CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors’ Report

TO THE MEMBERS OF
HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Housing Development Finance Corporation Limited (hereinafter referred to as the “Holding Company” or the “Corporation”) and its subsidiaries (Holding Company and its subsidiaries together referred to as the “Group”) and its associates, which comprise the consolidated balance sheet as at 31 March 2020, and the consolidated statement of profit and loss (including other comprehensive income), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as the “consolidated financial statements”).

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of reports of other auditors on separate financial statements of such subsidiaries and associates as were audited by the other auditors, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 (“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 consolidated state of affairs of the Group and its associates as at 31 March 2020, of its consolidated profit and other comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended.

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 Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group and its associates in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in terms of the Code of Ethics issued by the Institute of Chartered Accountants of India and the relevant provisions of the Act, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence obtained by us along with the consideration of audit reports of the other auditors referred to in sub paragraph (a) of the “Other Matters” paragraph below, is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements.

Emphasis of matter

As described in Note 8.3 to the consolidated 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.

As described in Note 3.35 to the consolidated financial statements and as highlighted wherever by respective auditors in their reports relating to the subsidiaries and associates of the Corporation, the extent to which the COVID-19 pandemic will impact the financial performance of the Group and its associates is dependent on future developments, which are highly uncertain.

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

Key Audit Matters

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

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How the matter was addressed in our audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment of loans and advances to customers</td>
<td>We performed audit procedures set out below:</td>
</tr>
<tr>
<td></td>
<td><strong>Design / controls</strong></td>
</tr>
<tr>
<td></td>
<td>• Evaluated appropriateness of the impairment principles used by Corporation’s based on the requirements of Ind AS 109, our business understanding and industry practice;</td>
</tr>
<tr>
<td></td>
<td>• Assessed the design and implementation of key internal financial controls over loan impairment process used to calculate the impairment charge;</td>
</tr>
<tr>
<td></td>
<td>• Understood Corporation’s revised processes, systems and controls implemented in relation to impairment allowance process, particularly in view of COVID-19 regulatory package;</td>
</tr>
<tr>
<td></td>
<td>• Evaluated Corporation’s controls over collation of relevant information used for determining estimates for management overlays on account of COVID-19; and</td>
</tr>
<tr>
<td></td>
<td>• Tested review controls over measurement of impairment allowances and disclosures in financial statements.</td>
</tr>
</tbody>
</table>

Recognition and measurement of impairment of loans and advances involve significant management judgement.

Under Ind AS 109, Financial Instruments, allowance for loan losses are determined using expected credit loss (ECL) model. The Corporation’s impairment allowance is derived from estimates including the historical default and loss ratios. Corporation exercises judgement in determining the quantum of loss based on a range of factors.

The most significant areas are:
- Segmentation of loan book
- Determination of exposure at default
- Loan staging criteria
- Calculation of probability of default / Loss given default
- Consideration of probability weighted scenarios and forward looking macro-economic factors

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.

Impact of COVID-19

On 11 March 2020, the World Health Organisation declared the Novel Coronavirus (COVID-19) outbreak to be a pandemic.

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:
- 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;
- impact of the pandemic on the Corporation’s customers and their ability to repay dues; and
- application of regulatory package announced by the Reserve Bank of India (RBI) on asset classification and provisioning.

Substantive tests

• Focused on appropriate application of accounting principles, validating completeness and accuracy of the data and reasonableness of assumptions used in the model;
• Test of details over calculation of impairment allowance for assessing the completeness, accuracy and relevance of data;
• Model calculations testing through re-performance where possible;
• The appropriateness of Corporation’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;
• Test checked the basis of collateral valuation in the determination of ECL provision;
### Key audit matter

Corporation 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.

<table>
<thead>
<tr>
<th>How the matter was addressed in our audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Used specialists to test the model methodology and reasonableness of assumptions used including management overlays;</td>
</tr>
<tr>
<td>- 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>
<tr>
<td>- Assessed the appropriateness of Corporation’s 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;</td>
</tr>
<tr>
<td>- Corroborated through independent check and enquiries the reasonableness of Corporation’s assessment of grading the severity of impact of COVID-19 on segments of its loan portfolio and the resultant impairment provision computed; and</td>
</tr>
<tr>
<td>- Assessing the factual accuracy and appropriateness of the additional financial statements disclosures made by the Corporation regarding impact of COVID-19.</td>
</tr>
</tbody>
</table>

### Valuation of Derivatives Instruments and Hedge Accounting

Refer to the accounting policies in Note 3.2.8 to the consolidated financial statements: Derivative financial instruments; Note 7 to the consolidated financial statements: Derivative financial instruments and Note 49.1.6.a to the consolidated 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.

The application of hedge accounting and evaluating hedge effectiveness is complex and operationally cumbersome and requires close monitoring from Corporation’s management.

<table>
<thead>
<tr>
<th>Valuation of Derivatives Instruments and Hedge Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>We performed audit procedures set out below</strong></td>
</tr>
<tr>
<td><strong>Design / controls</strong></td>
</tr>
<tr>
<td>- 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 Corporation at the inception of the hedge transaction; (ii) with regard to ongoing monitoring and review of the hedge relationship by Corporation including test of hedge effectiveness.</td>
</tr>
<tr>
<td><strong>Substantive tests</strong></td>
</tr>
<tr>
<td>- Checked the recognition and measurement of derivative instruments, for selected samples, is as per Ind AS 109;</td>
</tr>
<tr>
<td>- Examined hedge documentation on a sample basis to assess the compliance of documentation with Ind AS 109 requirements;</td>
</tr>
<tr>
<td>- Test checked on a sample basis reconciliation of derivative instruments to independent confirmations obtained from third party;</td>
</tr>
</tbody>
</table>
### Key audit matter

<table>
<thead>
<tr>
<th>How the matter was addressed in our audit</th>
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</thead>
<tbody>
<tr>
<td>• Involved specialists to perform independent valuation and compared with valuation provided by the Corporation;</td>
</tr>
<tr>
<td>• Compared input data used in the Corporation’s valuation models to independent sources on a sample basis;</td>
</tr>
<tr>
<td>• Test checked on a sample basis the applicability and accuracy of hedge accounting;</td>
</tr>
<tr>
<td>• Considered the appropriateness of disclosures in relation to financial risk management, derivative instruments and hedge accounting in the consolidated financial statements.</td>
</tr>
</tbody>
</table>

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### Valuation of Investments (other than investments in subsidiaries and associates)

Refer to the accounting policies in Note 3.2 to the consolidated financial statements: Financial instruments; Note 2.4.2 to the consolidated financial statements: Use of estimates and judgements - fair valuation of investment (other than investment in Subsidiaries and Associates); and Note 10 to the consolidated financial statements: Investments Subjective estimate

Investments carried at fair value comprise:

- Fair value through profit and loss (FVTPL) investments - ₹ 25,725 crore
- Fair value through other comprehensive income (FVOCI) investments - ₹ 5,054 crore

The effect of fair value adjustments may impact either the profit or loss or other comprehensive income.

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.

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

**Design / controls**

- Test checked the design, implementation and operating effectiveness of Corporation’s key internal controls over the valuation process and inputs.

**Substantive tests**

- 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;
- Assessed the appropriateness of the valuation methodology and test key inputs used such as pricing inputs and discount factors;
- Checked valuation methodology was consistently followed and evaluated any change in valuation technique;
- Involved specialists to test the model methodology, reasonableness of assumptions and test key inputs used such as pricing inputs and discount factors;
- Assessed the disclosures as required under prevailing accounting standards reflect the Corporation’s exposure to investment valuation risk;
- 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’.
### Key audit matter

<table>
<thead>
<tr>
<th>Description</th>
<th>How the matter was addressed in our audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase Price Allocation (&quot;PPA&quot;)</strong></td>
<td>Refer to the accounting policies in Note 2.7 to the consolidated financial statements</td>
</tr>
<tr>
<td><strong>Subjective estimate</strong></td>
<td>During the year ended 31 March 2020, the Holding Company made an acquisition of 51.16% stake in a Company for a consideration of ₹ 1,495.81 crores as detailed in Note 50.1 of the consolidated financial statements.</td>
</tr>
<tr>
<td>As required under Ind AS 103 Business Combinations, the assets and liabilities acquired were recognized at fair value on the date of acquisition. Goodwill has been determined as a difference between the purchase consideration and fair value of net assets acquired (net of related tax impact) and adjusted for the share of non controlling interest. To determine the fair values of individual assets acquired such as distribution networks, customer relationships, non-compete agreement, complex valuation models based on assumptions were used. This measurement involves significant judgement while determining estimates of future cash flows as well as the cost of capital applied. We identified determination of PPA as a key audit matter because of the degree of subjectivity and judgement exercised by Corporation’s management on account of the underlying complexity of the valuation models.</td>
<td></td>
</tr>
<tr>
<td>With respect to the accounting for the acquisition, we:</td>
<td>• Read purchase/ sale agreements and obtained an understanding of the deal structure.</td>
</tr>
<tr>
<td>• Evaluated the accounting treatment is in accordance with Ind AS 103 Business Combinations.</td>
<td></td>
</tr>
<tr>
<td>• Interpreted specific sections of the agreements and the application of accounting policies thereon.</td>
<td></td>
</tr>
<tr>
<td>• Involved internal valuation specialists to assess the appropriateness of the methodology applied by the Corporation in determining the fair valuation of assets and liabilities acquired.</td>
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</tr>
<tr>
<td>• Verified the computation of goodwill with reference to the opening balance sheet, audited by independent auditors of the acquiree and other intangibles identified and valued by the Corporation.</td>
<td></td>
</tr>
<tr>
<td>Verified the related adjustments to the consolidated financial statements in relation to the acquisition.</td>
<td></td>
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</table>

### Information Technology ("IT")

**IT systems and controls**
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 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.

- 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);
- Understood IT infrastructure i.e. operating systems and databases supporting the in-scope systems;
- Test checked the General IT Controls for design and operating effectiveness for the audit period over the in-scope systems;
- Understood IT application controls covering
  - user access and roles, segregation of duties, and
  - key interfaces and reports.
### Key Audit Matters of Subsidiary Company - HDFC Life Insurance Company Limited (‘HDFC Life’) as provided by the auditor of HDFC Life

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How the matter was addressed in our audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriateness of the Timing of Revenue Recognition in the proper period</td>
<td>During the course of their audit, the auditor of HDFC Life performed the following procedures:</td>
</tr>
<tr>
<td>During the year, HDFC Life has recognised premium revenue of ₹ 17,238 crores towards new business (first year premium and single premium). Out of the total revenue recognised, ₹ 5,089 crores was recognised during the last quarter.</td>
<td>• Understood and evaluated the design and operating effectiveness of process and controls relating to recognition of revenue.</td>
</tr>
<tr>
<td>The auditor of HDFC Life focused on this area because of the significant concentration of revenue during the last quarter of financial year (including cut-off at the Balance sheet date). Due to the nature of the industry, revenue is skewed towards the balance sheet date. Hence, there is possibility that policy sales of the next financial year are accounted in the current period.</td>
<td>• Tested key controls for ensuring that the revenue has been accrued in the correct accounting period.</td>
</tr>
<tr>
<td></td>
<td>• Tested on a sample basis the policies at the year end to confirm if related procedural compliances with regard to acceptability of the terms of policy were completed before or after the year end to ensure appropriate accounting of revenue.</td>
</tr>
<tr>
<td></td>
<td>• Relied on the certificate of HDFC Life’s management with respect to cheques on hand as at March 31, 2020.</td>
</tr>
<tr>
<td></td>
<td>• Tested on a sample basis unallocated premium to ensure that there were no policies where risk commenced prior to balance sheet but revenue was not recognized.</td>
</tr>
<tr>
<td></td>
<td>• Tested the manual accounting journals relating to revenue on a sample basis so as to identify unusual or irregular items. Agreed the journals tested to corroborative evidence.</td>
</tr>
<tr>
<td></td>
<td>• Tested on a sample basis cash receipt with the time stamp in case of products like Unit Linked Insurance Plan to confirm the recognition of the revenue in correct accounting period.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contingencies relating to certain matters pertaining to service tax and income tax</th>
<th>During the course of their audit, the auditor of HDFC Life performed the following procedures:</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Life has received various demands and show cause notices (mostly industry specific) from the tax authorities in respect of matters including service tax and income tax.</td>
<td>• Understood HDFC Life’s process and control for determining tax litigations and its appropriate accounting and disclosure.</td>
</tr>
</tbody>
</table>
Key audit matter
For service tax, the matters were mainly towards applicability of service tax on Lapse charges, recovery of agency processing fees, backdating alteration charges, recoveries on look in, policy reinstatement fees, policy fees, etc. and on income tax it is mainly towards applicability of correct section of TDS with regard to certain payments.

The HDFC Life management with the help of its expert, as needed, have made judgements relating to the likelihood of an obligation arising and whether there is a need to recognize a provision or disclose a contingent liability. We therefore focused on this area as a result of uncertainty and potential material impact.

How the matter was addressed in our audit
• Testing key controls surrounding tax.
• Litigations.
• Where relevant, reading external legal opinions obtained by HDFC Life.
• Assessed HDFC Life’s conclusions which included involvement of auditors’ independent tax experts, as applicable, to gain an understanding of the current status of the tax cases and monitoring of changes in disputes to establish that the tax provisions reflects the latest external developments.
• Discussed pending matters with the HDFC Life’s legal counsel and independent HDFC Life appointed tax experts.

C. Key Audit Matter of Subsidiary Company - HDFC Ergo General Insurance Company Limited (‘HDFC Ergo’) as provided by the auditor of HDFC Ergo

Key audit matter
Valuation of Investments:
Subjective estimate
• The carrying value of Investments amounting to ₹ 11,860.97 (₹ in Crores) (Policy holders and Shareholders) represent 62.46% of total assets as disclosed in the financial statement.
• Due to the nature of the asset and the amount involved, the regulatory prescriptions applicable to recognition, measurement and disclosure of Investments and the assumptions adopted by HDFC Ergo’s management as per Ind AS 109 in the classification and valuation of Investments, (Schedule (E) to special purpose financial statements) is considered as a key audit matter.
• The valuation of all investments should be as per provisions of Ind AS 109 and the classification as determined by the HDFC Ergo.
• HDFC Ergo has inter alia a policy framework for Valuation and impairment of Investments
• The valuation of unquoted investments and thinly traded investments continues to be an area of inherent risk because of market volatility, unavailability of reliable prices and macroeconomic uncertainty.
• HDFC Ergo performs an impairment review of its investments periodically and recognizes impairment charge when the investments meet the trigger/s for impairment provision as per the criteria set out in the investment policy of HDFC Ergo. Further, the assessment of impairment involves significant management judgement.

During the course of their audit, the auditor of HDFC ERGO performed the following procedures:
• Tested the HDFC Ergo’s management oversight and controls over valuation of investments.
• Independently test-checked valuation of unquoted investments, on a sample basis.
• Reviewed and assessed the adequacy with respect to HDFC Ergo’s assessment of impairment charge on investments outstanding at the year end. Reviewed the Fair Value with respect to specific investments.
• Reviewed the basis of provisions accounted in respect of non-performing investments and ensured that the provision meets the IRDAI guidelines and Ind AS 109.
• Reviewed the compliance with the IRDAI guidelines on recording of Income on non performing investments.
• Reviewed the adjustments required to be carried based on the subsidiary records maintained for the purpose of Ind AS Adjustments.
### Key audit matter

Provision for bad & doubtful debts relating to receivables from other insurance companies (including Government Receivables), outstanding premium and agent balances:

- “Dues from Other entities carrying on insurance business” is ₹ 140.26 (₹ in Crores) as at the year end. During the year HDFC ERGO has written off ₹ 1.36 (₹ in Crores) net of reversals of ₹ 3.01 (₹ in Crores) of earlier years being amounts due from other insurance companies. These amounts have been accounted under Profit and Loss Account.

- “Outstanding premium” amounting to ₹ 1,448.27 (₹ in Crores) (Schedule (E2) to special purpose financial statements) includes premium due from Central Government, State Government and others. This amount includes outstanding premium accounted in accordance with IRDAI Circular No. IRDAI/NL/CIR/MOT/079/04/2020 dated April 2, 2020 (further clarified by IRDAI circular No. IRDAI/NL/CIR/MOT/081/04/2020 dated April 3, 2020) on the Motor third party liability is ₹ 42.13 (₹ in Crores).

- Outstanding “Agent balances” as at the year end amounted to ₹ 0.03 (₹ in Crores).

- Due to the significance of the amount and judgement involved in assessing the recoverability of dues, this has been considered as key audit matter.

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<table>
<thead>
<tr>
<th>How the matter was addressed in our audit</th>
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</thead>
<tbody>
<tr>
<td>During the course of their audit, the auditor of HDFC ERGO performed the following procedures:</td>
</tr>
<tr>
<td>• Reviewed the historical provision for bad debts and compared it to the actual amounts written off, to determine whether management’s estimates have been prudent and reasonable.</td>
</tr>
<tr>
<td>Audit procedure included the following:</td>
</tr>
<tr>
<td>• Evaluated and tested controls over the recording, monitoring and ageing of outstanding premium, dues from other insurance companies.</td>
</tr>
<tr>
<td>• Evaluated the adequacy of the process of reconciliation followed by HDFC Ergo with respect to amounts due from other insurance Companies.</td>
</tr>
<tr>
<td>• Sent out direct confirmations of balances to select parties on a test check basis as required under “SA 505-External Confirmations”.</td>
</tr>
<tr>
<td>• Discussed with HDFC ERGO management and reviewed correspondences, where relevant, to identify disputes, if any, on any of the recoverable balances and reviewed the assessment of the HDFC ERGO management as to the requirement of provisioning if any on these disputed dues.</td>
</tr>
<tr>
<td>• Reviewed the accounting entries recorded for policy holders whose motor vehicle third party insurance policies fall due for renewal during the period on and from the March 25, 2020 up to March 31, 2020 to ensure that the premium has been considered for motor vehicle third party insurance policies as per the IRDAI guidance.</td>
</tr>
</tbody>
</table>

### Provisions and contingent liabilities

- As of March 31, 2020 HDFC ERGO has disclosed pending litigations arising out of matters relating to Service tax as contingent liabilities of ₹ 27.04 crores and Claims, other than those under policies, not acknowledged as debts as ₹ 0.16 crores. In addition HDFC Ergo has pending litigations arising out of matters relating to Service Tax ₹ 174.23 crores.

- The assessment of the existence of the present legal obligation, analysis of the probability of the related payment and analysis of a reliable estimate, requires management’s judgment to ensure appropriate accounting or disclosures.

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<table>
<thead>
<tr>
<th>How the matter was addressed in our audit</th>
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</thead>
<tbody>
<tr>
<td>During the course of their audit, the auditor of HDFC ERGO performed the following procedures:</td>
</tr>
<tr>
<td>• As part of audit procedures have assessed HDFC Ergo’s processes to identify new possible obligations and changes in existing obligations for compliance with the requirements of Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets.</td>
</tr>
<tr>
<td>The audit procedures performed included the following:</td>
</tr>
<tr>
<td>• Obtained listing from HDFC Ergo of the changes in litigation status as compared to prior year and obtained a detailed understanding of the disputes and also reviewed</td>
</tr>
</tbody>
</table>
### Key Audit Matter of Associate - HDFC Bank Limited ('HDFC Bank') as provided by the auditor of HDFC Bank

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How the matter was addressed in our audit</th>
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</thead>
<tbody>
<tr>
<td>Measurement of Expected Credit Loss (ECL) on Financial Assets:</td>
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</tbody>
</table>
| Recognition and measurement of impairment relating to financial assets involves significant management judgement. With the applicability of Ind AS 109 credit loss assessment is now based on ECL model which is forward looking Expected Loss Approach. HDFC Bank’s impairment allowance is computed based on estimates including the historical default and loss ratios. HDFC Bank leverages the assets classification and risk estimations under Internal Rating Based (IRB) capital computation for ECL computation. HDFC Bank exercises judgement in determining the quantum of loss based on a range of factors. The most significant areas are:  
  - Portfolio Segmentation.  
  - Asset staging criteria.  
  - Calculation of probability of default / Loss given default/Credit conversion factor basis the portfolio segmentation.  
  - Consideration of probability of forward looking macro-economic factors specially for COVID-19 impact. HDFC Bank has Board approved policy on ECL to ensure the compliance with Ind AS 109 requirements and the basis of all assumptions for underlying inputs to ECL model. | During the course of their audit, the auditor of HDFC Bank performed the following procedures:  
  - Reviewed the Board approved policy on ECL for impairment of financial assets and assessed compliance with Ind AS 109.  
  - Understood the process of ECL computation and tested design and operating effectiveness of key controls around data extraction and validation.  
  - Evaluated HDFC Bank’s controls over collation of relevant information used for determining estimates for management overlays on account of COVID-19.  
  - Involved specialists to review the methodology of the computation of staging of loans, estimation of probability of default, its calibration, and estimation of loss given default.  
  - Reconciled the total financial assets considered for ECL estimation with the books of accounts to ensure the completeness. Performed substantive procedures for testing of ECL model and computation of ECL amount included and not limited to the following: |
### Key audit matter

The Bank has a wide range of products in retail segment and exposure to various industries in wholesale segment. There is significant data input required for the computation of ECL for homogenous product in retail segment and basis model and internal grading system in wholesale segment. This increases the risk of completeness and accuracy of the data that has been used as a basis of assumptions in the model.

Identified the measurement of ECL as a key audit matter in view of the significant judgement and assumptions involved.

<table>
<thead>
<tr>
<th>How the matter was addressed in our audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Performed procedures over segmentation of financial assets related to the advances in retail and wholesale as per their various products and models and risk characteristics.</td>
</tr>
<tr>
<td>• Reviewed the assumptions used for and computation of probability of default, loss given default, discounting factors, credit conversion factor for different class of financial assets as per their nature and risk assessment for sample class of assets.</td>
</tr>
<tr>
<td>• Tested the appropriate staging of assets basis their days past due and other loss indicators on sample basis.</td>
</tr>
<tr>
<td>• Reviewed the assessment performed for forward looking macro-economic factor.</td>
</tr>
<tr>
<td>• Tested the ECL computation and ensured application of correct underlying factor like PD, LGD, CCF etc. basis the nature of products and models.</td>
</tr>
</tbody>
</table>

### Information Technology ("IT") Systems and Controls:

HDFC Bank has a complex IT architecture to support its day to day business operations. High volume of transactions is processed and recorded on single or multiple applications.

The reliability and security of IT systems plays a key role in the business operations of HDFC Bank. Since large volume of transactions are processed daily, the IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner.

Appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting.

Identified ‘IT systems and controls’ as key audit matter because of the high level automation, significant number of systems being used by HDFC Bank and the complexity of the IT architecture and its impact on the financial reporting system.

During the course of their audit, the auditor of HDFC Bank performed the following procedures:

For testing the IT general controls, application controls and IT dependent manual controls, involved IT specialists as part of the audit. The team also assisted in testing the accuracy of the information produced by HDFC Bank’s IT systems.

Gathered a comprehensive understanding of IT applications landscape implemented at the Bank. It was followed by process understanding, mapping of applications to the same and understanding financial risks posed by people-process and technology.

Key IT audit procedures includes testing design and operating effectiveness of key controls operating over user access management (which includes user access provisioning, de-provisioning, access review, password configuration review, segregation of duties and privilege access, change management (which include change release in production environment are compliant to the defined procedures and segregation of environment is ensured), program development (which include review of data migration activity), computer operations (which includes testing of key controls pertaining to, backup, Batch processing (including interface testing), incident management and data centre security), System interface controls. This included testing that requests for access to systems were appropriately logged, reviewed and authorized. Also, entity level controls pertaining to policy and procedure and Business continuity plan assessment due impact of COVID-19 was also part of audit procedure.
<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How the matter was addressed in our audit</th>
</tr>
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<tr>
<td></td>
<td>In addition to the above, the design and operating effectiveness of certain automated controls, that were considered as key internal system controls over financial reporting were tested. Using various techniques such as inquiry, review of documentation/record/reports, observation and re-performance. Also tested few controls using negative testing technique and had taken adequate samples of instances for test.</td>
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</table>

**Information Other than the Consolidated Financial Statements and Auditors’ Report Thereon**

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed and based on the work done/audit report of other auditors, 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' Responsibilities for the Consolidated Financial Statements**

The Holding Company’s Management and Board of Directors are responsible for the preparation and presentation of these consolidated financial statements in term of the requirements of the Act that give a true and fair view of the consolidated state of affairs, consolidated profit/loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows of the Group and its associates in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act. The respective Management and Board of Directors of the companies included in the Group and of its associates are responsible for assessment of the ability of each company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the respective Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group and of its associates is responsible for assessing the ability of each company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the respective Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
for overseeing the financial reporting process of each company.

**Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 the internal financial controls with reference to the consolidated financial statements and the operating effectiveness of such controls based on our audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures 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 in preparation of consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the appropriateness of this assumption. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated 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 auditors’ report. However, future events or conditions may cause the Group and its associates to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of such entities or business activities within the Group and its associates to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of financial information of such entities included in the consolidated financial statements of which we are the independent auditors. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion. Our responsibilities in this regard are further described in para (a) of the section titled ‘Other Matters’ in this audit report.

We believe that the audit evidence obtained by us along with the
consideration of audit reports of the other auditors referred to in sub-
paragraph (a) of the Other Matters paragraph below, is sufficient and
appropriate to provide a basis for our audit opinion on the consolidated
financial statements.

We communicate with those charged with governance of the Holding
Company and such other entities included in the consolidated financial
statements of which we are the independent auditors 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
consolidated financial statements of the current period and are therefore
the key audit matters. We describe these matters in our auditors’ 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.

Other Matters

(a) The consolidated financial statements include the audited
consolidated (where applicable) financial statements of 11
subsidiaries and 1 associate, whose financial statements/
financial information reflect Group’s share of total assets of
₹ 1,60,103 crores as at March 31, 2020, Group’s share of total
revenue of ₹ 42,062 crores and Group’s share of total net
profit after tax of ₹ 7,304 crores for the year ended on that date, as
considered in the consolidated financial statements, which have
been audited by their respective independent auditors. The
independent auditors’ reports on financial statements/financial
information of these entities have been furnished to us by the
management and our opinion on the consolidated financial
statements, in so far as it relates to the amounts and disclosures
included in respect of these entities, is based solely on the
report of such auditors.

(b) The consolidated financial statements include the financial
statements of a subsidiary acquired by the Holding Company
on 9 January 2020, whose financial statements (prior to
recognition of adjustments in accordance with Ind AS 103
“Business Combinations”, which have been audited by us) reflect
Group’s share of total assets of ₹ 2,733 crores as at March 31, 2020, Group’s share of
total revenue of ₹ 999 crores and Group’s share of total net
profit after tax of ₹ 131 crores for the period ended on that date, as
considered in the consolidated financial statements, which have
been audited by the subsidiary’s independent auditors.
Similarly, the opening balance sheet of the subsidiary (prior to recognition of adjustments in accordance with Ind AS 103 “Business Combinations”, which have been audited by us) as considered by the Holding Company, for the purposes of computation of goodwill, has been audited by the subsidiary’s independent auditors.

The independent auditors’ reports on financial statements and opening balance sheet of this subsidiary have been furnished to us by the management and our opinion on the consolidated annual financial statements, in so far as it relates to the amounts and disclosures included in respect of this subsidiary, is based solely on the report of such auditors.

(c) The consolidated financial statements include the unaudited financial statements of 2 subsidiaries, a component of subsidiary and 3 associates, whose financial statements / financial information reflect Group’s share of total assets of ₹316 crores, Group’s share of total revenue of ₹62 crores and Group’s share of total net profit after tax of ₹2 crores and Group’s share of net cash inflows of ₹16 crores for the year ended March 31, 2020, as considered in the consolidated financial statements. These unaudited financial statements/financial information have been furnished to us by the Board of Directors and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, component of subsidiary and associates is based solely on such financial statements/financial information. In our opinion and according to the information and explanations given to us by the Board of Directors, this financial statements/financial information are not material to the Group.

(d) Further, in case of a subsidiary where the financial statements for the year ended March 31, 2020 have been audited by us, the figures reported as comparatives were audited by the then statutory auditor. Such comparative figures reflect Group’s share of total assets of ₹137 crores, Group’s share of total revenue of ₹461 crores, Group’s share of total net profit after tax of Rs. 6 crores, Group’s share of net cash inflows of ₹6 crores for the year ended as at March 31, 2019.

(e) Investment in equity shares of a subsidiary have been sold during the year ended March 31, 2020 and consequently the entity ceased to be a subsidiary of the Holding Company effective August 30, 2019. Further, the investment in this entity was classified as an associate with effect from August 31, 2019. Thereafter, the investment in this associate stand cancelled with reference to the scheme of merger, effective October 17, 2019, and the entity ceased to be an associate.

For the year ended March 31, 2020, the consolidated financial statements includes the financial statements of this subsidiary, which reflect total revenues of ₹907 crores and total net profit after tax of ₹174 crores and total comprehensive income of ₹173 crores for the period from April 1 to August 30, 2019, whose financial statements have not been audited.

For the year ended March 31, 2020, the consolidated financial statements includes the Group’s share of net profit after tax of ₹11 crores for the period August 31, 2019 to October 17, 2019, which has not been audited.

In respect to the above entity, the financial statements have been furnished to us by management and our report on the consolidated financial statements in so far as it relates to the amounts included in respect of this entity are based solely on such financial information/ explanation given to us and is management certified.

(f) Expenses pertaining to Life Insurance Business includes charge for actuarial valuation of liabilities for life policies in force and policies where premium is discontinued, in respect of one subsidiary and Expenses pertaining to General Insurance Business includes the estimate of claims Incurred But Not Reported (’IBNR’) and claims Incurred But Not Enough Reported (’IBNER’) in respect of another subsidiary.

This charge has been determined based on the liabilities duly
certified by the respective subsidiaries appointed actuaries, and in their respective opinion, the assumptions for such valuations are in accordance with the guidelines and norms issued by the Insurance Regulatory and Development Authority of India (‘IRDAI’) and the Institute of Actuaries of India in concurrence with the IRDAI. The respective auditors of these subsidiaries have relied on the appointed actuary’s certificate in this regard in forming their conclusion on the financial statements of the said subsidiaries.

Our opinion on the consolidated financial statements is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/financial information certified by the Board of Directors.

Report on Other Legal and Regulatory Requirements

A. As required by Section 143(3) of the Act, based on our audit and on the consideration of reports of the other auditors on separate financial statements of such subsidiaries and associates as were audited by other auditors, as noted in the ‘Other Matters’ paragraph, we report, to the extent applicable, 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 of the aforesaid consolidated financial statements.

b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

c) The consolidated balance sheet, the consolidated statement of profit and loss (including other comprehensive income), the consolidated statement of changes in equity and the consolidated statement of cash flows dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.

d) In our opinion, the aforesaid consolidated 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 of the Holding Company as on 31 March 2020 taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies and associate companies, none of the directors of the Group companies and its associate companies is disqualified as on 31 March 2020 from being appointed as a director in terms of Section 164(2) of the Act.

f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Holding Company, its subsidiary companies and associate companies and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.

B. With respect to the other matters to be included in the Auditors’ Report in accordance with Rule 11 of the Companies (Audit and Auditor’s) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on separate financial statements of the subsidiaries and associates, as noted in the ‘Other Matters’ paragraph:

i. The consolidated financial statements disclose the impact of pending litigations as at 31 March 2020 on the consolidated financial position of the Group and its associates. Refer Note 44 to the consolidated financial statements;

ii. Provision has been made in the consolidated financial statements, as required under the applicable law or Ind AS, for material foreseeable
losses, on long-term contracts including derivative contracts. Refer Note 7.1 to the consolidated financial statements in respect of such items as it relates to the Group and its associates;

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 consolidated 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 the 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 and based on the reports of the statutory auditors of such subsidiary companies and associate companies which were not audited by us, the remuneration paid during the current year by the Holding Company, its subsidiary companies and associate companies to its directors is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director by the Holding Company, its subsidiary companies and associate companies 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
Mumbai Partner
25 May 2020 Membership No: 046768
ICAI UDIN 20046766AAAAIG5257
Annexure - A to the Independent Auditors’ report – March 31, 2020

(Referred to in our report of even date)

Report on the internal financial controls with reference to the aforesaid consolidated financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013
(Referred to in paragraph (A.f) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)

Opinion

In conjunction with our audit of the consolidated financial statements of Housing Development Finance Corporation Limited (hereinafter referred to as the ‘Holding Company’ or the ‘Corporation’) as of and for the year ended 31 March 2020, we have audited the internal financial controls over financial reporting of the Holding Company and such companies incorporated in India under Companies Act, 2013 which are its subsidiaries (the Holding Company and its subsidiaries together referred to as the ‘Group’) and associate companies, as of that date.

Expenses pertaining to Life Insurance Business includes charge for actuarial valuation of liabilities for life policies in force and policies where premium is discontinued, in respect of one subsidiary and Expenses pertaining to General Insurance Business includes the estimate of claims Incurred But Not Reported (‘IBNR’) and claims Incurred But Not Enough Reported (‘IBNER’) in respect of another subsidiary. This charge has been determined based on the liabilities duly certified by the respective subsidiaries appointed actuaries, and in their respective opinion, the assumptions for such valuations are in accordance with the guidelines and norms issued by the Insurance Regulatory and Development Authority of India (‘IRDAI’) and the Institute of Actuaries of India in concurrence with the IRDAI. The respective auditors of these subsidiaries have relied on the appointed actuary’s certificate in this regard in forming their opinion on the financial statements of the said subsidiaries.

In our opinion, the Holding Company and such companies incorporated in India which are its subsidiary companies and its associate companies, have, in all material respects, adequate internal financial controls with reference to consolidated financial statements and such internal financial controls were operating effectively as at 31 March 2020, based on the internal financial controls with reference to consolidated financial statements criteria established by such companies considering the essential components of such internal controls 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 respective company’s management and the Board of Directors are responsible for establishing and maintaining internal financial controls with reference to consolidated financial statements based on the criteria established by the respective company 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 the respective company’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 Companies Act, 2013 (hereinafter referred to as ‘the Act’).

Auditor’s responsibility

Our responsibility is to express an opinion on the internal financial controls with reference to consolidated financial statements based on our audit. We conducted our audit in accordance with the Guidance Note issued by the ICAI and the Standards on Auditing, issued by the ICAI and specified under Section 143(10) of the Act to the extent applicable to an audit of internal financial controls with reference to consolidated 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 consolidated financial statements were established and maintained and if 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 consolidated financial statements and their operating effectiveness. Our audit of internal financial controls with reference to consolidated financial statements included obtaining an understanding of internal financial controls with reference to consolidated financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal 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 consolidated financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained and the audit evidence obtained by other auditors of the subsidiary companies and associate companies in terms of their reports referred to in the ‘Other matters’ paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system with reference to consolidated financial statements.

Meaning of Internal Financial controls with Reference to Consolidated Financial Statements

A company’s internal financial control with reference to consolidated 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 control with reference to consolidated financial statements includes 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 authorizations of management and Directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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 over financial reporting

Because of the inherent limitations of internal financial controls with reference to consolidated 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 consolidated financial statements to future periods are subject to the risk that the internal financial control with reference to consolidated financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other matter

Our aforesaid report under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls with reference to consolidated financial statements in so far as it relates to the 9 subsidiaries and 2 associate companies, which are companies incorporated in India, is based on the corresponding reports of the auditors of such companies incorporated in India.

Our opinion on the adequacy and operating effectiveness of internal financial controls over financial reporting is not modified in respect of the above matter with respect to our reliance on the work done and reports of the other auditors and representations of Board of Directors and management of the Corporation.