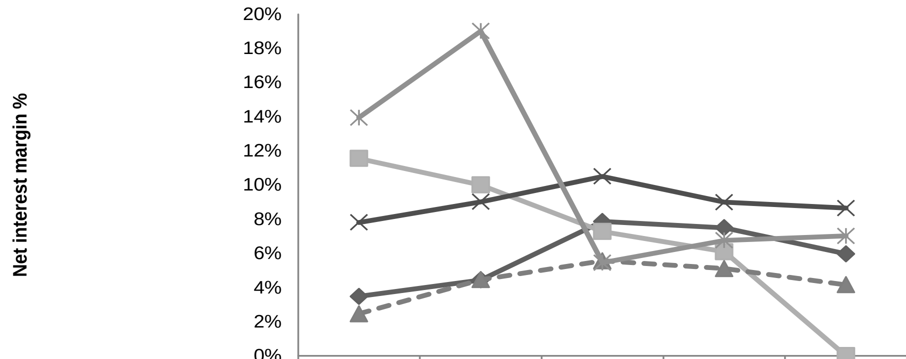
Thinner NIM

Notably, HDFC's NIM had narrowed to 4.16% in fiscal 2012 from 5.39% the previous year, due to its inability to make upward revisions to its loan rates to match rising deposit rates; the margin was weaker than that of the Bank's LSB peers (Chart 3). We acknowledge that this was partly attributable to the HDFC's slower credit growth in fiscal 2012.

NIM expected to normalise following credit expansion

Nonetheless, the Bank's NIM had broadened to 5.20% in 1Q fiscal 2013, as a result of its expanded loan book, with a focus on more lucrative loan products such as gold-back loans and micro-financing. This in tandem with its attempts to promote variable-rate housing loans which are expected to mitigate the interest rate risk and widen its NIMs over the long run. As such, we anticipate the Bank's NIM broadening over the near to medium term.

Chart 3: HDFC's NIM vs peers



	FY Dec 2008	FY Dec 2009	FY Dec 2010	FY Dec 2011	FY Dec 2012
SMIB (A/P2/Stable)	3.47%	4.44%	7.86%	7.50%	5.97%
LDB (A-/P2/Stable)	11.55%	10.00%	7.27%	6.09%	0.00%
HDFC	2.45%	4.45%	5.56%	5.10%	4.16%
SDB (BBB/P2/Stable)	7.81%	9.01%	10.50%	8.99%	8.64%
SLSB (BBB/P2/Stable)	13.94%	19.01%	5.45%	6.76%	7.02%

Sources: HDFC, RAM Ratings Lanka

SMIB = State Mortgage and Investment Bank; LDB = Lanka Development Bank; SDB = Sanasa Development Bank; SLSB = Sri Lanka Savings Bank

Non-interest income falls as loan growth slows

The Bank's non-interest income had dropped to 6.39% in fiscal 2012 (fiscal 2011:12.09%) amid reduced fee income and commissions subsequent to decelerated loan growth. In this regard, the management intends to diversify its revenue streams by expanding into the remittance market and enabling utility bill payments through its mobile banking unit. This together with HDFC's broader loan base is expected to increase its non-interest income in the near term.

Lower profitability amid weaker core performance

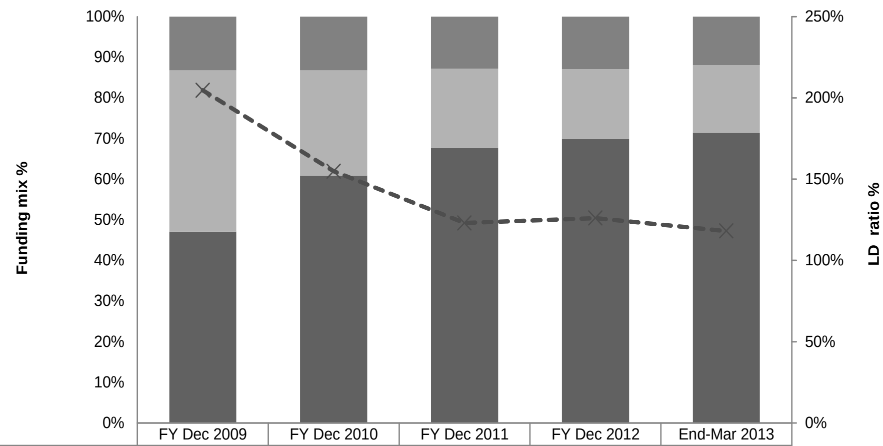
The Bank's profitability declined in fiscal 2012 on the back of its weaker core performance coupled with high operating costs amid a 33% upward revision in employee salaries as per a collective agreement with the union. This translated into a higher cost-to-income ratio of 91.62%. Consequently, HDFC's pre-tax profit plunged to LKR 72.77 million from LKR 320.66 million a year earlier. At the same time, its return on assets ("ROA") worsened to 0.36% (fiscal 2011:1.82%).

Below-average performance

RAM Ratings Lanka deems HDFC's performance to be below average due to its high cost to income ratio and thinner margins compared to LSB peers. Going forward, performance is expected to improve in view of the anticipated loan growth.

Funding & Liquidity

Chart 4: HDFC's funding composition



	FY Dec 2009	FY Dec 2010	FY Dec 2011	FY Dec 2012	End-Mar 2013
Shareholders' funds	13.25%	13.20%	12.82%	12.92%	11.94%
Borrowings	39.66%	25.91%	19.51%	17.24%	16.69%
Customer deposits	47.09%	60.88%	67.68%	69.84%	71.36%
LD ratio	204.68%	154.86%	122.99%	126.06%	118.06%

Sources: HDFC, RAM Ratings Lanka

Deposits HDFC's chief funding source

HDFC's funding requirements are largely fulfilled by customer deposits. The proportion of borrowings in its funding mix was previously relatively high in light of concessionary borrowings from the GOSL and other funding agencies. As at end-March 2013, customer deposits accounted for 71.36% of the mix (Chart 4). The Bank's broader deposit base is reflected in its reducing LD ratio which stood at 118.06% as at the same date, compared to 204.86% as at end-FY Dec 2009. That said, we expect the Bank's LD ratio to inch up in view of its plan to ramp up its lending activity and raise funds through debentures – as part of its strategy to better manage its maturity mismatches.

Relatively high liquidity risk

On the other hand, we understand that HDFC's exposure to liquidity risk is somewhat greater than that of other LSBs, given the longer tenure of housing loans that are funded by much shorter-term customer deposits. This has led to considerable asset-liability mismatches on short- and medium-term maturities. The Bank's liquidity position is partly pressured by its increasing reliance on EPF loans, on which arrears are refunded annually. That said, we anticipate maturity mismatches easing on the back of the Bank's attempts to obtain long-term funding via debentures and widen its lending scope by focusing on relatively shorter-tenure loan products.

Average liquidity position

HDFC's statutory liquid asset ratio clocked in at 25.44% as at end-FY Dec 2012, however falling to 18.14% as at end-March 2013 – below the regulatory minimum of 20% – as a result of the classification of liquid assets to comply with regulatory criteria. The Bank addressed this by increasing its cash position, which translated into a SLR of 21.43% as at end-April 2013; this may moderate amid robust credit growth. Thus, the Bank's liquidity position is opined to be average compared to its peers'.

Capital Adequacy

Good capitalisation

HDFC's capitalisation is deemed good, underscored by better capital-adequacy ratios. The Bank recorded respective tier-1 and overall RWCARs of 21.91% and 22.58% as at end-FY Dec 2012. The ratios, however, moderated to 18.40% and 19.04%, respectively, on the back of robust loan growth in 3M fiscal 2013. We acknowledge that HDFC's capital-adequacy levels are also upheld by zero-risk weighted EPF-backed loans that made up around 50% of its entire loan portfolio.

Corporate Information – HDFC Bank

Date of Incorporation:	1984	
Commencement of Business:	2003	
Major Shareholders as at end-December 2012:	National Housing Development Authority	49.73%
	Lanka Orix Leasing Company PLC	15.00%
	Perpetual Capital (Pvt) Ltd	14.03%
	Legalinc Trustee Services Pvt Ltd	5.39%
Directors:	Mrs. SN Wickramasinghe Mr. WJLU Wijayaweera Mrs. C Wijayawardhana Mr. WDRD Goonaratne Mr SAJ Samaraweera Mr. AJ Aloysius Mr. LES Silva Mr. GLS Senadeera	
Auditor:	Auditor General – Department of Auditor General	
Listing:	Colombo Stock Exchange	
Key Management:	Mr . N Mamaduwa	Chief Executive Officer
	Mr. S Dissanayake	Chief Operations Officer
	Mr. DV Pathirana	Chief Financial Officer
	Mr. WMA Bandara	Chief Information Officer
	Mr. AJ Athukorala	Chief Internal Auditor
	Mr. L Edirisinghe	Chief Manager – HR & Admin
	Mrs. WWDSC Perera	Chief Manager – Legal
	Mrs. HS Gunathilake	Chief Manager – Marketing
	Mr. CRP Balasooriya	Chief Manager – Treasury
	Mr. DMDMK Dissanayake	Chief Manager - Credit
Major Subsidiaries:	None	

Capital History:

Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
2012	Balance c/f	962.09	962.09

FINANCIAL SUMMARY
HDFC Bank – Company

					unaudited
STATEMENT OF FINANCIAL POSITION (LKR million)	**31-Dec-09**	**31-Dec-10**	**31-Dec-11**	**31-Dec-12**	**31-Mar-13**
Cash & Short-Term Funds	163.19	51.73	420.58	425.56	427.65
Deposits & Placements with Financial Institutions	0.00	371.38	107.49	93.52	94.03
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	310.00
Financial Investments at Fair Value Through Profit or Loss	1,246.62	1,173.93	84.91	872.14	0.00
Financial Investments Available-For-Sale	0.00	0.03	3,346.86	2,287.73	2,981.08
Financial Investments Held-To-Maturity	0.00	0.00	692.55	738.68	738.71
Gross Loans & Advances	12,185.40	12,872.36	15,171.99	16,289.99	17,136.59
Collective Impairment Provisions	*(94.47)*	*(89.65)*	*(72.57)*	*(61.45)*	*(333.56)*
Individual Impairment Provisions	*(104.51)*	*(214.47)*	*(250.37)*	*(262.88)*	*0.00*
Net Loans & Advances	11,986.41	12,568.24	14,849.05	15,965.67	16,803.03
Statutory Deposits	0.00	322.64	0.00	0.00	0.00
Property, Plant & Equipment	720.66	755.67	250.01	288.12	288.39
Other Assets	184.56	143.41	157.61	129.20	150.69
Total Assets	**14,301.44**	**15,387.02**	**19,909.07**	**20,800.61**	**21,793.57**
Customer Deposits	6,114.80	8,526.33	12,336.02	12,922.91	14,515.59
Current Account Deposits	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Savings Account Deposits	*591.62*	*1,042.18*	*12,336.02*	*12,922.91*	*1,833.42*
Fixed Deposits	*5,521.43*	*6,659.59*	*0.00*	*0.00*	*12,210.47*
Negotiable Instruments of Deposits	*0.00*	*823.41*	*0.00*	*0.00*	*471.70*
Other Deposits	*1.75*	*1.16*	*0.00*	*0.00*	*0.00*
Interbank Deposits	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	0.00	0.00	0.00	0.00
Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00
Senior Debt Securities	0.00	0.00	0.00	0.00	0.00
Subordinated Debt Securities	0.00	0.00	0.00	0.00	0.00
Hybrid Capital Securities	0.00	0.00	0.00	0.00	0.00
Other Borrowings	5,150.22	3,629.13	3,555.87	3,189.30	3,395.19
Other Liabilities	1,315.22	1,382.89	1,680.76	2,297.20	1,453.37
Total Liabilities	**12,580.24**	**13,538.36**	**17,572.64**	**18,409.40**	**19,364.15**
Equity Share Capital	962.09	962.09	962.09	962.09	962.09
Share Premium	0.00	0.00	0.00	0.00	0.00
Treasury Shares	0.00	0.00	0.00	0.00	0.00
Statutory Reserve	39.62	46.39	61.87	61.99	61.99
Revaluation Reserve	0.00	35.89	0.00	0.00	33.92
Available-For-Sale Reserve	0.00	0.00	0.00	0.00	0.00
Other Reserves	52.86	22.63	142.61	228.32	207.20
Retained Profits/(Accumulated Losses)	666.62	781.66	1,169.83	1,138.80	1,164.22
Non-Controlling Interests	0.00	0.00	0.00	0.00	0.00
Total Equity	**1,721.20**	**1,848.66**	**2,336.40**	**2,391.21**	**2,429.42**
Total Liabilities + Total Equity	**14,301.44**	**15,387.02**	**19,909.04**	**20,800.61**	**21,793.57**
Additional Disclosure:					
Commitments & Contingencies	0.00	0.00	0.00	0.00	0.00
Risk-Weighted Assets	9,137.77	8,277.97	9,478.55	9,232.30	9,886.94
Tier-1 Capital Base *	1,611.05	1,746.02	2,022.66	2,022.65	1,818.93
Total Capital Base *	1,705.05	1,835.67	2,080.67	2,084.29	1,882.40

Note:
FY Dec 2011 – 1Q FY Dec 2013 financial statements under SLFRS/LKAS
FY Dec 2009 – FY Dec 2010 financial statements under SLAS

FINANCIAL SUMMARY
HDFC Bank – Company

STATEMENT OF COMPREHENSIVE INCOME (LKR million)	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Mar-13
					unaudited 3 months
Interest Income	2,216.37	2,164.98	2,260.97	2,634.76	816.67
Interest Expense	(1,582.11)	(1,339.35)	(1,354.29)	(1,805.32)	(545.32)
Net Interest Income	**634.26**	**825.63**	**906.67**	**829.44**	**271.35**
	0.00	0.00	0.00	0.00	0.00
Fee Income	35.13	50.47	66.20	48.34	16.23
Investment Income	0.02	27.20	0.00	0.00	0.00
Other Income	17.18	7.63	58.44	8.30	4.90
Gross Income	**686.59**	**910.93**	**1,031.31**	**886.08**	**292.48**
Personnel Expenses	(230.24)	(271.03)	(360.80)	(458.12)	(111.84)
Other Operating Expenses	(311.33)	(344.10)	(339.79)	(353.69)	(106.00)
Operating Income before Impairment Charges	**145.02**	**295.80**	**330.72**	**74.27**	**74.64**
Net Impairment Charges on Loans	(53.95)	(106.90)	(10.06)	(1.50)	(9.24)
Net Impairment Charges on Financial Investments	0.00	0.00	0.00	0.00	0.00
Net Impairment Charges on Commitments, Contingencies & Other Assets	0.00	0.00	0.00	0.00	0.00
Operating Income after Impairment Charges	**91.07**	**188.91**	**320.66**	**72.77**	**65.40**
Non-Recurring Items	0.00	0.00	0.00	0.00	0.00
Share of Associates/Jointly-Controlled Entities Profits/(Losses)	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit/(Loss)	**91.07**	**188.91**	**320.66**	**72.77**	**65.40**
Taxation	(34.62)	(53.57)	(104.64)	(70.32)	(26.97)
Net Profit/(Loss)	**56.45**	**135.34**	**216.02**	**2.45**	**38.43**
Gain/(Loss) on Available-For-Sale Financial Investments	0.00	0.00	0.00	0.00	0.00
Changes in Cash Flow & Net Investment Hedges	0.00	0.00	0.00	0.00	0.00
Foreign Currency Translation Differences	0.00	0.00	0.00	0.00	0.00
Share of Other Comprehensive Income/(Loss) of Associates/Jointly-Controllec	0.00	0.00	0.00	0.00	0.00
Income Tax Relating to Other Comprehensive Income/(Loss)	0.00	0.00	0.00	0.00	0.00
Other Components of Comprehensive Income/(Loss)	0.00	0.00	0.00	0.00	0.00
Total Comprehensive Income/(Loss)	**56.45**	**135.34**	**216.02**	**2.45**	**38.43**
Additional Disclosure:					

Note:
FY Dec 2011 – 1Q FY Dec 2013 financial statements under SLFRS/LKAS
FY Dec 2009 – FY Dec 2010 financial statements under SLAS

FINANCIAL RATIOS
HDFC Bank – Company

					unaudited
KEY RATIOS	**31-Dec-09**	**31-Dec-10**	**31-Dec-11**	**31-Dec-12**	**31-Mar-13**
PROFITABILITY (%)					
Net Interest Margin	4.75%	5.99%	5.39%	4.16%	5.20%
Non-Interest Income to Gross Income	7.62%	9.36%	12.09%	6.39%	7.22%
Cost to Income	78.88%	67.53%	67.93%	91.62%	74.48%
Return on Assets	0.64%	1.27%	1.82%	0.36%	1.23%
Return on Equity	5.33%	10.58%	15.32%	3.08%	10.85%
Dividend Payout Ratio	0.00%	23.91%	15.12%	0.00%	0.00%
ASSET QUALITY (%)					
Gross NPL ratio	22.49%	20.64%	22.30%	20.95%	21.71%
Credit Cost Ratio	0.44%	0.85%	0.07%	0.01%	0.22%
Impairment Charge Ratio	0.40%	0.78%	0.06%	0.01%	0.18%
Gross NPL coverage ratio	7.26%	13.43%	9.84%	9.85%	9.37%
Loan Loss Reserve Coverage Ratio	1.63%	2.36%	2.13%	1.99%	1.95%
Collective Loan Loss Reserve Coverage Ratio	0.78%	0.70%	0.48%	0.38%	1.95%
LIQUIDITY & FUNDING (%)					
Liquid Asset Ratio	21.18%	20.92%	21.15%	25.44%	18.14%
Customer Deposits to Total Interest Bearing Funds	54.28%	70.14%	77.62%	80.21%	81.04%
Loans to Deposits Ratio	204.68%	154.86%	122.99%	126.06%	118.06%
CAPITALISATION & LEVERAGE (%)					
Internal Rate of Capital Generation	3.30%	5.77%	8.76%	0.10%	6.38%
Leverage Ratio (times)	8.31	8.32	8.52	8.70	8.97
Common Equity Ratio	17.82%	21.06%	22.49%	22.76%	21.51%
Tier-1 Regulatory Risk-Weighted Capital Adequacy Ratio	17.63%	21.09%	21.34%	21.91%	18.40%
Overall Regulatory Risk-Weighted Capital Adequacy Ratio	18.66%	22.18%	21.95%	22.58%	19.04%

Notes:
* annualised
NA = Not Available / Not Applicable

Note:
FY Dec 2011 – 1Q FY Dec 2013 financial statements under SLFRS/LKAS
FY Dec 2009 – FY Dec 2010 financial statements under SLAS

FINANCIAL RATIOS
HDFC Bank – Company

KEY RATIOS	FORMULAE
PROFITABILITY (%)	
Net Interest/Financing Margin	Net Interest/Finance Income / Average Interest/Profit Earning Assets
Non-Interest/Financing Income to Gross Income	Non-Interest/Finance Income / Gross Income
Cost to Income	(Personnel Expenses + Other Operating Expenses) / Gross Income
Return on Assets	Pre-Tax Profit/(Loss) / Average Total Assets
Return on Equity	Pre-Tax Profit/(Loss) / Average Total Equity
Dividend Payout Ratio	Dividends / Net Profit/(Loss)
Non-Interest/Finance Income	Fee Income + Investment Income + Other Income
Interest/Profit Earning Assets	Cash & Short-Term Funds + Deposits & Placements with Financial Institutions + Securities Purchased Under Resale Agreements + Total Financial Investments + Net Loans/Financing & Advances
Total Financial Investments	Financial Investments at Fair Value Through Profit or Loss + Financial Investments Available-For-Sale + Financial Investments Held-To-Maturity
ASSET QUALITY (%)	
Gross NPL ratio	(Total Non-Performing Loans/Financing - Interest/Finance-Income-In-Suspense) / (Gross Loans/Financing - Interest/Finance-Income-In-Suspense)
Net Newly Classified Impaired Loan/Financing Ratio	Net Newly Classified Impaired Loans/Financing / Average Gross Loans/Financing & Advances
Credit Cost Ratio	Net Impairment Charges on Loans/Financing / Average Gross Loans/Financing & Advances
Impairment Charge Ratio	(Net Impairment Charges on Loans/Financing + Net Impairment Charges on Financial Investments) / (Average Gross Loans/Financing & Advances + Average Total Financial Investments)
Gross NPL coverage ratio	Total Provisions / (Total Non-Performing Loans/Financing - Interest/Finance-Income-In-Suspense)
Collective Loan/Financing Loss Reserve Coverage Ratio	Collective Impairment Provisions / (Gross Loans/Financing & Advances - Individual Impairment Provisions)
Total Provisions	Collective Impairment Provisions + Individual Impairment Provisions
Net Newly Classified Impaired Loans/Financing	Newly Classified Impaired Loans/Financing - Recoveries on Impaired Loans/Financing - Impaired Loans/Financing Reclassified As Performing
LIQUIDITY & FUNDING (%)	
Statutory Liquid Asset Ratio	Liquid Assets / (Customer Deposits + Short-Term Funds)
Interbank Deposits to Total Interest/Profit Bearing Funds	Interbank Deposits / Interest/Profit Bearing Funds
Customer Deposits to Total Interest/Profit Bearing Funds	Customer Deposits / Interest/Profit Bearing Funds
CASA Deposits to Total Deposits	(Current Account + Savings Account Deposits) / Customer Deposits
Loans/Financing to Deposits Ratio	Gross Loans/Financing & Advances / Customer Deposits
Liquid Assets	Cash & Short-Term Funds + Deposits & Placements with Financial Institutions + Quoted Financial Investments (excluding Financial Investments Held-To-Maturity)
Short-Term Funds	Interbank Deposits + Bills & Acceptances Payable + Securities Sold Under Repurchase Agreements
Interest/Profit Bearing Funds	Customer Deposits + Interbank Deposits + Bills & Acceptances Payable + Securities Sold Under Repurchase Agreements + Total Borrowings
Total Borrowings	Senior Debt/Islamic Securities + Subordinated Debt/Islamic Securities Hybrid Capital/Islamic Securities + Other Borrowings
CAPITALISATION & LEVERAGE (%)	
Internal Rate of Capital Generation	(Net Profit/(Loss) - Dividends) / Average Total Equity
Leverage Ratio (times)	Total Assets / Total Equity
Common Equity Ratio	(Equity Share Capital + Share Premium + Retained Profits/(Accumulated Losses)) / Risk-Weighted Assets
Tier-1 Regulatory Risk-Weighted Capital Adequacy Ratio	(Tier-1 Capital Base - Proposed Dividends) / Risk-Weighted Assets
Overall Regulatory Risk-Weighted Capital Adequacy Ratio	(Total Capital Base - Proposed Dividends) / Risk-Weighted Assets

CREDIT RATING DEFINITIONS

Financial Institution Ratings

A Financial Institution Rating ("FIR") is RAM Ratings Lanka's current opinion on the overall capacity of a financial institution to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take in to account the expressed terms and conditions of any specific financial obligation.

Long-Term Ratings

AAA	A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term FIR assigned by RAM Ratings Lanka.
AA	A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
BBB	A financial institution rated BBB has a moderate capacity to meet its financial obligations. The financial institution is more likely to be w eakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the low est investment-grade category.
BB	A financial institution rated BB has a w eak capacity to meet its financial obligations. The financial institution is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	A financial institution rated B has a very w eak capacity to meet its financial obligations. The financial institution has a limited ability to w ithstand adverse changes in circumstances, economic conditions and/or operating environments.
C	A financial institution rated C has a high likelihood of defaulting on its financial obligations. The financial institution is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of w hich w ould likely result in it defaulting on its financial obligations.
D	A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, w hether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

Short-Term Ratings

P1	A financial institution rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term FIR assigned by RAM Ratings Lanka.
P2	A financial institution rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
P3	A financial institution rated P3 has a moderate capacity to meet its short-term financial obligations. The financial institution is more likely to be w eakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the low est investment-grade category.
NP	A financial institution rated NP has a doubtful capacity to meet its short-term financial obligations. The financial institution faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, w hether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

For long-term ratings, RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

RAM Ratings (Lanka) Limited
No. 11 Melbourne Avenue
Colombo 4
Sri Lanka

Tel: (9411) 2553089 Fax: (9411) 2553090
E-mail: ram@ram.com.lk Website: http://www.ram.com.lk

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