# Independent Auditors' Report

TO THE MEMBERS OF

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

## Report on the audit of the standalone financial statements

### Opinion

We have audited the standalone financial statements of Housing Development Finance Corporation Limited (the 'Corporation'), which comprise the Standalone Balance Sheet as at 31 March 2020, the Standalone Statement of Profit and Loss (including Other Comprehensive Income), the Standalone Statement of Changes in Equity and the Standalone Statement of Cash Flows for the year then ended, and notes to the standalone financial statements including a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 (the 'Act') in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Corporation as at 31 March 2020, and profit and other comprehensive income, changes in equity and its cash flows for the year ended on that date.

### Basis for opinion

We conducted our audit in accordance with the Standards on Auditing ('SAs') specified under Section 143 (10) of the Act. Our responsibilities under those SAs are further described in the *Auditor's Responsibilities for the audit of the standalone financial statements* section of our report. We are independent of the Corporation in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ('ICAI') together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the standalone financial statements.

### Emphasis of matter

As described in Note 4 and 9(f) to the standalone financial statements, in accordance with Reserve Bank of India COVID-19 Regulatory Package, ageing of accounts opting for moratorium offered by the Corporation and moving into Stage 3 (based on days past due status as of 31 March 2020) has been determined with reference to position as of 29 February 2020. Further, the extent to which the COVID-19 pandemic will impact the Corporation's financial performance is dependent on future developments, which are highly uncertain.

Our opinion is not modified in respect of the above matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Impairment of loans and advances to customers<br>Refer to the accounting policies in Note 3.2.3 to the standalone financial statements: Impairment; Note 2.4.1 to the standalone financial statements: use of estimates and judgements – determination of Expected Credit Loss and Note 9 to the standalone financial statements: Loans</td></tr>
<tr><td>Subjective estimate<br>Recognition and measurement of impairment of loans and advances involve significant management judgement<br><br>Under Ind AS 109, Financial Instruments, allowance for loan losses are determined using expected credit loss (ECL) model. The Corporation's impairment allowance is</td><td>We performed audit procedures set out below:<br>Design / controls<br>• Evaluated appropriateness of the impairment principles used by management based on the requirements of Ind AS 109, our business understanding and industry practice;</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>derived from estimates including the historical default and loss ratios. Management exercises judgement in determining the quantum of loss based on a range of factors.<br><br>The most significant areas are:<br>- Segmentation of loan book<br>- Determination of exposure at default<br>- Loan staging criteria<br>- Calculation of probability of default / Loss given default<br>- Consideration of probability weighted scenarios and forward looking macro-economic factors<br><br>The application of ECL model requires several data inputs. This increases the risk of completeness and accuracy of the data that has been used to create assumptions in the model.</td><td>• Assessed the design and implementation of key internal financial controls over loan impairment process used to calculate the impairment charge;<br>• Understood management's revised processes, systems and controls implemented in relation to impairment allowance process, particularly in view of COVID-19 regulatory package;<br>• Evaluated management's controls over collation of relevant information used for determining estimates for management overlays on account of COVID-19; and<br>• Tested review controls over measurement of impairment allowances and disclosures in financial statements.</td></tr>
<tr><td>Impact of COVID-19<br>On 11 March 2020, the World Health Organisation declared the Novel Coronavirus (COVID-19) outbreak to be a pandemic.<br><br>We have identified the impact of, and uncertainty related to the COVID 19 pandemic as a key element and consideration for recognition and measurement of impairment of loans and advances on account of:<br>- Short and long term macroeconomic effect on businesses in the country and globally and its consequential and cascading negative impact on revenue and employment generation opportunities;<br>- impact of the pandemic on the Corporation's customers and their ability to repay dues; and<br>- application of regulatory package announced by the Reserve Bank of India (RBI) on asset classification and provisioning.<br><br>Management has conducted a qualitative assessment of impact on the credit risk of the loan portfolio with respect to the moratorium benefit to borrowers prescribed by the RBI and considered management overlays to reflect potential impact of COVID-19 on expected credit losses on its loan portfolio.</td><td>Substantive tests<br>• Focused on appropriate application of accounting principles, validating completeness and accuracy of the data and reasonableness of assumptions used in the model;<br>• Test of details over calculation of impairment allowance for assessing the completeness, accuracy and relevance of data;<br>• Model calculations testing through re-performance where possible;<br>• The appropriateness of management's judgement was also independently reconsidered in respect of calculation methodologies, segmentation, economic factors, the period of historical loss rates used and the valuation of recovery assets and collateral;<br>• Test checked the basis of collateral valuation in the determination of ECL provision;<br>• Used specialists to test the model methodology and reasonableness of assumptions used including management overlays;<br>• Assessed the appropriateness of changes made in management overlays to calibrate the risks that are not yet fully captured by the existing model;</td></tr>
</table>

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| | • Assessed the appropriateness of management rationale for determination of criteria for significant increase in credit risk considering both: adverse effects of COVID 19 and mitigants in the form of the RBI / Government financial relief package;<br>• Corroborated through independent check and enquiries the reasonableness of management's assessment of grading the severity of impact of COVID-19 on segments of its loan portfolio and the resultant impairment provision computed; and<br>• Assessing the factual accuracy and appropriateness of the additional financial statements disclosures made by the Corporation regarding impact of COVID-19. |
| **Valuation of Derivatives Instruments and Hedge Accounting**<br>Refer to the accounting policies in Note 3.2.8 to the standalone financial statements: Derivative financial instruments; Note 7 to the standalone financial statements: Derivative financial instruments and Note 44.6.1 to the standalone financial statements– Foreign currency risk | |
| The Corporation enters into derivative contracts in order to manage and hedge risks such as foreign exchange rate risk and interest rate risk on the borrowings. The Corporation either enters into cash flow hedges or fair value hedges depending on the risk being hedged.<br><br>The application of hedge accounting and evaluating hedge effectiveness is complex and operationally cumbersome and requires close monitoring from Corporation's management. | **We performed audit procedures set out below**<br><br>**Design / controls**<br>• Obtained an understanding of the risk management policies and tested key controls (i) at the time of designation of hedging relationship including authorisation by designated authority; documentation prepared by management at the inception of the hedge transaction; (ii) with regard to ongoing monitoring and review of the hedge relationship by management including test of hedge effectiveness. |
| | **Substantives tests**<br>• Checked the recognition and measurement of derivative instruments, for selected samples, is as per Ind AS 109;<br>• Examined hedge documentation on a sample basis to assess the compliance of documentation with Ind AS 109 requirements;<br>• Test checked on a sample basis reconciliation of derivative instruments to independent confirmations obtained from third party;<br>• Involved specialists to perform independent valuation and compared with valuation provided by the Corporation;<br>• Compared input data used in the Corporation's valuation models to independent sources on a sample basis;<br>• Test checked on a sample basis the applicability and accuracy of hedge accounting;<br>• Considered the appropriateness of disclosures in relation to financial risk management, derivative instruments and hedge accounting in the standalone financial statements. |

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **Valuation of Investments (other than investments in subsidiaries and associates)**<br>Refer to the accounting policies in Note 3.2 to the standalone financial statements: Financial instruments; Note 2.4.2 to the standalone financial statements: Use of estimates and judgements - fair valuation of investment (other than investment in Subsidiaries and Associates); and Note 10 to the standalone financial statements: Investments | |
| **Subjective estimate**<br>Investments carried at fair value comprise:<br>- Fair value through profit and loss (FVTPL) investments - ₹ 25,725 crore<br>- Fair value through other comprehensive income (FVOCI) investments - ₹ 5,054 crore<br>The effect of fair value adjustments may impact either the profit or loss or other comprehensive income.<br>The valuation of investments measured at fair value entails significant management estimates and is based on a combination of observable market data and / or valuation techniques which are often based on unobservable inputs.<br>We identified determination of fair value of investments as a key audit matter because of the degree of subjectivity and judgement exercised by Corporation's management in determining the inputs used in the valuation techniques and methodologies. | **We performed audit procedures set out below**<br>**Design / controls**<br>• Test checked the design, implementation and operating effectiveness of management's key internal controls over the valuation process and inputs.<br>**Substantives tests**<br>• Read the investment agreements on a sample basis, to understand the relevant investment terms and identify any conditions relevant to the classification and valuation of investments;<br>• Assessed the appropriateness of the valuation methodology and test key inputs used such as pricing inputs and discount factors;<br>• Checked valuation methodology was consistently followed and evaluated any change in valuation technique;<br>• Involved specialists to test the model methodology, reasonableness of assumptions and test key inputs used such as pricing inputs and discount factors;<br>• Assessed the disclosures as required under prevailing accounting standards reflect the Corporation's exposure to investment valuation risk;<br>• Evaluated the reliability of inputs i.e. market observable / unobservable data to determine fair value of investments and checked the appropriateness of disclosures in accordance with Ind AS 107 on 'Financial Instruments: Disclosures'. |
| **Information technology ('IT')**<br>**IT systems and controls**<br>The Corporation's key financial accounting and reporting processes are highly dependent on information systems including automated controls in information systems, such that there exists a risk that, gaps in the IT control environment could result in the financial accounting and reporting records being misstated. The Corporation uses several systems for it's overall financial reporting. | **We performed audit procedures set out below**<br>• Understood General IT Control i.e. access controls, program/ system change, program development, computer operations (i.e. job processing, data/ system backup incident management) over key financial accounting and reporting systems, and supporting control systems (referred to as in-scope systems);<br>• Understood IT infrastructure i.e. operating systems and databases supporting the in-scope systems; |

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| We identified 'IT systems and controls' as key audit matter because of the high level of automation, significant number of systems being used by management and the scale and complexity of the IT architecture. | • Test checked the General IT Controls for design and operating effectiveness for the audit period over the in-scope systems;<br>• Understood IT application controls covering<br>– user access and roles, segregation of duties, and<br>– key interfaces and reports.<br>• Test checked the IT application controls for design and operating effectiveness for the audit period;<br>• Performed testing to determine that IT application controls that underwent changes, followed the standard change management process;<br>• Test checked controls over the IT infrastructure covering user access (including privilege users), data center. |

**Information Other than the Standalone Financial Statements and Auditors' Report Thereon**

The Corporation's management and Board of Directors are responsible for the other information. The other information comprises the information included in the Director's report and Management Discussion & Analysis (MD&A) report, but does not include the standalone financial statements and our auditors' report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Management's and Board of Directors' Responsibility for the Standalone Financial Statements**

The Corporation's management and Board of Directors are responsible for the matters stated in Section 134 (5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the state of affairs, profit/loss and other comprehensive income, changes in equity and cash flows of the Corporation in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards specified under Section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Corporation and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management and Board of Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Board of Directors is also responsible for overseeing the Corporation's financial reporting process.

**Auditor's responsibilities for the audit of the standalone financial statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with SAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Corporation has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures in the Standalone financial statements made by Management and Board of Directors.
- Conclude on the appropriateness of management and Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

1. As required by the Companies (Auditor's Report) Order, 2016

(the 'Order') issued by the Central Government in terms of Section 143 (11) of the Act, we give in the 'Annexure A', a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. A. As required by Section 143(3) of the Act, we report that:

a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

b) in our opinion, proper books of account as required by law have been kept by the Corporation so far as it appears from our examination of those books;

c) the Standalone Balance Sheet, the Standalone Statement of Profit and Loss (including other comprehensive income), the Standalone Statement of Changes in Equity and the Standalone Statement of Cash Flows dealt with by this Report are in agreement with the books of account;

d) in our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under Section 133 of the Act;

e) on the basis of the written representations received from the Directors as on 31 March 2020 and taken on record by the Board of Directors, none of the Directors are disqualified as on 31 March 2020 from being appointed as a Director in terms of Section 164 (2) of the Act; and

f) with respect to the adequacy of the internal financial controls with reference to financial statements of the Corporation and the operating effectiveness of such controls, refer to our separate Report in 'Annexure B';

B. With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. the Corporation has disclosed the impact of pending litigations as at 31 March 2020 on its financial position in its standalone financial statements – Refer note 40 to the standalone financial statements;

ii. the Corporation has recognised provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer note 7.1 to the standalone financial statements;

iii. there has been no delay in transferring amounts, required to be transferred to the Investor Education and Protection Fund by the Corporation during the year ended 31 March 2020. Whilst the Corporation transferred the unclaimed dividend, 2,120 underlying equity shares relating to such unclaimed dividend could not be transferred as the depository participant informed that the aforesaid equity shares were not available in the demat accounts of the respective shareholders; and

iv. the disclosures in the standalone financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in these standalone financial statements since they do not pertain to the financial year ended 31 March 2020.

C. With respect to the matter to be included in the Auditors' Report under Section 197(16):

In our opinion and according to the information and explanations given to us, the remuneration paid by the Corporation to its Directors during the current year is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any Director is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No: 101248W/W-100022

AKEEL MASTER
Partner
Membership No: 046768
ICAI UDIN: 20046768AAAAIE2889

Mumbai
25 May 2020

# Annexure "A" to the Independent Auditors' Report – 31 March 2020

**(Referred to in our report of even date)**

i. (a) The Corporation has maintained proper records showing full particulars, including quantitative details and situation of property, plant and equipment.

(b) The Corporation has a regular programme of physical verification of property, plant and equipment by which property, plant and equipment are verified annually. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Corporation and the nature of its assets. No material discrepancies were noticed on such verification.

(c) According to the information and explanations given to us and based on test check examination of the records and registered sale deeds / transfer deeds / conveyance deeds provided to us, the title deeds, comprising all the immovable properties of land and buildings which are freehold, are held in the name of the Corporation as at the balance sheet date, except the following shown as properties under the head of Investment properties:

| **Particulars** | | **₹ in crore** | **Remarks** |
|---|---|---|---|
| Freehold land and buildings (Four properties) | Gross block | 270 | The Corporation is in the process of transferring these assets in its name. The process will be concluded after the necessary regulatory clearances have been obtained. |
| | Net block | 262 | |

In respect of immovable properties of land and buildings that have been taken on lease and disclosed as property, plant and equipment in the standalone financial statements, the lease agreements are in the name of the Corporation, where the Corporation is the lessee in the agreement.

ii. The Corporation is engaged in providing financial services primarily into housing finance. Accordingly, it does not hold any physical inventories. Thus, paragraph 3 (ii) of the Order is not applicable.

iii. According to the information and explanations given to us and based on the audit procedures conducted by us, the Corporation has not granted loans during the current year, secured or unsecured to companies, firms, limited liability partnerships or other parties covered in the register maintained under Section 189 of the Act. In respect of the existing loan at the beginning of the year:

(a) The schedule of repayment of principal and payment of interest has been stipulated and repayments or receipts of principal amounts and interest have been regular as per stipulations;

(b) There is no overdue amount remaining outstanding as at the year end.

iv. According to the information and explanations given to us and on the basis of our examination of the records of the Corporation, the Corporation has complied with the provisions of Sections 185 and 186 of the Act in respect of loans, investments, guarantee and security, as applicable.

v. As per the Ministry of Corporate Affairs notification dated 31 March 2014, the provisions of Sections 73 to 76 or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 2014, as amended, with regard to the deposits accepted are not applicable to the Corporation. Accordingly, reporting under Clause 3(v) of the Order is not applicable.

vi. The Central Government has not prescribed the maintenance of cost records under Section 148(1) of the Act, for any services rendered by the Corporation. Accordingly paragraph 3(vi) of the Order is not applicable.

vii. (a) According to the information and explanations given to us and on the basis of our examination of the books of account, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including provident fund, employees' state insurance, income tax, goods and services tax, cess and other material statutory dues applicable to it have generally been regularly deposited by the Corporation with the appropriate authorities. As explained to us, the Corporation did not have any dues on account of Customs Duty and Excise Duty.

According to the information and explanations given to us and on the basis of our examination of the records, no undisputed amounts payable in respect of provident fund, employees' state insurance, income tax, goods and services tax, cess and other material statutory dues were in arrears as at 31 March 2020 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records, there are no dues of value added tax and goods and services tax that have not been deposited on account of any dispute. However, according to information and explanations given to us, the following dues of wealth tax, interest on lease tax, Employees' State Insurance, income tax and service tax have not been deposited by the Corporation on account of disputes:

| Name of the statute | Nature of dues | Amount (₹ in crore) | Period to which the amount relates | Forum where dispute is pending |
|---|---|---|---|---|
| The Wealth Tax Act, 1957 | Wealth Tax | 0.12 | 1998-1999 | Assistant Commissioner of Wealth Tax |
| Maharashtra Sales Tax on the Transfer of the Right to use any Goods for any Purpose Act, 1985 | Interest on lease tax | 0.02 | 1999-2000 | Commissioner of Sales Tax (Appeals) |
| Employees State Insurance Act, 1948 | Payment towards Employer's Contribution to ESIC | 0.01 | 2010-2011 | Assistant/ Deputy Director– ESIC |
| The Income Tax Act, 1961 | Penalty Levied | 0.02 | 2012-2013 | Commissioner of Income Tax (Appeal) (Mumbai) |
| The Finance Act, 1994 | Service Tax | 0.80 | 2007-2012 | CESTAT West Zone, Mumbai |

viii. According to the information and explanations given to us and on the basis of our examination of the records, the Corporation has not defaulted in the repayment of loans or borrowings to financial institutions, banks or debenture holders. The Corporation has not taken loans or borrowings from government.

ix. According to the information and explanations given to us and based on our examination of the records, the Corporation has applied the money raised from term loans during the year for the purposes for which they were raised other than temporary deployment pending application of proceeds. The Corporation has not raised money by way of public offer during the year.

x. According to the information and explanations given to us, no material fraud by the Corporation or on the Corporation by its officers or employees has been noticed or reported during the year.

xi. According to the information and explanations given to us and based on our examination of the records, the Corporation has paid / provided for managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Act.

xii. According to the information and explanations given to us, the Corporation is not a Nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable.

xiii. According to the information and explanations given to us and based on our examination of the records of the Corporation, all transactions with the related parties are in compliance with Sections 177 and 188 of the Act where applicable and the details of such transactions have been disclosed in the standalone financial statements, as required by the applicable accounting standards.

xiv. According to the information and explanations given to us and based on our examination of the records, the Corporation has not made any preferential allotment and private placement of shares or fully or partly convertible debentures during the year.

xv. According to the information and explanations given to us and based on our examination of the records, the Corporation has not entered into any non-cash transactions with Directors or persons connected with him. Accordingly, paragraph 3(xv) of the Order is not applicable.

xvi. According to the information and explanations given to us, the Corporation is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Thus, paragraph 3 (xvi) of the Order is not applicable to the Corporation.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No: 101248W/W-100022

AKEEL MASTER
Partner
Membership No: 046768
ICAI UDIN: 20046768AAAAIE2889

Mumbai
25 May 2020

# Annexure “B” to the Independent Auditors’ Report – 31 March 2020

**(Referred to in our report of even date)**

**Report on the internal financial controls with reference to the aforesaid standalone financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (the ‘Act’)**

**(Referred to in paragraph (2A.f.) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)**

**Opinion**

We have audited the internal financial controls with reference to standalone financial statements of Housing Development Finance Corporation Limited (the ‘Corporation’) as of 31 March 2020 in conjunction with our audit of the standalone financial statements of the Corporation for the year ended on that date.

In our opinion, the Corporation has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at 31 March 2020, based on the internal financial controls with reference to financial statements criteria established by the Corporation considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the ‘Guidance Note’).

**Management’s and Board of Directors responsibility for internal financial controls**

The Corporation’s management and the Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Corporation considering the essential components of internal control stated in the Guidance Note. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Corporation’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

**Auditor’s responsibility**

Our responsibility is to express an opinion on the Corporation’s internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under Section 143 (10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements were established and maintained and whether such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of such internal financial controls, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal financial control based on the assessed risk. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Corporation’s internal financial controls with reference to financial statements.

**Meaning of internal financial controls with reference to financial statements**

A company’s internal financial controls with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial controls with reference to financial statements include those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**Inherent limitations of internal financial controls with reference to financial statements**

Because of the inherent limitations of internal financial controls with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to financial statements to future periods are subject to the risk that the internal financial controls with reference to financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

For B S R & Co. LLP
Chartered Accountants
Firm's Registration No: 101248W/W-100022

AKEEL MASTER
Partner
Membership No: 046768
ICAI UDIN: 20046768AAAAIE2889

Mumbai
25 May 2020