Transformational Combination of Housing Development Finance Corporation Limited ("HDFC Limited" or "HDFC") with HDFC Bank Limited ("HDFC Bank")

April 11, 2022

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Transaction overview

Transaction Structure	• HDFC Limited, India's largest housing finance company with a total AUM of INR 5.26 Tn[3] and a market cap of INR 4.44 Tn[1] will merge into HDFC Bank, India's largest private sector bank by assets with market cap of c. INR 8.35 Tn[1] • Subsidiary/associates of HDFC Limited will become subsidiary/associates of HDFC Bank
Pro-forma Shareholding	• Shareholders of HDFC Limited as on record date will receive 42 shares of HDFC Bank (FV Re. 1/- each) for 25 shares of HDFC Limited (FV Rs. 2/- each) • HDFC Limited's shareholding in HDFC Bank will be extinguished as per the scheme of amalgamation ("Scheme") upon the Scheme becoming effective • Post the above, HDFC Bank will be 100% owned by public shareholders and existing shareholders of HDFC Limited will own 41% of HDFC Bank[2]
Closing Timeline and Approvals	• Transaction completion is subject to shareholders, creditors and regulatory approvals including from RBI, IRDAI, CCI, SEBI and Stock Exchanges • Closing is expected to be achieved within ~18 months, subject to completion of regulatory approvals and other customary closing conditions

HDFC BANK

HDFC

Note:
1. Market cap as of 1st April 2022
2. Shareholding post closing on a fully diluted basis
3. As of Dec 31st, 2021; Net Advances

Executive Summary

1 HDFC Bank's "faster than industry" organic growth gets a fillip

- Mortgage business in banking model is more profitable aided by low cost of funds
- Access to wide and deepening distribution points of presence
- Enhances customer life cycle value as housing is a long tenor product
- HDFC Bank's technology driven operating efficiency and execution prowess bolstered by HDFC's low cost of mortgage business
- Home loan product enhances customer trust as the Bank partners customers in their journey from "house" to "home"
  - ~70% of HDFC's customers do not bank with HDFC Bank presenting an opportunity
- Complete relationship banking including home loans can be offered by the Bank which enhances cross sell potential
  - ~8% customers of HDFC Bank have mortgages from other providers
  - Better visibility of customer enhances risk assessment framework, adding further unsecured products
- Combined entity can drive banking product format (e.g. housing with OD format) to meet varied customer needs

2 Merger is the logical next step

- Scale, growth track record and profitability of both organizations has strengthened over last 2 decades
- Access to time tested product process and expertise of HDFC
- Regulatory convergence and market developments over time have improved the risk-reward equation

Executive Summary (Cont'd)

3 Regulatory convergence and harmonization has been an enabler

- Reserving requirements have come down from 30% to 22% enabling organic compliance with reserving
  - Interest rates give positive spreads on reserves
- Resource mobilization through long tenor infrastructure and affordable housing bonds which are exempt from reserves and PSL
- PSL generation through deeper reach coupled with deepening third-party market and affordable housing inclusion in PSL
- Synchronized and aligned asset recognition and provisioning framework of NBFCs with that of HDFC Bank

4 Certain requests made to the regulator

- Glide path / gradual compliance enables on-balance sheet organic growth and supports India's GDP compounding
- Retention / enhancement of shareholding in subsidiaries subject to compliance with applicable thresholds
  - Insurance subsidiary – banking regulations allow stake holding in excess of 50%

Executive Summary (Cont'd)

5 Resultant technical positives for shareholders

- Cancellation of HDFC Limited's holding in HDFC Bank is day-0 accretive to book value and EPS of the Bank
  - HDFC Bank's shares eliminated at a price which has a holding company discount
- Potential value uplift from improving sum-of-the-parts value on the back of HDFC Bank's reach and distribution strength
  - Price reflects holding company discount on subsidiaries
- Increase in headroom for foreign institutions; Proforma headroom at 7.5% basis 31st Dec 2021 shareholding pattern
  - 7.5% of foreign holding headroom translates to 10.1% of free float headroom for index providers (MSCI, FTSE)
- Index providers (MSCI, FTSE) reviewing the transaction especially in context of merger vis-a-vis consideration of combined entity as new entrant
  - Index providers potentially may consider both free float percentage and free float value
- S&P and Moody's have affirmed HDFC Bank's outstanding ratings, S&P has highlighted that the merger will boost HDFC Bank's market share and diversify its revenues

Full Stack Financial Services Conglomerate, Potential Win Win for All Stakeholders

1. Structural Drivers in Place for Housing Sector; Housing Demand Poised to Drive Indian Economy
2. Secured and Long Tenor Product will Lead to Robust Asset Portfolio Mix
3. Ability to Cross-sell to a Large and Growing Customer Base
4. Leveraging the Power of Distribution in Urban, Semi-urban and Rural Geographies
5. Combination with Proven Multi Decade Mortgage Underwriting Expertise Across Credit Cycles
6. Combined Balance Sheet of INR 17.87 Tn(1) and INR 3.3 (2) Tn Net Worth Enabling Larger Underwriting at Scale

Note:
1. As of Dec 31st, 2021; Net Advances
2. As of Dec 31st, 2021; net of cancellation on a proforma basis

HDFC Bank and HDFC have been Growth Compounders

HDFC BANK

	FY2015	FY2018	FY2021
Branches (#)	**4,014**	**4,787**	**5,608**
Gross Advances (INR Cr.)	**3,67,888**	**6,64,254**	**11,43,309**
3Y CAGR (%)[2]		*22%*	*20%*
Market Share (%)[3]	*4.9%*	*7.5%*	*10.5%*
Deposits (INR Cr.)	**4,50,796**	**7,88,771**	**13,35,060**
3Y CAGR (%) [2]		*21%*	*19%*
Cost of Funds (%)	**5.1%**	**4.3%**	**3.5%**
Profit After Tax (INR Cr.)	**10,216**	**17,487**	**31,117**

HDFC

	FY2015	FY2018	FY2021
Branches (#)[5]	**275**	**326**	**390**
Gross Advances (INR Cr.)	**228,181**	**362,811**	**498,298**
3Y CAGR (%) [2]		*17%*	*11%*
% Individual	*68%*	*70%*	*74%*
Total Borrowings (INR Cr.)[4]	**209,217**	**319,716**	**441,365**
3Y CAGR (%) [2]		*15%*	*11%*
Cost of Funds (%)	**9.5%**	**7.5%**	**6.7%**
Profit After Tax (INR Cr.)	**5,990**	**10,959**	**12,027**

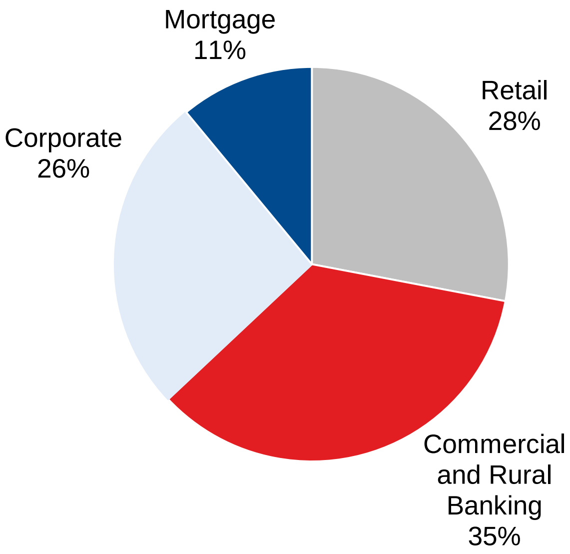
Growth compounding at scale amidst rising market share continues…

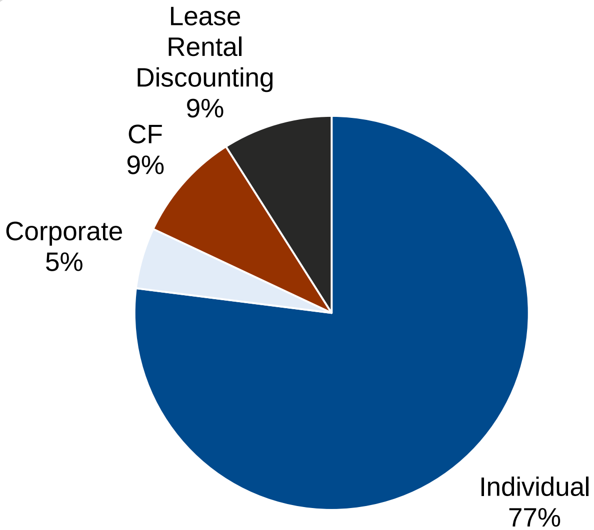
Source: Annual reports, Public Filings and RBI
Note:
1. Metrics based on standalone financials; For HDFC Ltd., FY15 is on I-GAAP and FY18, FY21 are on Ind As
2. Numbers have been rounded off for convenience of representation
3. Market share computed on total advances
4. Borrowings include deposits
5. Excludes HDFC Sales office

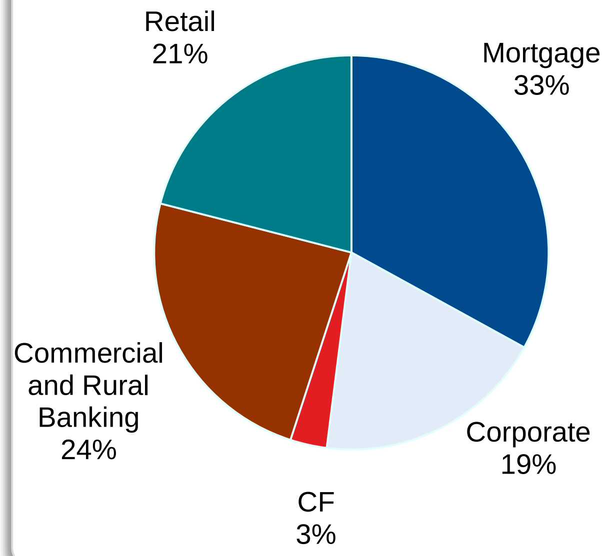
Secured and Long Tenor Product will Lead to Robust Asset Portfolio Mix

	HDFC BANK	HDFC	Pro Forma
Total Advances (INR Cr.)[1,2]	12,68,863	5,25,806	17,86,669

Loan Book Mix (%)[1]



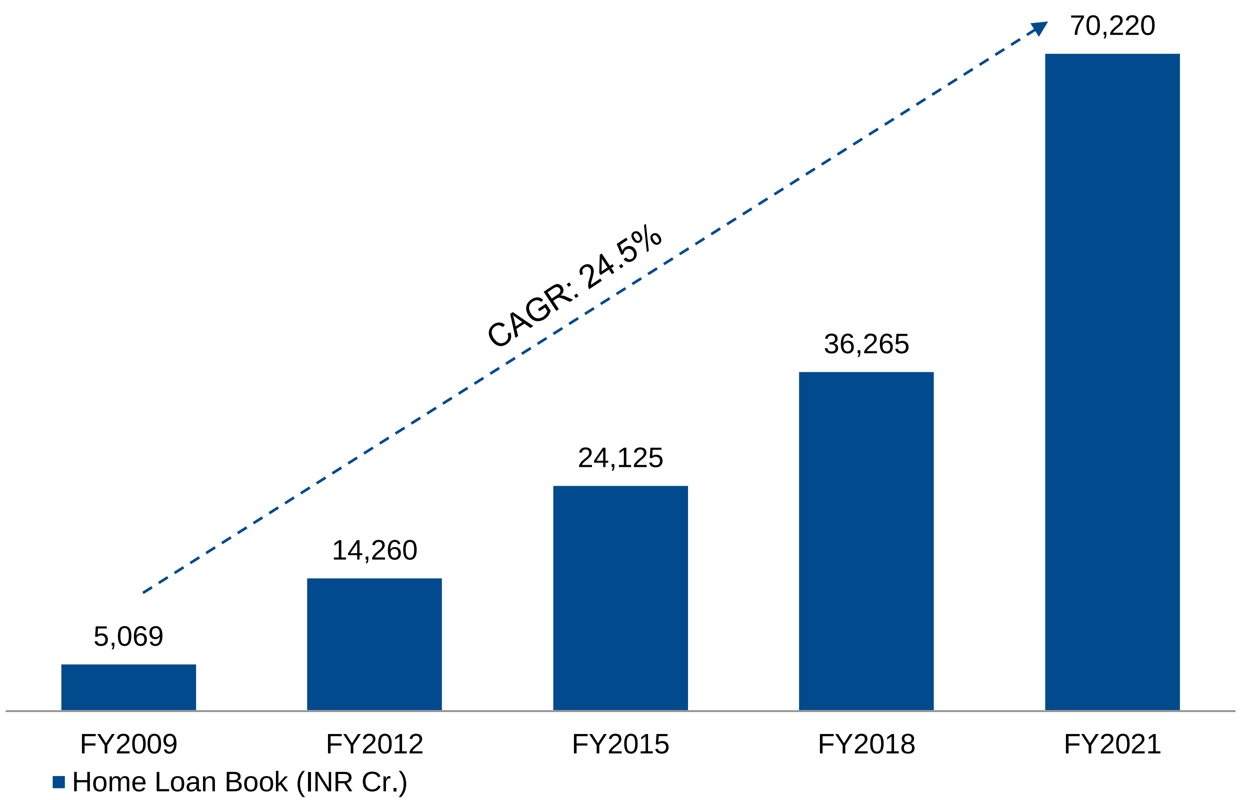




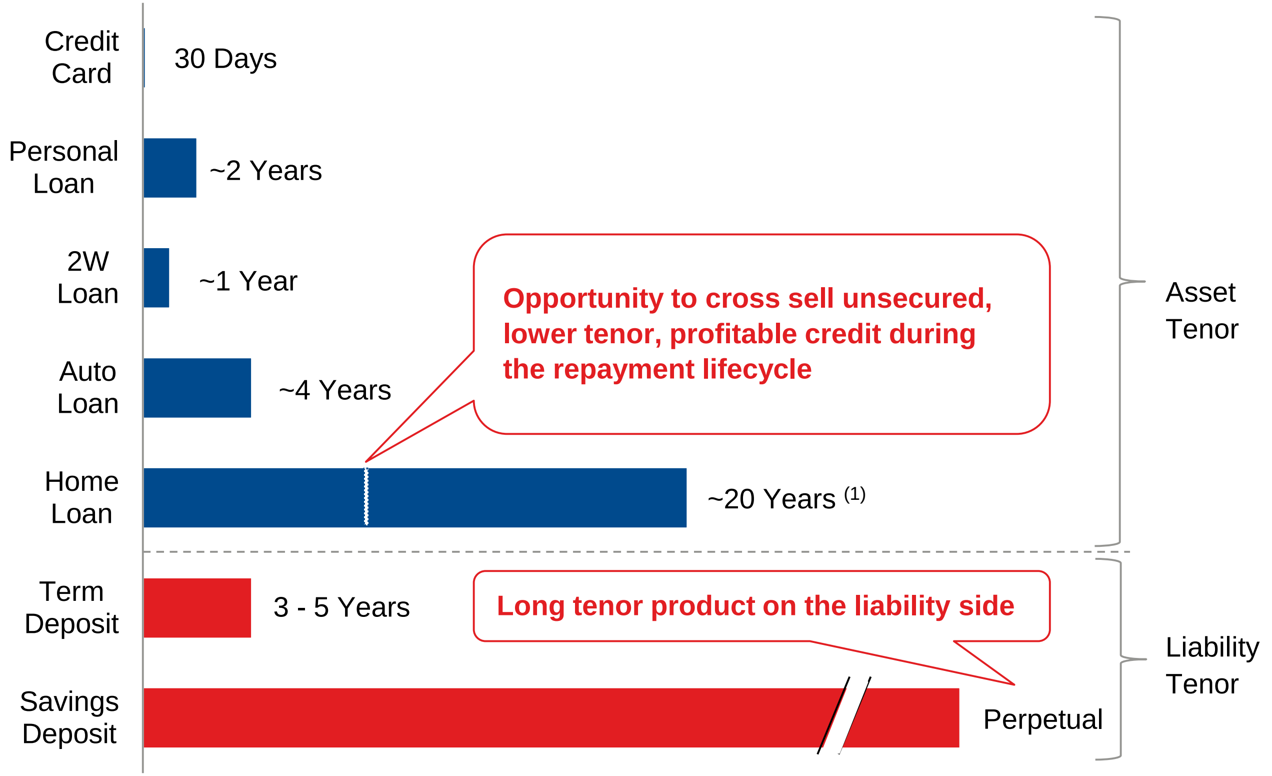
Note:
1. As of Dec 31st, 2021 (unaudited)
2. Net Advances

Mortgage Provides Duration to Balance Sheet, Lowering Portfolio Concentration Risk

Growing Importance of Mortgages for the Bank



Sticky Product, Generating Greater Customer Lifetime Value

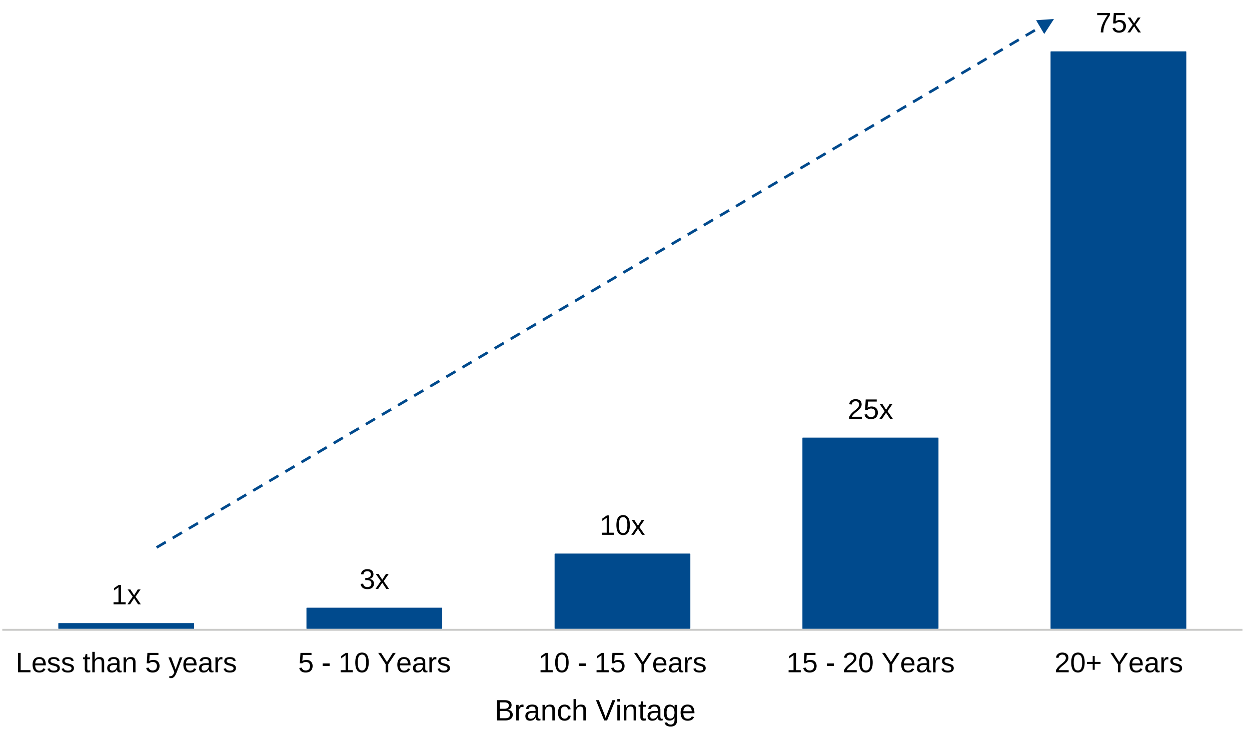


Better visibility of customer enhances risk assessment framework, aiding further cross sell opportunities

Note:
1. Maximum tenor

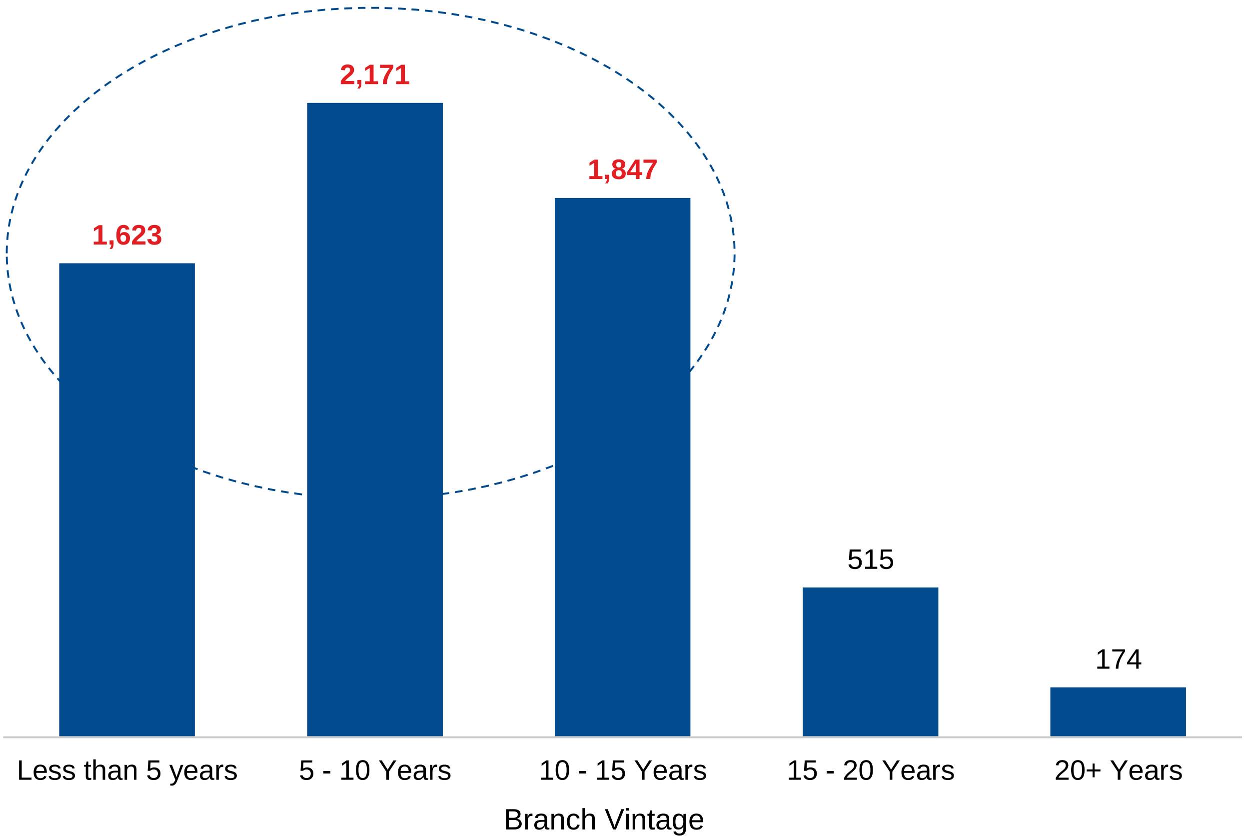
Leveraging the Power of Branch Banking: Well Poised for Sourcing Deposits and Housing Loans

Branch deposits compound with time



Continued Branch expansion to increase reach

~90% Branches Less than 15 Years Old → At an Inflection Point



50+% of branches in Semi Urban and Rural areas aiding affordable housing growth

Two-Pronged Growth Strategy for Deposits – Enabler for Loan Growth

1

Incremental Branches

- HDFC Bank has re-inflected the rate of branch addition with FY22 additions being nearly equal to the overall additions between FY19 to FY21
  - HDFC Bank intends to further increase the velocity of branch additions over the next few years
- The increase in branch network has been and is expected to be primarily in semi urban and rural (SURU) areas
  - Helps garner deposits from deeper geographies and allows the Bank to capture local ecosystems
- The incremental branches further widen the Bank's reach and augment its customer and deposit base significantly

2

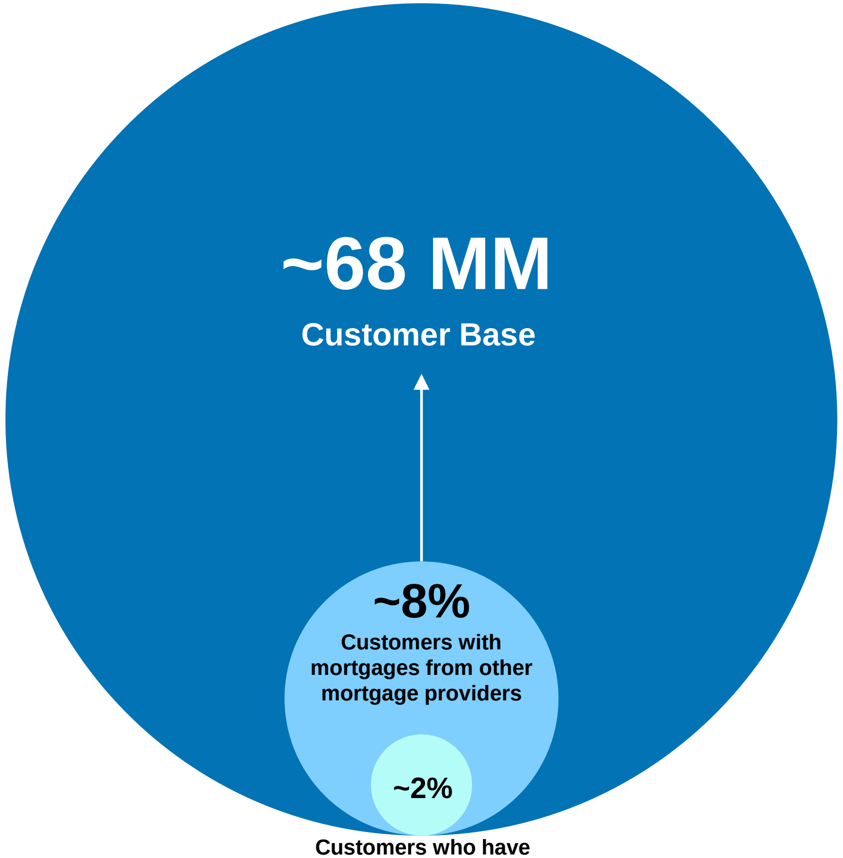
Exponential Deposit Growth

- The Bank benchmarks its branches to the 'best-in-class' operating branch
  - Helps maintain momentum of customer acquisition
  - The Bank is acquiring new liability relationships at a run rate of ~9 -10 MM relationships per annum
- As branches mature into well-established vintage branches the branch productivity increases and its deposits compound with time
  - For instance, branches with a 5 - 10 year vintage grow by ~3x vis-à-vis the branches with a < 5 year vintage

Enhanced branch network and improved productivity has led to ~2x increase in retail deposits per branch over FY17 – 22

Unleashing the Potential of Mortgage in Banking Model

Significant Headroom for Mortgage Penetration

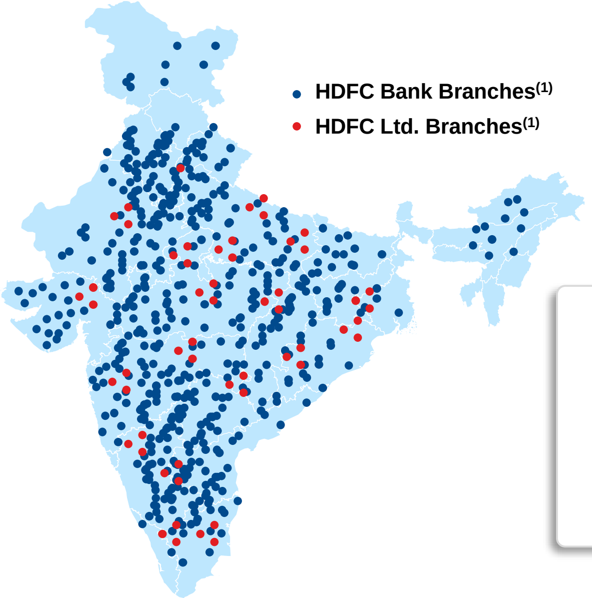


Conversion of mortgage from an agency product to an in-house product across all branches → significant opportunity to increase the span of the mortgage product offering

70% of HDFC's customers are not banking with HDFC Bank, presenting yet another addressable opportunity

New customer relationship addition of ~9 – 10 MM per annum

Mortgage Lends Itself to Physical Distribution



Regulations require customers to physically visit the branches of mortgage provider for a wet signature

Need for mortgage provider to have a distribution point of presence across each micro market, to facilitate servicing of mortgage related documents

A large portion of HDFC Bank's branch network is unable to source mortgages due to limitations in HDFC's network – the merger now unlocks this growth opportunity

The combined entity will continue to grow and achieve its above industry growth as demonstrated in the past

HDFC BANK HDFC

Note:
1. Branch presence Pan India is for representative purposes only, and not to scale

Ability to Better Cross Sell with Full Suite of Financial Products

Mortgages

Savings Accounts

Combined Customer Base

HDFC BANK

HDFC

- Life Insurance
- General Insurance
- Health Insurance
- Investment Products
- Credit Cards
- Personal Loans

Ability to Enhance Customer Lifetime Value

Combination with Deep Multi-Decade Mortgage Underwriting Expertise Across Cycles

HDFC BANK		HDFC
Superior Scale and Distribution	+	1st Retail Housing Finance Player in India
Core Financial Products		45 years of Deep Domain Expertise
Superior Risk Management Framework		Best-In-Class Cost of Operations
Strong Data Analytics & Digital Competencies		~3,500 Product Specialists

Enhanced resilience for infrastructure lending

Facilitate larger quantum of credit into the priority sector including agriculture

Enabler for underwriting large ticket loans enhancing wholesale lending

Faster Origination, Improved Operational Efficiency, and Reduced Default Rates

Pro Forma Impact on Key Metrics

	HDFC BANK	HDFC	Pro Forma	Delta
Equity Shares Outstanding (# MM) (1)	554	181	742	+34%
Annualized PAT (INR Cr.) (1)	35,875	13,388	49,263	+37%
Earnings per Share (INR / Share)	c.65	c.74	c.67	+3%
Net Worth (INR Cr.) (1)	229,640	115,400	330,768	+44%
Book Value per Share (INR / Share)	414	638	446	+8%
Advances (INR Cr.)(1)	12,68,863	5,25,806	17,86,669	+42%
Capital Adequacy Ratio (%)(1)	19.5%	22.4%	19.8%	+30 bps

HDFC Bank and HDFC have Delivered Superior Shareholder Returns across Decades
Post combination "One Plus One will be greater than Two"

Note:
1. Standalone (unaudited), as of Dec 31st, 2021; Basis addition without adjustments to bank model. Not to be considered as continuing in the future.

Indicative Timelines for Transaction, Approvals and Applicability of Liquidity, PSL Considerations

Announcement: 4th April 2022

Upto ~4 months

Regulatory Filings & Approvals

- SEBI/Stock Exchange
- RBI
- NHB
- IRDAI
- CCI

12 – 14 months

NCLT Filings & Approvals

- Filing of Scheme
- NCLT approval, creditors approval, other approvals

~1 month

ROC Filing

- ROC Filing
- Allotment of shares

Effective Date

Completion of Merger Process: Expected by Q3 FY2024

- On merger being effective, liquidity requirements (CRR, SLR) will kick in

~12 month

- PSL obligation kicks in by FY2025

Integration: Power of ONE

One Firm-One Culture-One Bank-One Brand

Seamless Integration

- HDFC Bank has assessed build vs. buy in context of mortgages
- HDFC brings a best-in-class product which is widely accepted by the market; Along with its product and underwriting expertise, it brings along multi-decade experience in the home loan arena along with experience across credit cycles
- HDFC Bank will own the “HDFC” brand; Combined entity will offer HDFC branded home loans, which is a product that has customers’ trust
- For the Bank to organically build this portfolio and expertise, it would entail a gradual learning curve in contrast to the currently envisaged ‘lift-shift-execute’ strategy, that leads to seamless integration given that the Bank is already sourcing the product

People	Complementary human capital
Processes	Well-entrenched and aligned processes would reduce lead time typically needed to unlock synergies
Infrastructure	Minimal need towards optimization of any physical infrastructure assets
Adjust to Bank Model	Lead time till transaction completion provides opportunity to normalize for adjustment to banking model
Limited Disruption	Existing arrangement on Mortgages to continue; Ability to further scale up during before effective date

Merger Integration is Envisaged to be “Bolt-on with Low Touch”

Mortgage in Banking Model

1

What is the impact of mortgage product on HDFC Bank's margins?

- Net Interest Margins (NIMs) should be evaluated vis-à-vis return on assets (RoA)
- Generally, secured products and high credit quality loans have lower margins coupled with lower cost of acquiring & servicing (for eg. HDFC's cost to income is ~8%); additionally, credit costs on these are also benign
- Therefore, the troika of reasonable NIMs, low cost of service and benign credit costs, helps achieve reasonable RoAs
- Further, such RoAs with lower risk weighted assets (RWA) density eventually yield a better return on equity (RoE);
- In the initial period subsequent to the effective date, the RoE will be lower given the large capital base of the combined entity; As the capital gets utilized on the back of loan growth the Bank will return to normalized ROE.
- As the current higher proportion of wholesale assets rebalances, it presents an opportunity to replace them with mortgages

2

Will the profitability of the mortgage product increase once it moves into the Bank?

The key positives from a banking model perspective for the mortgage business are:

- Well diversified funding sources coupled with access to lower cost funds; healthy CASA mix aids in spread expansion
- Evolution from a single product offering to a full stack financial services offering
- Priority sector lending (PSL) businesses are expected to deliver a risk adjusted RoA comparable to HDFC Bank's average
- Increased profitability and shareholder returns from:
    - Ability to deliver the home loan product in deeper geographies
    - Greater loan growth on the back of better visibility into the customer enabling enhanced risk assessment
    - Mortgage serving as another lead-in product category in addition to the Savings Account
    - Provision of a longer duration to the balance sheet for higher customer relationship value over life of the loan
    - Increase in penetration into existing customer base and greater cross sell opportunity

Priority Sector Lending (PSL): What Changes?

When do these requirements get tested?	• Priority Sector Lending obligations will kick-in with a lag of 12 months post the merger becoming effective • For instance, if the merger is effective from Q3 FY2024, the incremental PSL obligations will be reckoned in FY2025
What does HDFC Bank currently do and how the requirements will be implemented?	• Bank has been able to grow PSL business organically, which provides an attractive risk-adjusted ROA o The Bank's well-oiled commercial & rural banking engine with ~50% branches in semi urban & rural markets aid in growing PSL book organically o Organic on-balance sheet PSL business generates an RoA above the Bank's overall RoA – provides strong risk-adjusted returns o Certain products of the Bank such as Sustainable Livelihood Initiative (SLI), Tractor Loans, Agriculture loans qualify entirely under PSL norms • Participation in the Priority Sector Lending Certificate ('PSLC') market o The Bank has been an active participant in the PSLC market, both as a purchaser and a seller of PSLCs o PSLCs do not require any additional funding requirements and typically cost between 50 bps to 250 bps • Deployment of funds under NABARD / SIDBI allocation o Any shortfall to meet PSL obligations can also be offset through deployment in the NABARD/SIDBI bonds o This event would get triggered in FY 2025-26 and typically yield bank rate less 200 bps o An optimal mix of on-balance sheet PSL organic growth, PSLCs purchased at a cost and deployment in NABARD/SIDBI bonds at a lower yield will provide an ROA in the range of Bank's normal average of +/- ~2.0% • Availing exemptions under the 'Affordable Housing' guidelines for reducing ANBC o Raise infrastructure / affordable housing bonds; These bonds are eligible for reduction from ANBC, thereby reducing the amount of PSL required
What will change	• HDFC Bank's ability to generate organic PSL will improve as it will be able to make available the home loan product in the deeper geographies, where the home loan product is not being delivered currently

PSL is an Opportunity Aligned on Risk-Reward in Context of HDFC Bank's Business Model

CRR, SLR and Liquidity Assessment on Effective Date

When do these requirements get tested?	• The requirements for Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), per the banking thresholds of 4% and 18% respectively • It shall become applicable to HDFC Ltd.'s relevant liabilities as of the effective date of the merger
What is the current regulatory regime for HDFC Ltd.?	• NBFC regulations require deposit taking NBFCs to maintain 13% SLR in respect of public deposits raised by them • In addition, the requirements of Liquidity Coverage Ratio (LCR) have been phased-in with effect from December 2021 • Deposit taking NBFC-HFCs are expected to maintain a LCR of 85% by December 2024 and 100% by December 2025 • As of December 31, 2021, HDFC had an LCR higher than the minimum requirement of 50%
Is there any Day 0 impact?	• Subject to the developments from now to effective date, excess SLR, if available may help to meet the SLR requirement of the combined entity • Infrastructure/affordable housing bonds raised are eligible for reduction from Net Demand & Time Liabilities (NDTL), thereby reducing the amount of CRR/SLR required
How will HDFC Ltd.'s liabilities be repaid / funded / substituted?	• HDFC has a well-matched asset and liability profile, thus asset maturities will help fund liability payments • HDFC's track record of raising long tenor bonds will help generate requisite liquidity to support growth • This is expected to seamlessly replace the relatively higher cost borrowings of HDFC with the low-cost funds that the Bank can generate

Day 0 CRR Organically met and SLR assets generate positive net returns at current yield curve

Glide Path / Phase-in Sought from RBI

What are the requests made with respect to the transaction?	• The Bank has sought from the RBI, grandfathering of all liabilities and borrowings outstanding on effective date
	  o Harmonization vis-à-vis regulatory regime applicable to NBFCs
	  o Allows run-down of liabilities as per their contracted maturities

What are the phase-in requests made with respect to HDFC Bank?	• Request for gradual compliance with incremental SLR and CRR requirements that become applicable on effective date, which will enable
	  o Driving credit growth in the economy post COVID-19 pandemic
	• Request for phase-in of incremental PSL requirements that become applicable post effective date, which will enable
	  o Providing the lead time for further scaling up on-balance sheet PSL origination for supporting credit growth

What are the additional requests with respect to HDFC Limited subsidiaries?	• HDFC Life: Permit either of the entities to invest, such that the overall stake held is over 50% as on effective date • HDFC Ergo: Recommend to the Central Government to provide requisite dispensation to permit shareholding in excess of 30% for a certain period of time

HDFC Bank's above-industry loan growth has been a meaningful contributor to India's GDP growth over the last decade, and the glide path will enable the Bank to continue to support India's GDP compounding

Other Items

Why did you not opt for the NOFHC structure?	• HDFC Bank will comply with RBI directions with respect to structure as the transaction is structure agnostic; NOFHC structure may require clarifications on tax and other regulations. • Non-Operating Financial Holding Company (NOFHC) structure allows a bank to do banking as well as other para banking activities, with the NOFHC being regulated by the RBI • If regulations permit adoption of an NOFHC structure, the banking business shall be carried out of a 100% wholly-owned subsidiary – thereby ring fencing the banking activities in an unlisted entity regulated by the RBI
Would you continue with the open architecture for the third-party insurance business?	• Customers are the focal point of HDFC Bank's business ○ HDFC Bank would like the choice of products to be available to its customers • As a result of this philosophy and customer centricity, HDFC Bank would like to offer the best available insurance products to its customers • HDFC Bank would, therefore, like to maintain the open architecture for its third-party insurance business
What part of non-individual loan book will you continue to finance in the Bank	• The sales and credit underwriting expertise for construction finance / developer loans is a well-developed capability at HDFC Ltd. ○ The engagement with the developers helps provide an entry point for the retail customer driving retail mortgage growth • HDFC Bank provides lease rental discounting product and will continue to do so • Regulatory reforms have improved both adherence to project timelines and cash flow visibility which enables comprehensive risk management in keeping with HDFC Bank ethos

Other Items

What part of HDFC's loans that you cannot continue under the banking model

- The regulatory regime for NBFCs enables them to offer products which are either restricted or limited under the regulatory regime for banks
  - For instance, loan against shares with ticket size > Rs. 20 lac, loan against shares where the pledged securities are > 30% of the company's share capital etc.
- Some of these loans, which HDFC has approved, may need to be run down or made compliant with current banking regulations, or HDFC Bank / HDFC may be required to seek regulatory exemptions in this regard before the effective date
- These range within reasonably manageable amounts

How would you leverage talent from both organizations to enhance mortgages?

- Deep product knowledge, experience of having witnessed the mortgage market development across geographical cohorts and a multi-decade experience across credit cycles, are the most significant capabilities of HDFC's employees
- The Bank has a significantly enhanced human capital that can focus on execution and provide delivery across platforms
- The Bank simply needs to 'lift, shift and execute' across its branch network (including SURU locations) and through partnerships

What were other considerations for the transaction?

- Through this transaction HDFC Bank gets ownership of a "trusted and strong" 45 year old 'HDFC' brand
- This eliminates any potential brand risk for HDFC Bank and its shareholders