DIRECTORS' REPORT

To the Members,

Your Directors have great pleasure in presenting the Twelfth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2006.

FINANCIAL PERFORMANCE

	(Rs. crores) For the year ended	
	March 31, 2006	March 31, 2005
Deposits and other borrowings	**58,655.3**	41,144.3
Advances	**35,061.3**	25,566.3
Total income	**5,599.3**	3,744.8
Profit before depreciation and tax	**1,432.1**	1,123.0
Net profit	**870.8**	665.6
Profit brought forward	**602.3**	405.3
Transfer from Investment Fluctuation Reserve	**484.2**	-
Total profit available for appropriation	**1,957.3**	1,070.9
Appropriations:		
Transfer to statutory reserve	**217.7**	166.4
Transfer to general reserve	**87.1**	66.6
Transfer to capital reserve	**1.1**	0.6
Transfer to investment fluctuation reserve	**-**	75.0
Proposed dividend	**172.2**	140.1
Tax including surcharge and education cess on dividend	**24.2**	19.6
Education cess on dividend paid for prior year	**-**	0.3
Balance carried over to Balance Sheet	**1,455.0**	602.3

The Bank posted total income and net profit of Rs. 5,599.3 crores and Rs. 870.8 crores respectively for the financial year 2005-06 as against Rs. 3,744.8 crores and Rs. 665.6 crores respectively in the previous year. Appropriations from the net profit have been effected as per the table given above.

DIVIDEND

Your Bank's dividend policy is based on the need to balance the twin objectives of appropriately rewarding shareholders with cash dividends and of retaining capital to maintain a healthy capital adequacy ratio to support future growth. In line with this policy and in recognition of the healthy performance during 2005-06, your directors are pleased to recommend a dividend of 55% for the year ended March 31, 2006 as against 45% for the year ended March 31, 2005, which included a special one-time dividend of 5% in recognition of the Bank having completed 10 years. This dividend

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shall be subject to tax on dividend to be paid by the Bank but will be tax-free in the hands of the members.

AWARDS

Your Bank continued to receive awards and gain recognition from various leading domestic and international publications during 2005-06. The Bank was selected as the "Best Bank in India" in the Business Today-KPMG Survey of the Best Banks in India. This is a unique achievement in as much as this is the third year in a row that the Bank has secured the top spot. Asiamoney Awards selected the Bank as 'Best Domestic Commercial Bank', Best Domestic Provider for Local Currency Products' and 'Best Cash Management Bank – India'. Hong Kong-based Finance Asia magazine selected the Bank as "Best Bank in India". Economic Times Awarded the Bank "Company of the Year" Award for Corporate Excellence 2004-05. The Asset magazine named the Bank "Best Cash Management Bank" and "Best Trade Finance Bank" in India, in 2006. The Economic Times - Avaya Global Connect Customer Responsiveness Awards 2005 named the Bank "Most Customer Responsive Company - Banking and Financial Services". The Bank has also been named 'Best Domestic Bank in India' in The Asset Triple A Country Awards 2005.

RATINGS

The Bank has its deposit programs rated by two rating agencies - Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited. The Bank's Fixed Deposit programme has been rated 'CARE AAA (FD)' [Triple A] by CARE, which represents instruments considered to be "of the best quality, carrying negligible investment risk". CARE has also rated the bank's Certificate of Deposit (CD) programme "PR 1+" which represents "superior capacity for repayment of short term promissory obligations". Fitch Ratings India Pvt. Ltd. (100% subsidiary of Fitch Inc.) has assigned the "tAAA (ind)" rating to the Bank's deposit programme, with the outlook on the rating as "stable". This rating indicates "highest credit quality" where "protection factors are very high".

The Bank also has its long term unsecured, subordinated (Tier 2) Bonds rated by CARE and Fitch Ratings India Private Limited. CARE has assigned the rating of "CARE AAA" for the Tier 2 Bonds while Fitch Ratings India Pvt. Ltd. has assigned the rating "AAA(ind)" with the outlook on the rating as "stable". In each of the cases referred to above, the ratings awarded were the highest assigned by the rating agency for those instruments.

ADDITIONAL CAPITAL

During the year under review, 32.7 lac shares were allotted to the employees of the Bank pursuant to the exercise of options under the Employee Stock Option Scheme of the Bank.

During the year, the Bank raised Rs. 1,202 crores subordinated debt at an annualised coupon ranging between 7.5% to 8.6% and having a maturity ranging from 9 to 10 years. The debt is subordinated to present and future senior indebtness of the Bank and qualifies as Tier 2 capital under RBI's guidelines for assessing capital adequacy.

EMPLOYEE STOCK OPTIONS

Options granted during the year	81.0 lacs
The pricing formula	The options granted to eligible employees are granted at the closing market price as on the working day immediately preceding the date of grant of options. Options granted under ESOS VII on July 18, 2005 are priced at Rs. 630.60.
Options vested	During the year under review, 21.3 lacs, 7.3 lacs and 5.7 lacs options stand vested in the employees under ESOS IV, V and VI, respectively.
Options exercised and the total number of shares arising as a result of exercise of options	During the year under review, 32.7 lac options were exercised and allotted, as follows: **Scheme** — **Options exercised** ESOS I — 1.2 lacs ESOS II — 3.8 lacs ESOS III — 3.7 lacs ESOS IV — 17.0 lacs ESOS V — 4.0 lacs ESOS VI — 3.0 lacs ESOS VII — Nil
Options Lapsed	Options lapsed during the year under review : **Scheme** — **Options lapsed** ESOS I — - ESOS II — 0.02 lacs ESOS III — 0.01 lacs ESOS IV — 4.24 lacs ESOS V — 1.30 lacs ESOS VI — 1.94 lacs ESOS VII — 7.91 lacs
Variation of terms of options	There is no variation in the terms of ESOP schemes which is detrimental to the interest of the employees. Under the ESOP Scheme no single eligible employee/director is granted options more than 1% of the paid up share capital of the Bank as of the date of grant or 10% of the total number of options granted, whichever is less.
Money realised by exercise of options	The Bank received Rs. 3.3 crores towards share capital and Rs. 102.0 crores towards share premium on account of 32.7 lac options being exercised and allotted during the year.

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Total number of options in force	**Scheme** — **No. of options in force** ESOS I — 0.2 lacs ESOS II — 1.5 lacs ESOS III — 1.0 lacs ESOS IV — 33.8 lacs ESOS V — 16.6 lacs ESOS VI — 9.9 lacs ESOS VII — 73.1 lacs
Details of options granted to **(i) Senior managerial personnel;**	No options have been granted to senior managerial personnel during the year.
(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil
Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with (AS) 20 Earnings Per Share	The Diluted EPS of the Bank calculated after considering the effect of potential equity shares arising on account of exercise of options is Rs. 26.33
Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed.	Had the Bank followed fair value method for accounting the stock option compensation expense would have been higher by Rs. 127.7 crores. Consequently profit after tax would have been lower by Rs. 84.7 crores and the basic EPS of the Bank would have been Rs. 25.20 per share (lower by Rs. 2.72 per share) and the Diluted EPS would have been Rs. 23.79 per share (lower by Rs. 2.54)
Weighted-average exercise prices and weighted-average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	The weighted average price of the stock options exercised is Rs. 321.2 and the weighted average fair value is Rs. 535.1

A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:	The Securities Exchange Board of India (SEBI) has prescribed two methods to account for stock grants; (i) the intrinsic value method; (ii) the fair value method. The Bank adopts the intrinsic value method to account for the stock options it grants to the employees. The Bank also calculates the fair value of options at the time of grant, using an internally developed and tested model with the following assumptions :
i) Risk-free interest rate	The risk free interest rate is expected to remain between 6.1% to 6.6%
ii) Expected life	1-7 years
iii) Expected volatility	Expected volatility will be around 21%
iv) Expected dividends, and	Dividend will be around Rs. 4.5 per share during the tenor of the ESOSs
v) The price of the underlying share in market at the time of option grant	The per share market price was Rs. 630.60 at the time of grant of options.

CAPITAL ADEQUACY RATIO

Your Bank's total Capital Adequacy Ratio (CAR) stood at a healthy 11.4%, well above the regulatory minimum of 9.0%. Of this, Tier 1 CAR was 8.6%.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Macro-economic and Industry Developments

The Indian economy registered a robust pace of growth in the last half decade with the growth of Gross Domestic Product (GDP) over 8.0 per cent. In the current year, industrial growth was driven by robust performances from manufacturing and construction sectors. Services sector growth continued to be broad-based.

India's merchandise exports have been recording annual growth rates of more than 20 per cent since 2002-03. Imports grew by 26.7 per cent during April-January 2005-06. The increase in imports has been driven, inter alia, by the sharp rise in global crude prices.

Accretion to foreign exchange reserves slowed during the current year with a reduction of US$1.1 billion from the end-March 2005 level of US$141.5 billion. Three key factors that were instrumental behind this were: an outgo of US$7.1 billion on redemption of India Millennium Deposits; valuation losses from a weakened dollar vis-à-vis other major currencies; and a widening deficit in the current account of the balance of payments (BOP). The rupee was largely range bound against the US dollar during the year.

During 2005-06, non-food credit expanded by 25.2 per cent of which credit to industrial sector grew by 45.7 per cent. Asset quality of banks registered significant improvements simultaneously with the rapid increase in the quantum of credit to the commercial sector.

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During 2005-06 there was a considerable slow down in reserve inflows. The outstanding balances under Market Stabilisation Scheme, which reflect the RBI's efforts to sterilise excessive and disorderly reserve inflows fell to Rs. 34852 crore on February 3, 2006 from Rs. 64211 crores as at end March 2005. Money markets during 2005-06 were largely stable till October 2005. However, outflows on account of India Millennium Deposits (IMD) redemptions worth US$7.1 billion accentuated the already tight liquidity situation from December 2005. During the financial year, the benchmark reverse repo rates were revised upwards by 25 basis points on three occasions in April 2005, October 2005 and further in January 2006.

The one year Government Securities (G Sec) yields which reflect the liquidity condition in the economy climbed from 5.84% in March 2005 to 6.54% in March 2006, thus moving up by approximately 70 basis points through the year. The 10 year G Sec yield showed a smaller year-on-year movement of 17 basis points to 7.52% at the end of the year. The banking system is still surplus in its G Sec holdings, and thus investor demand for dated paper is stressed. Lack of appetite for longer tenor bonds and a gross central government borrowing number similar to the last year is expected to keep the rates tight.

Sharp increases in international oil prices combined with considerable volatility posed considerable challenge to macroeconomic stability. Average world price of Indian basket of crude petroleum increased to over US$70.0 per barrel. Nevertheless, the current phase of economic upturn has been maintained without an undue escalation of domestic prices. In India, inflation declined from 5.70 per cent on April 2, 2005, to a low of 3.96 per cent on March 26, 2006.

The capital markets remained buoyant in the last fiscal with the stock indices touching their all time highs in the recent months. The asset allocation of domestic households into equities is at about 1.5%. In the present fiscal, the Asset Under Management (AUM) of mutual funds have grown by Rs. 64,454 crores till February 2006 (42%) over the last year's AUM. With the interest in commodities emerging as an upcoming asset class, last year saw steady increment in the daily average trading volumes in the commodity exchanges. The daily volumes have increased from Rs.1500 crores in the last fiscal to around Rs.2000 crores in this fiscal, an increment of around 30% in the Multi Commodities Exchange (MCX).

(Sources: Ministry of Finance, Budget Document 2006-07,RBI, CSO)

Mission and Business Strategy

Our mission is to be "a World Class Indian Bank", benchmarking ourselves against international standards and best practices in terms of product offerings, technology, service levels, risk management and audit & compliance. The objective is to build sound customer franchises across distinct businesses so as to be a preferred provider of banking services for target retail and wholesale customer segments, and to achieve a healthy growth in profitability, consistent with the Bank's risk appetite. We are committed to do this while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Our business strategy emphasises the following:

- Increase our market share in India's expanding banking and financial services industry by following a disciplined growth strategy focusing on balancing quality and quantity and on delivering high quality customer service;
- Leverage our technology platform and open scaleable systems to deliver more products to more customers and to control operating costs;

- Maintain high standards of asset quality through disciplined credit risk management;
- Develop innovative products and services that attract our targeted customers and address inefficiencies in the Indian financial sector;
- Continue to develop products and services that reduce our cost of funds; and
- Focus on high earnings growth with low volatility.

Financial Performance

The overall performance during the financial year 2005-06 remained healthy with total net revenues (net interest income plus other income) increasing by 51.1% to Rs.3669.8 crores from Rs.2429.3 crores in 2004-05. The revenue growth was driven principally by an increase in net interest income and commission income. Net interest income grew by 43.2% primarily due to increase in the average balance sheet size by 39.4 %. Net interest margin increased from 3.9% to 4.0%. Average cost of deposits increased by around 10 basis points given the rise in the time deposit interest rates due to tight liquidity conditions in the banking system. This was more than offset by increase in average yield on assets due to a higher proportion of retail loans and a change in product mix towards higher yielding loan products.

The other income (non-interest revenue) increased by 72.6% to Rs. 1124.0 crores primarily due to commission income. In 2005-06, commission income increased by 72.7% to Rs.1045.0 crores with the main drivers being commission from distribution of third party mutual funds and insurance, fees on debit/credit cards and point-of-sale (POS) terminals and transactional charges/fees on deposit and depository (custody) accounts. Due to sharp increase in short term yields in the debt market in March 2006, the Bank incurred net losses on sale / revaluation of investments of Rs.52.1 crores primarily on account of marked-to-market losses on non-SLR investments. Foreign exchange and derivatives revenues were Rs.118.6 crores which largely related to customer transactions.

Operating (non-interest) expenses increased from Rs. 1085.4 crores in 2004-05 to Rs.1691.1 crores in 2005-06, due to significant expansion of retail loan products and the credit card business. Staff expenses accounted for 28.8% of non-interest expenses in 2005-06 as against 25.5% in 2004-05, due to an increase in average staff strength from 7479 to 11791 and also due to increase in average salary levels. Loan loss provisions increased from Rs.176.2 crores to Rs.479.8 crores in 2005-06, primarily driven by an increase in loan loss provisions for retail loan product programs reflecting a balance of risk and returns due to a change in product mix. Provision for amortisation of investments was Rs. 245.2 crores, principally due to the amortisation of the premium for the SLR investments in the 'Held to Maturity' category.

Net profit increased by 30.8 % from Rs. 665.6 crores in 2004-05 to Rs.870.8 crores in 2005-06. Return on average net worth was lower at 17.5% from the previous year figure of 20.4% primarily due to the full year impact of expanded capital. The bank's basic earning per share increased from Rs. 22.92 to Rs. 27.92 per equity share. The diluted earnings was Rs.26.33 per equity share in 2005-06.

During 2005-06, the Bank's total balance sheet size increased by 42.9% to Rs. 73506 crores. Total Deposits increased by 53.5% from Rs.36354 crores (as of March 31, 2005) to Rs.55797 crores (as of March 31, 2006). Savings account deposits at Rs.16186 crores and current account deposits at Rs.14752 crores, together accounted for approximately 55.4% of total deposits as of March 31, 2006. During 2005-06, gross advances grew by

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48.1% to Rs.38413 crores. This was driven by a growth of 79.7% in retail advances to Rs.21231 crores, and an increase of 21.7% in wholesale advances to Rs.17182 crores. One of the reasons for the high growth rate in retail loans was that the quantum of retail loans securitised (sold) during the year was less than half of the Rs.4800 crores sold during the previous year. The bank's core customer assets (advances plus credit substitutes like commercial paper, corporate bonds etc.) increased by 44.9% to Rs.38992 crores in March 2006. In addition, the bank held Rs.4457 crores of investments in mortgage backed and asset backed securities where the underlying assets were primarily home loan and commercial vehicle/car loan receivables. Total customer assets (including securitisation investments) were therefore Rs.43449 crores as of March 31, 2006.

Business Segment Update:

The overall banking environment remained benign in 2005-06, other than the drying up of liquidity and resultant hardening of interest rates in the last quarter. Against this backdrop, the bank has been able to achieve healthy growth across various operating and financial parameters. This performance reflects the strength and diversity of the bank's three primary business franchises – retail banking, wholesale banking and treasury, as well as a disciplined approach to risk – reward management.

The retail banking business continued to be the fastest growing of the Bank's businesses in 2005-06. In this business, the Bank has positioned itself as a one-stop-shop financial services provider, focused primarily on the middle class, mass affluent and high networth segments. During 2005-06, the Bank lanunched the 'no-frills account', a basic savings account offering. This product would facilitate financial inclusion for customers who wish to maintain only token minimum balances in their savings accounts. The Bank's range of retail financial products and services is fairly exhaustive including various deposit products, loans, credit cards, debit cards, depository (custody services), investment advice, bill payments and various transactional services. Apart from own products, the Bank sells third party financial products like mutual funds and insurance to its retail customers. To provide its customers greater flexibility and convenience as well as to reduce servicing costs, the bank has invested in multiple channels – branches, ATMs, phone banking, internet banking and mobile banking. The success of the Bank's multi channel strategy is evidenced in the fact that almost 77% of customer initiated transactions are serviced through the non-branch channels. The Bank's data warehouse and Customer Relationship Management (CRM) solutions have helped to target potential customers more effectively and offer appropriate products depending on the customer profiles thus reducing costs of acquisition and deepening customer relationships.

The Bank's total customer base increased from 68.1 lacs in March 2005 to 96.0 lacs in March 2006. The distribution network was expanded with the number of branches increasing from 467 (in 211 cities) to 535 (in 228 cities) and the number of ATMs from 1147 to 1323. The Bank's focus on semi urban and under banked markets continued, with about 54% of the Bank's branches now outside the top nine cities. Savings account deposits, which reflect the strength of the retail liability franchise, grew by 42% to Rs.16186 crores in 2005-06. The retail gross loan portfolio increased from Rs.11817 crores as of March 31, 2005 to Rs.21231 crores as of March 31, 2006, an increase of 79.7%. The Bank also extends more than half of its retail loans in non metro markets (outside top nine cities).

The bank's credit card business is about 5 years old now with total number of cards in force having crossed the two million mark. The bank has a significant presence in the "merchant acquiring" business with the total number of point-of-sale (POS) terminals installed by the bank at over 46000. The bank's success in its third party distribution business is best evidenced with income from sales of mutual funds and life insurance policies contributing over 20% of retail fees and commission. On the Bank's housing loan business, the origination of the HDFC home loan product crossed Rs. 2 billion per month in March 2006.

In the wholesale banking business, the Bank provides its corporate and institutional clients a wide range of commercial and transactional banking products, backed by high quality service and relationship management. The Bank's commercial banking business covers not only the top end of the corporate sector but also the growing Small and Medium Enterprise (SME) segments. The Bank now has four business groups catering to various SME customers extending a wide range of banking services including cash management services, foreign exchange products and electronic banking. The Bank also achieved healthy growth in its agriculture and micro financing. With products including the Kisan Gold Card, rural supply chain initiatives and commodity finance covering the entire agriculture financing cycle, the Bank's direct agriculture lending increased by over 60% during the year. The Bank has relationships with over 25 micro finance institutions and has provided financing where the ultimate beneficiaries exceed 300000 households. In the transactional banking services business, the Bank provides cash management, trade, custody and correspondent banking services to corporates, financial institutions, government bodies, banks, mutual funds and other entities. During financial year 2005-06, growth in the wholesale banking business continued to be driven by new customer acquisition and higher cross sell with a focus on optimising yields and increasing product penetration. The Bank's customised supply chain management solutions which combine electronic banking, cash management and vendor & distributor finance products continued to be an important contributor to growth in the corporate banking business. The Bank further consolidated its position as a leading player in the cash management business (covering all outstation collection, disbursement and electronic fund transfer products across the Bank's various customer segments) with volumes growing from about Rs.800000 crores in FY 2004-05 to over Rs.1000000 crores in FY 2005-06. The Bank also strengthened its market leadership in cash settlement services for major stock exchanges and commodity exchanges in the country. The Bank's capital market exposure has been within the regulatory limits and the floats from this business showed moderate growth.Yet again, the Bank met the overall priority sector lending requirement of 40% of net bank credit.

The Bank's treasury has a presence in the foreign exchange, derivatives and local currency debt securities & money markets. The treasury group manages the Bank's balance sheet and is responsible for compliance with reserve requirements and management of market and liquidity risk. On the foreign exchange and derivatives front, the revenues are driven primarily by spreads on customer transactions based on trade flows and hedging needs. In addition, the treasury group seeks to optimise profits from proprietary trading within established limits. During 2005-06 revenues from foreign exchange and derivative transactions grew by 6.3% to Rs.118.6 crores with over 40% of the revenue streams emanating from retail and SME segments. Given the regulatory requirement of holding government securities to meet the statutory liquidity ratio (SLR) requirement, the Bank has to necessarily maintain a large portfolio of government securities. This enables the Bank to realise gains in a declining interest rate environment but exposes the Bank to losses or depreciation in value of investments when yields rise. To reduce this volatility to some extent

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and to balance the yield and market risk trade-off, the Bank has a policy of maintaining a relatively low duration between 2-3 years in its government securities (SLR) portfolio as against an average estimated duration of over 4 years observed in the Indian banking system as a whole. The SLR securities now in the 'Available for Sale' (AFS) category are primarily floating rate bonds where the interest rate risk is low. The Bank, therefore remains exposed to market risk primarily on the non-SLR investment portfolio in the AFS category. In March 2006, there was a sharp increase in short term yields in the debt market which resulted in marked to market loss of Rs.89.7 crores mainly on the non-SLR book.

Service Quality Initiatives

In a high volume, transaction intensive, financial services business like banking, the long-term sustainability of business growth depends to a large extent on the robustness of the Bank's operational processes and the quality of customer service. This is even more of a challenge in a rapid growth scenario which the Bank has been experiencing. The Bank has therefore been investing in various process improvement and service quality initiatives over the past few years. The first key initiative for process improvement was the launch of Six Sigma in 2003. Till date more than 3000 employees have been trained in the methodology and over 500 projects have been initiated, primarily to reduce operational errors and process inefficiencies, and also to help improve cycle time for product delivery to customers. In January 2006, the Bank has launched a new Quality Initiative - Lean Sigma Project Management program aimed to take the core banking processes to the next level of improvement thereby enabling a further reduction of transaction turnaround times and an improvement in business cycle efficiencies.

During the year, the Bank further upgraded its customer complaint resolution and monitoring system to facilitate higher levels of customer responsiveness.

The Bank gives high priority to customer feedback and complaints. There is a well documented policy for complaint handling which ensures that not only all complaints are recorded but also monitored for effective resolution within a specified turnaround time. Deviations from the process are escalated to the top management.

Risk Management & Portfolio Quality

Risk is integral to almost every aspect of the banking business and it is well accepted that revenues that banks earn, relate to a large extent, to the risks they accept. Business and revenue growth therefore, have to be weighed in the context of the risks implicit in the Bank's business strategy. While the Bank is exposed to various types of risk, the most important amongst them are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The identification, measurement, monitoring and management of risks remains a key focus area for the Bank. For credit risk, distinct policies and processes are in place for the wholesale and retail asset businesses. For wholesale credit exposures, management of credit risk is done through target market definition, appropriate credit approval processes, ongoing post- disbursement monitoring and remedial management procedures. Portfolio diversification remains key, particularly given the volatility in the business environment. In the retail asset businesses, the credit cycle is managed through credit policy definition, appropriate front-end credit buying, operations and collection processes. For each product, programs defining customer segments, underwriting standards, security structures, etc. are specified to ensure consistency of credit buying patterns. Given the granularity of individual exposures, retail credit risk is managed largely on a portfolio basis, across various products and customer segments.

The Risk Monitoring Committee of the Board monitors the Bank's risk management policies and procedures, vets treasury risk limits before they are considered by the Board, and reviews portfolio composition and impaired credits. From an industry concentration perspective, as of March 31, 2006, the following table gives industry wise classification of the loans outstanding of the Bank.

	(Rs. lacs) Gross Loans	% to Gross Loans
Retail - Except where otherwise classified	1587898	41.3%
Automobiles	409703	10.7%
Transportation	368416	9.6%
Retail Trade	143573	3.7%
Engineering	129072	3.4%
Agriculture	115597	3.0%
NBFC / Investment Companies	104303	2.7%
Others < 2% of Advances (29 industries)	982695	25.6%
Total	3841257	100.0%

As of March 31, 2006, the Bank's ratio of gross non-performing assets (NPAs) to total customer assets was 1.17% as against 1.47% as of March 31, 2005. However, there has been an increase in NPAs in absolute terms during the year. Increases in NPAs during the year were primarily related to delinquencies in various retail loan products. These delinquencies and NPAs were within the expected levels for each of the retail asset products given the seasoning of the retail portfolio. Net non-performing assets (gross non-performing assets less specific loan loss provisions, interest in suspense and ECGC claims received) were 0.44% of net advances and 0.36% of customer assets as of March 31, 2006 as against 0.24% and 0.20% respectively as of March 31, 2005 reflecting the higher proportion of retail loans in the Bank's loan book and the changing mix of the retail loan portfolio. The specific loan loss provisions that the Bank has made for its non-performing assets continue to be more conservative than the regulatory requirement. The Bank continues to have a policy of creating general provisions upfront based on estimated portfolio losses for its major retail loan product programs against which specific provisions are set-off as the portfolio ages and NPAs surface. As on March 31, 2006, total general loan loss provisions were 0.5% of the standard advances which was above the regulatory requirement.

The Bank has been tracking the framing of the New Basel Capital Accord (Basel II) and the guidelines of the Reserve Bank of India in this regard. It has also assessed the key requirements of the framework, identified the areas in rating systems, risk architecture, technology support, process documentation, etc. needing augmentation and has laid down a roadmap for meeting the requirements in this respect. The Bank will be using external ratings of agencies approved by RBI in assigning risk weights to the respective corporate for exposures in wholesale credit under the Standarised Approach. Towards meeting the requirements of the Internal Rating Based Approach, the Bank launched a suite of new credit risk rating models during the year, for rating entities specific to each segment in wholesale credit. The rating models have been curtomized to meet the Bank's requirement and have the capability of building rating transitions and computing probabilities of default. These models augment the Bank's Corporate Grading Model, which has been in use since inception of the Bank.

For retail exposures, the Bank is closely working with a few vendors for developing solutions for grading and segmenting the retail portfolio into homogenous pools and deriving the risk components. To automate the entire computation process for credit risk under the various approaches, considering the huge data requirements, the Bank is currently implementing a Portfolio Credit Risk Management (PCRM) model.

INTERNAL AUDIT & COMPLIANCE

The Bank has an Internal Audit & Compliance department, which is responsible for independently evaluating the adequacy of all internal controls and ensuring operating and business units adhere to internal processes and procedures as well as to regulatory and legal requirements. The department also pro-actively recommends improvements in operational processes and service quality. To ensure independence, the Audit & Compliance department has a reporting line to the Chairman of the Board of Directors and the Audit & Compliance Committee of the Board and only indirectly to the Managing Director. To mitigate operational risks, the Bank has put in place extensive internal controls including restricted access to the Bank's computer systems, appropriate segregation of front and back office operations and strong audit trails. The Audit & Compliance Committee of the Board also reviews the performance of the Audit & Compliance department and reviews the effectiveness of controls and compliance with regulatory guidelines.

During the year, the Reserve Bank of India (RBI) had undertaken special scrutiny of certain customer accounts based on which it imposed penalties on the Bank aggregating to Rs. 30 lacs under the provisions of the Banking Regulation Act, 1949. The said penalties were imposed mainly for not displaying prudence in the opening and monitoring operations of certain deposit and depository accounts in relation to know your customer (KYC) and certain other extant guidelines of the Reserve Bank of India. The Bank submits that it had followed documentation and related requirements as specified in guidelines issued by RBI from time to time in opening and monitoring the operations of the accounts. It appears that the in the said cases the customers planned and executed an ingenious way to beat the system for personal gains resulting in the Bank failing to meet the spirit of the KYC guidelines. Although the bank's processes/systems did throw up these deviant transactions, they passed through because of lack of prudence and negligence on the part of certain employees managing these processes. The Bank has taken stern action against these employees. In the light of the aforesaid experiences, the Bank has further tightened certain internal control processes and has instituted additional measures to ensure strict adherence to Know Your Customer / Anti Money Laundering norms.

SOCIAL INITIATIVES

Your Bank and its staff's commitment to corporate social responsibility found new avenues to participate in social initiatives during 2005-06. In conjunction with a non – government organisation (NGO), your Bank has agreed to support four government schools in Mumbai in a program called "Ensuring Children Learn" to make children proficient in science, math and language skills. Another focus of our pro-children education support is a project for the girl child, where the bank will be sponsoring the education of all needy girl children in the adopted schools and provide them with support materials such as notebooks, stationery, exam fees, hygiene material, uniforms and shoes along with academic support so that they get the support to learn better and continue their education.

HUMAN RESOURCES

Given the Bank's significant expansion in terms of geography as well as in terms of products and business volumes, the Bank's staffing-needs continued to increase during the year particularly in the retail banking businesses. Total number of employees increased from 9030 as of March 31, 2005 to 14878 as of March 31, 2006. The Bank continues to focus on training its employees on a continuing basis, both on the job and through training programs conducted by internal and external faculty. The Bank has consistently believed that broader employee ownership of its shares has a positive impact on its performance and employee motivation. The Bank's employee stock option scheme therefore extends to all levels and so far covers around 59% of the employees.

STATUTORY DISCLOSURES

The information required under Section 217(2A) of the Companies Act, 1956 and the rules made there under, are given in the annexure appended hereto and forms part of this report. In terms of section 219(1)(iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 14,878 employees as on March 31, 2006. One hundred eleven employees employed throughout the year were in receipt of remuneration of over Rs. 24.0 lacs per annum and five employees employed for part of the year were in receipt of remuneration of more than Rs. 2.0 lacs per month.

The provisions of Section 217(1)(e) of the Act relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used information technology extensively in its operations.

The report on Corporate Governance is annexed herewith and forms part of this report.

RESPONSIBILITY STATEMENT

The Board of Directors hereby state that:

i) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

ii) We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2006 and of the profit of the Bank for the year ended on that date;

iii) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;

iv) We have prepared the annual accounts on a going concern basis.

DIRECTORS

Mr. Keki Mistry and Mrs. Renu Karnad will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Mr. Ranjan Kapur relinquished his office of Director with effect from March 29, 2006 by tendering resignation. Your directors wish to place on record their sincere appreciation for the contribution made by Mr. Ranjan Kapur during his tenure as a Director.

The brief resume/details relating to Directors who are to be appointed/re-appointed are furnished in the report on Corporate Governance

AUDITORS

The Auditors M/s. P. C. Hansotia & Co., Chartered Accountants have been the statutory auditors of your Bank since 2002. As per the regulations of Reserve Bank of India, the same auditors cannot be re-appointed for a period exceeding four years. Accordingly, it is proposed to appoint M/s. Haribhakti & Co. Chartered Accountants as new statutory auditors of the Bank subject to the approval of the Members. The Board places on record its appreciation for the professional services rendered by M/s. P. C. Hansotia & Co. as the statutory auditors of the Bank.

ACKNOWLEDGEMENT

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. Your Directors would also like to take this opportunity to express their appreciation to the dedicated and committed team of employees for the contribution in trying to achieve the Bank's mission in building a World Class Indian Bank.

On behalf of the Board of Directors

Jagdish Capoor
Chairman

Mumbai, April 17, 2006

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of HDFC Bank Limited

We have audited the attached Balance Sheet of HDFC Bank Limited ("the Bank") as at 31st March 2006 and the Profit and Loss Account of the Bank, annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report thereon as follows:

1. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956.
2. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and found them to be satisfactory.
3. The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.
4. In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.
5. The financial accounting systems of the Bank are centralised and, therefore, accounting returns are not required to be submitted by the branches.
6. The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account of the Bank.
7. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, in so far as they apply to banks.
8. On the basis of the written representations received from the directors, taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2006 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.
9. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2006;

(ii) in case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and

(iii) in case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

For P. C. Hansotia & Co.
Chartered Accountants

Khurshed Pastakia
(Partner)
(M. No. 31544)

Mumbai: 17th April, 2006

HDFC BANK LIMITED
BALANCE SHEET

AS AT 31 MARCH, 2006

(Rs. lacs)

	Schedule	As at 31-03-2006	As at 31-03-2005
CAPITAL AND LIABILITIES			
Capital	1	**313,14**	309,88
Reserves and surplus	2	**4,986,39**	4,209,97
Employees' stock options (grants) outstanding		**7**	43
Deposits	3	**55,796,82**	36,354,25
Borrowings	4	**2,858,48**	4,790,01
Subordinated debt		**1,702,00**	500,00
Other liabilities and provisions	5	**7,849,49**	5,264,46
Total		**73,506,39**	51,429,00
ASSETS			
Cash and balances with Reserve Bank of India	6	**3,306,61**	2,650,13
Balances with banks and money at call and short notice	7	**3,612,39**	1,823,87
Investments	8	**28,393,96**	19,349,81
Advances	9	**35,061,26**	25,566,30
Fixed assets	10	**855,08**	708,32
Other assets	11	**2,277,09**	1,330,57
Total		**73,506,39**	51,429,00
Contingent liabilities	12	**214,782,34**	140,777,15
Bills for collection		**2,828,89**	2,549,68

The attached notes form part of the financial statements.

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 17 April, 2006

Rs. 10 lacs = Rs. 1 million

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Vice President (Legal)
& Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Dr.Venkat Rao Gadwal
Renu Karnad
Arvind Pande
Bobby Parikh
Directors

HDFC BANK LIMITED
PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH, 2006

(Rs. lacs)

		Schedule	Year ended 31-03-2006	Year ended 31-03-2005
I.	**INCOME**			
	Interest earned	13	**4,475,34**	3,093,49
	Other income	14	**1,123,98**	651,34
	Total		**5,599,32**	3,744,83
II.	**EXPENDITURE**			
	Interest expended	15	**1,929,50**	1,315,56
	Operating expenses	16	**1,691,09**	1,085,40
	Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 382,73 lacs (previous year: Rs. 313,38 lacs)]	17	**1,107,95**	678,31
	Total		**4,728,54**	3,079,27
III.	**PROFIT**			
	Net profit for the year		**870,78**	665,56
	Profit brought forward		**602,34**	405,32
	Transfer from investment fluctuation reserve		**484,19**	-
	Total		**1,957,31**	1,070,88
IV.	**APPROPRIATIONS**			
	Transfer to Statutory Reserve		**217,70**	166,39
	Proposed dividend		**172,23**	140,07
	Tax (including cess) on dividend		**24,16**	19,64
	Cess on dividend pertaining to previous year paid during the year		**-**	26
	Transfer to General Reserve		**87,08**	66,56
	Transfer to Capital Reserve		**1,12**	62
	Transfer to investment fluctuation reserve		**-**	75,00
	Balance carried over to Balance Sheet		**1,455,02**	602,34
	Total		**1,957,31**	1,070,88
V.	**EARNINGS PER EQUITY SHARE**			
	(Face value Rs. 10/- per share)	18	**Rs.**	Rs.
	Basic		**27.92**	22.92
	Diluted		**26.33**	21.64

The attached notes form part of the financial statements.

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 17 April, 2006

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Vice President (Legal)
& Company Secretary

Keki M. Mistry
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Ashim Samanta
Dr.Venkat Rao Gadwal
Renu Karnad
Arvind Pande
Bobby Parikh
Directors

Rs. 10 lacs = Rs. 1 million

HDFC BANK LIMITED
CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006

(Rs. lacs)

	Year ended 31-03-2006	Year ended 31-03-2005
Cash flows from operating activities		
Net profit before income tax	1,253,51	978,94
Adjustments for:		
Depreciation	178,59	144,07
Loss/(Profit) on revaluation of investments	89,66	(13,98)
Amortisation of premia on investments	245,16	188,06
Loan loss provisions	479,76	176,22
Provision for wealth tax	30	65
(Profit) on sale of fixed assets	(27)	(21)
	2,246,71	1,473,75
Adjustments for :		
(Increase) in Investments	(9,350,30)	(160,43)
(Increase) in advances	(9,889,35)	(7,961,18)
(Decrease)/Increase in borrowings	(1,931,53)	2,482,19
Increase in deposits	19,442,57	5,945,39
(Increase) in other assets	(738,33)	(232,71)
Increase/(Decrease) in other liabilities and provisions	2,495,49	(1,146,64)
Decrease/(Increase) in deposit placements	2,66	(376,48)
	2,277,92	23,89
Direct taxes paid	(553,16)	(371,95)
Net cash flow from/(used in) operating activities	1,724,76	(348,06)
Cash flows from investing activities		
Purchase of fixed assets	(367,99)	(244,28)
Proceeds from sale of fixed assets	5,15	95
Long term investments	(19,13)	-
Net cash used in investing activities	(381,97)	(243,33)

Rs. 10 lacs = Rs. 1 million

We understand your world

HDFC BANK LIMITED
CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006 (contd.)

(Rs. lacs)

	Year ended 31-03-2006	Year ended 31-03-2005
Cash flows from financing activities		
Money received on exercise of stock options by employees	62,58	76,39
Proceeds from ADR issue net of underwriting commission	-	1,274,77
Proceeds / (Redemption) from issue of subordinated debt	1,202,00	(100,00)
Dividend provided last year paid during the year	(140,07)	(100,05)
Tax on Dividend	(19,64)	(13,08)
Net cash generated from financing activities	1,104,87	1,138,03
Net increase in cash and cash equivalents	2,447,66	546,64
Cash and cash equivalents as at 1 April, 2005	3,741,00	3,194,36
Cash and cash equivalents as at 31 March, 2006	6,188,66	3,741,00

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 17 April, 2006

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Vice President (Legal)
& Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Dr.Venkat Rao Gadwal
Renu Karnad
Arvind Pande
Bobby Parikh
Directors

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
SCHEDULE 1 - CAPITAL			
Authorised Capital		**450,00**	450,00
45,00,00,000 (31 March, 2005 : 45,00,00,000)			
Equity Shares of Rs. 10/- each			
Issued, Subscribed and Paid-up Capital		**313,14**	309,88
31,31,42,408 (31 March, 2005 : 30,98,75,308)			
Equity Shares of Rs. 10/- each			
	Total	**313,14**	309,88
SCHEDULE 2 - RESERVES AND SURPLUS			
I. Statutory Reserve			
Opening balance		**618,76**	452,37
Additions during the year		**217,70**	166,39
	Total	**836,46**	618,76
II. General Reserve			
Opening balance		**214,86**	148,30
Additions during the year		**87,08**	66,56
	Total	**301,94**	214,86
III. Balance in Profit and Loss Account		**1,455,02**	602,34
IV. Share Premium Account			
Opening balance		**2,274,68**	9,77,39
Additions during the year		**102,03**	1,335,02
Deductions during the year		**-**	(37,73)
	Total	**2,376,71**	2,274,68
V. Investment Fluctuation Reserve			
Opening balance		**484,19**	409,19
Additions during the year		**-**	75,00
Transfer to profit and loss account		**(484,19)**	-
	Total	**-**	484,19

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
VI. Amalgamation Reserve			
Opening balance		14,52	14,52
	Total	14,52	14,52
VII. Capital Reserve			
Opening balance		62	-
Additions during the year		1,12	62
	Total	1,74	62
	Total	4,986,39	4,209,97
SCHEDULE 3 - DEPOSITS			
I. Demand Deposits			
(i) From banks		595,78	566,98
(ii) From others		14,156,68	10,063,48
	Total	14,752,46	10,630,46
II. Savings Bank Deposits		16,185,79	11,418,38
III. Term deposits			
(i) From banks		860,47	393,45
(ii) From others		23,998,10	13,911,96
	Total	24,858,57	14,305,41
	Total	55,796,82	36,354,25
SCHEDULE 4 - BORROWINGS			
I. Borrowings in India			
(i) Reserve Bank of India		-	-
(ii) Other banks		1,243,97	3,291,00
(iii) Other institutions and agencies		166,81	510,00
	Total	1,410,78	3,801,00
II. Borrowings outside India		1,447,70	989,01
	Total	2,858,48	4,790,01

Secured borrowings included in I & II above: Rs.166,81 lacs (previous year: Rs. 510,00 lacs)

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS			
I. Bills payable		2,079,58	1,554,73
II. Interest accrued		826,41	584,30
III. Others (including provisions)		4,747,11	2,965,72
IV. Proposed dividend (including tax on dividend)		196,39	159,71
	Total	7,849,49	5,264,46
SCHEDULE 6 - CASH & BALANCES WITH RESERVE BANK OF INDIA			
I. Cash in hand (including foreign currency notes and gold coins)		507,71	353,57
II. Balances with Reserve Bank of India			
(a) In current accounts		2,698,90	2,196,56
(b) In other accounts		100,00	100,00
	Total	2,798,90	2,296,56
	Total	3,306,61	2,650,13
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I. **In India**			
(i) Balances with Banks :			
(a) In current accounts		487,50	393,02
(b) In other deposit accounts		1,288,15	909,09
	Total	1,775,65	1,302,11
(ii) Money at call and short notice :			
(a) With banks		-	150,00
	Total	-	150,00
	Total	1,775,65	1,452,11
II. **Outside India**			
(i) In current accounts		432,93	14,45
(ii) Money at call and short notice		1,403,81	357,31
	Total	1,836,74	371,76
	Total	3,612,39	1,823,87

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
SCHEDULE 8 - INVESTMENTS			
Investments in India in			
(i) Government securities		19,632,84	11,227,07
(ii) Other approved securities		5,73	6,73
(iii) Shares		76,94	89,55
(iv) Debentures and bonds		8,121,82	6,798,79
(v) Subsidiary / joint ventures		21,56	2,43
(vi) Units, certificate of deposits and others		535,07	1,225,24
	Total	28,393,96	19,349,81
SCHEDULE 9 - ADVANCES			
A. (i) Bills purchased and discounted		1,376,77	4,655,67
(ii) Cash credits, overdrafts and loans repayable on demand		7,881,99	5,536,28
(iii) Term loans		25,802,50	15,374,35
	Total	35,061,26	25,566,30
B. (i) Secured by tangible assets*		23,729,96	19,447,37
(ii) Covered by bank / government guarantees		518,58	137,37
(iii) Unsecured		10,812,72	5,981,56
	Total	35,061,26	25,566,30
** Including advances against Book Debts*			
C. Advances in India			
(i) Priority sector		10,864,53	5,616,62
(ii) Public sector		384,99	437,16
(iii) Banks		11,87	10,87
(iv) Others		23,799,87	19,501,65
	Total	35,061,26	25,566,30

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
SCHEDULE 10 - FIXED ASSETS			
A. **Premises** (including Land)			
Gross Block			
At cost on 31 March of the preceding year		291,22	250,89
Additions during the year		27,27	40,41
Deductions during the year		(3,99)	(8)
	Total	314,50	291,22
Depreciation			
As at 31 March of the preceding year		40,60	31,06
Charge for the year		11,18	9,54
On deductions during the year		(54)	(0)
	Total	51,24	40,60
Net Block		263,26	250,62
B. **Other Fixed Assets** (including furniture and fixtures)			
Gross Block			
At cost on 31 March of the preceding year		955,46	766,61
Additions during the year		302,96	195,81
Deductions during the year		(27,28)	(6,96)
	Total	1,231,14	955,46
Depreciation			
As at 31 March of the preceding year		497,76	369,53
Charge for the year		167,41	134,53
On deductions during the year		(25,85)	(6,30)
	Total	639,32	497,76
Net Block		591,82	457,70
C. **Assets on Lease** (Plant and Machinery)			
Gross Block			
At cost on 31 March of the preceding year		43,83	43,83
	Total	43,83	43,83
Depreciation			
As at 31 March of the preceding year		11,75	11,75
	Total	11,75	11,75

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006	As at 31-03-2005
Lease Adjustment Account			
As at 31 March of the preceding year		**32,08**	32,08
	Total	**32,08**	32,08
Unamortised cost of assets on lease		**-**	-
	Total	**855,08**	708,32

SCHEDULE 11 - OTHER ASSETS

		As at 31-03-2006	As at 31-03-2005
I. Interest accrued		**921,83**	513,80
II. Advance tax (net of provision)		**349,50**	167,20
III. Stationery and stamps		**17,96**	4,93
IV. Security deposit for commercial and residential property		**107,57**	91,11
V. Cheques in course of collection		**9,17**	7,61
VI. Other assets*		**871,06**	545,92
	Total	**2,277,09**	1,330,57

**Includes deferred tax asset (net) of Rs. 61,33 lacs (previous year: Rs. 73,50 lacs)*

SCHEDULE 12 - CONTINGENT LIABILITIES

		As at 31-03-2006	As at 31-03-2005
I. Claims against the bank not acknowledged as debts -taxation		**243,97**	140,57
II. Claims against the bank not acknowledged as debts - others		**13,10**	13,48
III. Liability on account of outstanding forward exchange contracts		**73,473,37**	53,398,18
IV. Liability on account of outstanding derivative contracts		**131,969,84**	81,767,47
V. Guarantees given on behalf of constituents- in India		**3,088,77**	2,159,64
VI. Acceptances, endorsements and other obligations		**2,410,37**	2,793,02
VII. Other items for which the bank is contingently liable		**3,582,92**	504,79
	Total	**214,782,34**	140,777,15

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		Year ended 31-03-2006	Year ended 31-03-2005
SCHEDULE 13 - INTEREST EARNED			
I. Interest/discount on advances/bills		**2,700,20**	1,663,70
II. Income from investments		**1,631,66**	1,311,49
III. Interest on balance with RBI and other inter-bank funds		**142,55**	118,09
IV Others		**93**	21
	Total	**4,475,34**	3,093,49
SCHEDULE 14 - OTHER INCOME			
I. Commission, exchange and brokerage		**1,045,05**	604,96
II. Profit / (Loss) on sale of investments		**37,54**	(79,74)
III. (Loss) / Profit on revaluation of investments		**(89,66)**	13,98
IV. Profit on sale of building and other assets (net)		**27**	21
V. Profit on exchange transactions (net)		**99,40**	91,17
VI. Miscellaneous income		**31,38**	20,76
	Total	**1,123,98**	651,34
SCHEDULE 15 - INTEREST EXPENDED			
I. Interest on deposits		**1,559,43**	1,107,64
II. Interest on RBI / Inter-bank borrowings		**315,01**	166,16
III. Other interest*		**55,06**	41,76
	Total	**1,929,50**	1,315,56

**Principally includes interest on subordinated debt.*

		Year ended 31-03-2006	Year ended 31-03-2005
SCHEDULE 16 - OPERATING EXPENSES			
I. Payments to and provisions for employees		**486,82**	276,67
II. Rent, taxes and lighting		**168,31**	119,77
III. Printing and stationery		**68,76**	46,37
IV. Advertisement and publicity		**80,85**	54,95

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

SCHEDULE 16 - OPERATING EXPENSES (contd.)	Year ended 31-03-2006	Year ended 31-03-2005
V. Depreciation on bank's property	178,59	144,07
VI. Directors' fees, allowances and expenses	19	15
VII. Auditors' fees and expenses*	59	72
VIII. Law charges	2,43	2,44
IX. Postage ,telegram, telephone etc.	150,29	101,55
X. Repairs and maintenance	90,51	72,76
XI. Insurance	51,82	33,21
XII. Other expenditure **	411,93	232,74
Total	1,691,09	1,085,40

* *Excludes Rs. 51 lacs (previous year: Rs. 24 lacs) payable for professional services to a firm of auditors in which partners of the firm of statutory auditors are partners.*

** *Includes marketing expenses, professional fees, travel and hotel charges, entertainment, registrar and transfer agency fees and system management fees.*

SCHEDULE 17 - PROVISIONS AND CONTINGENCIES	Year ended 31-03-2006	Year ended 31-03-2005
I. Income tax	382,73	313,38
II. Wealth tax	30	65
III. Loan loss provision	479,76	176,22
IV. Amortisation on investments	245,16	188,06
Total	1,107,95	678,31

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

SCHEDULE 18 – EARNINGS PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net profit after taxation of Rs. 870,78 lacs (previous year: Rs. 665,56 lacs) and the weighted average number of equity shares outstanding during the year amounting to 31,19,39,366 (previous year: 29,03,83,946).

Following is the reconciliation between basic and diluted earnings per equity share:

(Rupees)

	For the year	
	2005-2006	2004-2005
Nominal value per share	**10.00**	10.00
Basic earnings per share	**27.92**	22.92
Effect of potential equity shares for stock options and subordinated debt (per share)	**(1.59)**	(1.28)
Diluted earnings per share	**26.33**	21.64

Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

Following is the reconciliation of the earnings used in the computation of basic and diluted earnings per share:

(Rs. lacs)

	For the year	
	2005-2006	2004-2005
Earnings used in basic earnings per share	**870,78**	665,56
Impact of dilution on profits	**7,48**	7,15
Earnings used in diluted earnings per share	**878,26**	672,71

Following is the reconciliation of weighted average number of equity shares used in the computation of basic and diluted earnings per share:

	For the year	
	2005-2006	2004-2005
Weighted average number of equity shares used in computing basic earnings per equity share	**31,19,39,366**	29,03,83,946
Effect of potential equity shares for stock options outstanding and subordinated debt	**2,15,64,239**	2,04,56,563
Weighted average number of equity shares used in computing diluted earnings per equity share	**33,35,03,605**	31,08,40,509

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2006.

1. Capital Adequacy Ratio

The Bank's capital adequacy ratio, calculated in accordance with the Reserve Bank of India guidelines, is as follows:

(Rs. lacs)

		For the year	
		2005-2006	2004-2005
Capital structure			
Tier I capital			
Subscribed and paid-up capital		**313,14**	309,88
Statutory reserve		**836,46**	618,76
Balance in profit and loss account		**1,455,02**	602,34
Share premium account		**2,376,71**	2,274,68
Amalgamation reserve		**14,52**	14,52
General reserve		**301,94**	214,86
Capital reserve		**1,74**	62
Less: Deferred tax asset		**(61,33)**	(73,50)
Less: Credit enhancement on securitisation (50%)		**(68,28)**	-
Less: Investment in subsidiary		**(20,01)**	-
	Total	**5,149,91**	3,962,16
Tier II capital			
Subordinated debt		**1,602,00**	420,00
General provisions		**186,99**	150,54
Investment fluctuation reserve		**-**	484,19
Less: Credit enhancement on securitisation		**(68,28)**	-
	Total	**1,720,71**	1,054,73
Total capital funds		**6,870,62**	5,016,89
Risk weighted assets and contingents			
Credit risk (including specific risk on the HFT and AFS Book)		**57,414,26**	40,018,26
Market risk		**2,803,36**	1,252,77
	Total	**60,217,62**	41,271,03
Capital Adequacy Ratios			
Tier 1		**8.55%**	9.60%
Tier 2		**2.86%**	2.56%
	Total	**11.41%**	12.16%

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

The Bank maintains capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks in respect of:

(i) securities included in the HFT category, open gold and foreign exchange position limit, trading positions in derivatives and derivatives entered into for hedging trading book exposures and

(ii) securities included in the AFS category.

Consequently, in accordance with the Reserve Bank of India guidelines, the Bank has treated IFR as Tier I capital and for this purpose has transferred the balance therein 'below the line' to the profit and loss account.

Pursuant to the issuance of securitisation guidelines by the RBI, the Bank has given the following treatment to credit enhancements provided to an investor or a special purpose vehicle: -

- 50% of each of the first and second loss credit enhancement* is reduced from Tier 1 and Tier 2 capital respectively.
- Commitment to provide liquidity facility, to the extent not drawn, is considered an off-balance sheet item and is given 100% credit conversion factor as well as 100% risk weight.

*(*For transactions prior to issuance of Draft Securitisation Guidelines, credit enhancements provided as cash collateral have been reduced from Tier 1 and Tier 2 capital)*

2 Business ratios/information

	For the year	
	2005-2006	2004-2005
Interest income as a percentage of working funds[1]	**7.11%**	6.85%
Net interest income as a percentage of working funds	**4.04%**	3.94%
Non-interest income as a percentage of working funds	**1.79%**	1.44%
Operating profit[2] as a percentage of working funds	**2.75%**	2.56%
Return on assets *(average)*	**1.38%**	1.47%
Business[3] per employee (Rs. lacs)	**758**	806
Profit per employee[4] (Rs. lacs)	**7.39**	8.80
Percentage of net non performing assets[5] to customer assets[6]	**0.36%**	0.20%
Percentage of net non performing assets to net advances[7]	**0.44%**	0.24%
Gross non performing assets to gross advances	**1.32%**	1.69%

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

Definitions:

1. Working funds is the daily average of total assets during the year.
2. Operating profit = (interest income + other income – interest expense – operating expense – amortisation of premia on investments - profit/(loss) on sale of fixed assets)
3. "Business" is the total of net advances and deposits.
4. Productivity ratios are based on average employee numbers.
5. Net NPAs are non-performing assets net of interest in suspense, specific provisions and ECGC claims received.
6. Customer assets include gross advances (but net of specific provisions), credit substitutes like debentures, commercial paper and loans and investments in securitised assets bought in.
7. Net advances are equivalent to gross advances net of bills rediscounted, specific loan loss provisions, interest in suspense and ECGC claims received.

3 Reserves and surplus

General reserve

The Bank has made an appropriation of Rs. 87,08 lacs (previous year: Rs 66,56 lacs) out of profits for the year ended March 31, 2006 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment fluctuation reserve

The Bank has transferred the balance outstanding in the investment fluctuation reserve account of Rs. 484,19 lacs to the profit and loss account in accordance with the Reserve Bank of India circular number DBOD. No. BP.BC. 38/21.04.141/2005-06 dated October 10, 2005. During the previous year the Bank had made an appropriation to the investment fluctuation reserve from the profit and loss account of Rs. 75,00 lacs out of profits for the year ended March 31, 2005.

4 Subordinated debt

Subordinated debt outstanding as at March 31, 2006 is a long-term unsecured non-convertible debt aggregating Rs.1,702 crores (previous year: Rs 500 crores).

During the year the Bank raised Rs. 1,202 crores subordinated debt at an annualised coupon between 7.5% to 8.6% and having a maturity ranging from 9 to 10 years. The debt is subordinated to present and future senior indebtedness of the Bank and qualifies as Tier 2 risk-based capital under RBI's guidelines for assessing capital adequacy.

Based on the balance term to maturity as at March 31, 2006, 94.12% of the book value of subordinated debt is considered as Tier 2 capital for the purpose of capital adequacy computation.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

Conversion clause

Of the outstanding amount of subordinated debt, principal amount of Rs. 90 crores (previous year: Rs. 90 crores) issued to certain government owned Indian financial institutions contains an option to convert into fully paid equity shares an amount not exceeding 20% of the amount outstanding in the event of a default in the payment of interest or principal. If the Bank were to default on all such debts and be obligated to issue the maximum number of shares based on the amount outstanding and interest payable until March 31, 2006, such amount would approximately be 1,84 lac shares (previous year: 1,86 lac shares).

5 Other liabilities

Others in other liabilities include:

- General loan loss provisions of Rs. 184,08 lacs (previous year: Rs. 150,54 lacs) and provision for country risk Rs. 2,91 lacs (previous year: Rs. Nil)
- Share application monies received Rs. Nil (previous year: Rs. 42,35 lacs) pursuant to the exercise of employee stock options.

6 Dividend in respect of shares to be allotted on exercise of stock options

The Bank may allot shares after the balance sheet date but before the book closure date pursuant to the exercise of options during the said period. These shares will be eligible for full dividend, if approved at the ensuing Annual General Meeting.

7 Investments

The book value of investments held under the three categories viz. ' Held for Trading', 'Available for Sale' and 'Held to Maturity' are as under:

(Rs. lacs)

	As at March 31, 2006				As at March 31, 2005			
	Held for Trading	Available for Sale	Held to Maturity	Total	Held for Trading	Available for Sale	Held to Maturity	Total
Government Securities	294,56	3,000,79	16,337,49	19,632,84	127,85	3,130,93	7,968,29	11,227,07
Other Approved Securities	—	5,73	—	5,73	—	6,73	—	6,73
Shares	—	43,53	33,41	76,94	—	45,14	44,41	89,55
Bonds and Debentures	—	7,665,90	455,92	8,121,82	—	6,178,44	620,35	6,798,79
Subsidiary / Joint Ventures	—	—	21,56	21,56	—	—	2,43	2,43
Others	—	535,07	—	535,07	—	1,225,24	—	1,225,24
Total	294,56	11,251,02	16,848,38	28,393,96	127,85	10,586,48	8,635,48	19,349,81

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

- Investments as at March 31, 2006 include securities held under Liquidity Adjustment Facility with Reserve Bank of India Rs. 420,00 lacs (previous year: Rs. Nil).
- Investments include securities aggregating Rs. 90,95 lacs (previous year: Rs. 704,09 lacs) which are kept as margin for clearing and Rs 4,783,45 lacs (previous year: Rs. Nil) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments amounting to Rs. 4,244,36 lacs (previous year: Rs. 154,89 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).
- Other investments include commercial paper Rs. Nil (previous year: Rs 129,65 lacs) and deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 216,36 lacs (previous year: Rs. 136,96 lacs).
- The Bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per (AS) 27, Financial Reporting of Interest in Joint Ventures, issued by the Institute of Chartered Accountants of India, and the said accounting standard is thus not applicable. However, pursuant to Reserve Bank of India circular No. DBOD.NO.BP.BC.3/21.04.141/2002, dated July 11, 2002, the Bank has classified these investments as joint ventures.
- On September 28, 2005, the Bank increased its investment in HDFC Securities Limited from 29.5% to 55%. Consequently, HDFC Securities Limited has become a subsidiary company of the Bank since that date.
- Issuer composition of Non-SLR Investments as on March 31, 2006 (Rs. lacs)

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated" securities	Extent of "unlisted" securities
1	Public sector undertakings	2,932,37	2,452,43	-	235,18	708,36
2	Financial institutions	65,75	10,94	-	-	-
3	Banks	17,80	17,80	-	-	-
4	Private corporate	976,21	553,68	-	42,95	162,62
5	Subsidiaries/ Joint ventures	21,56	21,56	-	21,56	21,56
6	Others	4,841,67	3,275,75	-	372,21	4,510,72
7	Provision held towards depreciation	(99,98)	-	-	-	-
	Total	8,755,38	6,332,16	-	671,90	5,403,26

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

- Issuer composition of Non-SLR Investments as on March 31, 2005 (Rs. lacs)

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated" securities	Extent of "unlisted" securities
1	Public Sector Undertakings	223,03	222,96	—	136,96	136,96
2	Financial Institutions	120,31	71,25	—	60,30	5,04
3	Banks	4,40	4,40	—	—	4,40
4	Private Corporates	1,262,68	788,74	—	61,41	288,51
5	Subsidiaries/ Joint Ventures	2,43	2,43	—	2,43	2,43
6	Others	6,508,66	5,715,32	—	978,99	3,741,16
7	Provision held towards depreciation	(5,50)	—	—	—	—
	Total	8,116,01	6,805,10	—	1,240,09	4,178,50

- Details of Repo / Reverse Repo deals done during the year ended March 31, 2006 (Rs.lacs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2006
Securities sold under repos	—	4,376,65	606,59	—
Securities purchased under reverse repos	—	5,040,00	253,79	420,00

The above includes deals done under Liquidity Adjustment Facility with the Reserve Bank of India.

- Details of Repo / Reverse Repo deals done during the year ended March 31, 2005 (Rs.lacs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2005
Security sold under repos	—	2,643,49	540,54	—
Security purchased under reverse repos	—	4,383,59	1,127,25	—

The above includes deals done under Liquidity Adjustment Facility with the Reserve Bank of India.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

- Details of investments (Rs. lacs)

	March 31, 2006	March 31, 2005
Value of investments		
Gross value of investment	**28,494,19**	19,355,31
Depreciation in the value of investment	**100,23**	5,50
Net book value	**28,393,96**	19,349,81
Movement of provisions held towards depreciation on investments.		
As at April 1	**5,50**	19,49
Add: Provisions made during the year *	**100,08**	1,04
Less: Write-off, write back of excess provision during the year	**5,35**	15,03
As at March 31	**100,23**	5,50

The movement in provision for depreciation of investments is reckoned on a yearly basis.

* Includes transfer of provision from an existing non-performing loan, which has been partially restructured as an investment during the current year.

8 Non performing Non-SLR investments (Rs. lacs)

Particulars	2005-2006	2004-2005
Opening balance	**9,08**	8,93
Additions during the year since April 1*	**9,54**	15
Reductions during the above period	**8,93**	-
Closing balance	**9,69**	9,08
Total provisions held	**9,69**	5,50

* Addition during the current year is on account of an existing non performing loan, which was partially restructured as an investment under CDR during the current year.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

9 Other assets

Other assets include deferred tax asset (net) of Rs. 61,33 lacs (previous year: Rs. 73,50 lacs). The break up of the same is as follows:

(Rs. lacs)

Deferred tax asset	March 31, 2006	March 31, 2005
Loan loss provisions	128,56	140,55
Others	13,25	9,93
Total	141,81	150,48
Deferred tax liability		
Depreciation	(80,48)	(76,98)
Total	(80,48)	(76,98)
Deferred tax asset (net)	61,33	73,50

10 Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2006 on units, equity and preference shares amounting to Rs. 36,36 lacs (previous year: Rs. 37,73 lacs).

11 Earnings from Securitised-out Assets (Rs. lacs except numbers)

Particulars	March 31, 2006	March 31, 2005
Book value of loans securitised	1,987,83*	4,802,22
Total no. of contracts securitised (nos.)	1,66,641	3,96,777
Sale consideration received	1,973,33	4,823,46
(Loss) / Profit on sell off	(3,13)	62,25

* *Includes unsold portions of receivable pools securitised out during 2004-05, which were subsequently sold during 2005-2006.*

Form and quantum of services provided by way of credit enhancement

The Bank has provided credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees/subordination of cash flows etc., to the senior pass through certificates (PTCs). The total value of credit and liquidity enhancement outstanding in the books as on March 31, 2006 was Rs. 474,45 lacs.

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

12 Commission, exchange and brokerage income

Commission, exchange and brokerage income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

13 Miscellaneous income

Miscellaneous income includes Rs. 19,21 lacs (previous year: Rs. 20,41 lacs) pertaining to derivative transactions.

14 Other expenditure

Other expenditure includes sales and marketing expense amounting to Rs. 136,44 lacs (previous year: Rs. 84,18 lacs) and outsourcing fees amounting to Rs. 119,54 lacs (previous year: Rs. 66,52 lacs) exceeding 1% of the total income of the Bank.

15 Income Taxes (Rs. lacs)

The income tax expense comprises the following:	2005-2006	2004-2005
Current income tax expense	359,56	333,89
Deferred income tax expense / (benefit)	12,17	(20,51)
	371,73	313,38
Fringe benefit tax (FBT)	11,00	-
Income tax expense	382,73	313,38
The following is the reconciliation of estimated income taxes at the statutory income tax rate to income tax expense as reported:		
Net income before taxes	1,253,51	978,94
Effective statutory income tax rate	33.66%	36.59%
Expected income tax expense	421,93	358,22
Adjustments to reconcile expected income tax to actual tax expense:		
Permanent differences:		
Income exempt from taxes	(50,68)	(50,48)
Other (including adjustments for prior years) net	48	30
Effect of change in statutory tax rates – net	-	5,34
	371,73	313,38
Fringe benefit tax (FBT)	11,00	-
Income tax expense	382,73	313,38

Management believes that the realisation of the recognised deferred tax assets is virtually certain on the basis of convincing evidence.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

16 Maturity pattern of key assets and liabilities

(Rs. lacs)

As at March 31, 2006	1-14 days	15-28 days	29 days - 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & advances	3,360,72	315,32	2,446,84	3,104,58	4,634,42	15,948,78	2,611,71	2,638,89	35,061,26
Investments	3,562,17	785,15	2,627,09	1,773,99	2,568,55	12,912,01	2,499,37	1,665,63	28,393,96
Deposits	2,450,96	2,856,83	4,139,03	3,778,42	5,867,68	32,688,93	3,736,19	278,78	55,796,82
Borrowings	1,360,21	159,25	1,251,89	—	—	52,59	34,54	—	2,858,48
FCY assets	2,339,77	114,93	351,38	452,20	99,59	250,04	45,39	44,11	3,697,41
FCY liabilities	263,21	202,71	1,321,63	128,82	436,43	762,31	82,36	—	3,197,47

(Rs. lacs)

As at March 31, 2005	1-14 days	15-28 days	29 days - 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & Advances	3,158,62	1,112,26	5,216,14	1,806,24	5,417,59	6,998,03	1,483,48	373,94	25,566,30
Investments	2,956,82	528,70	750,88	1,004,75	2,129,18	9,131,48	1,614,23	1,233,77	19,349,81
Deposits	3,198,38	733,24	1,942,26	2,104,77	3,014,08	24,293,47	1,068,05	—	36,354,25
Borrowings	3,744,11	13,43	401,75	614,85	—	1,10	14,77	—	4,790,01
FCY Assets	359,33	176,73	551,19	326,13	105,42	204,88	13,79	1	1,737,48
FCY Liabilities	185,34	82,92	474,92	717,03	210,45	682,83	14,77	—	2,368,26

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the Reserve Bank of India, vide its circular No.BP.BC /8/21.040098/99 dated February 10, 1999.

17 Lending to sensitive sector

Details of exposure to real estate sector (Rs. lacs)

Category	March 31, 2006	March 31, 2005
a) *Direct exposure*	**4,327,51**	2,019,93
(i) Residential mortgages	**789,10**	265,86
(ii) Commercial real estate	**1,818,04**	683,71

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

	March 31, 2006	March 31, 2005
(iii) Investments in mortgage backed securities (MBS) and other securitised exposures		
a. Residential	**1,720,37**	1,070,36
b. Commercial real estate	**-**	-
b) *Indirect exposure*	**50,702**	68,262
Fund based and non-fund based exposures on National Housing Bank (NHB) and housing finance companies (HFCs).	**507,02**	682,62
Total real estate exposure	**4,834,53**	2,702,55

Details of capital market exposure (Rs. lacs)

	March 31, 2006	March 31, 2005
(i) Investments made in equity shares,	**40,02**	22,52
(ii) Investments in bonds/ convertible debentures	**-**	-
(iii) Investments in units of equity–oriented mutual funds	**-**	-
(iv) Advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	**117,27**	25,03
(v) Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	**1,406,92**	937,08
(vi) Others	**30,00**	-
Total exposure to capital market	**1,594,21**	984,63
of (v) above, the total finance extended to stockbrokers for margin trading.	**-**	-
Capital market exposure as a ratio of advances	**6.12%**	5.43%
Capital market exposure as a ratio of net worth	**35.27%**	36.58%

- Exposure is higher of limits sanctioned or the amount outstanding.
- Advances reckoned for capital market exposure are gross advances netted for bills refinanced and includes investment in commercial paper. Advance so reckoned is the amount outstanding at the end of the previous year.
- Net worth as of the end of previous year is reckoned for capital market exposure.

The capital market exposure is within the norms prescribed by the Reserve Bank of India.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

Details of Risk Category wise Country Risk Exposure (Rs. lacs)

Risk Category	Exposure (Net) March 2006	Provision March 2006	Exposure (Net) March 2005	Provision March 2005
Insignificant	1,909,95	2,91	492,82	-
Low	75,58	-	57,22	-
Moderate	8,66	-	5,53	-
High	6,27	-	2,78	-
Very high	2,18	-	2,14	-
Restricted	11	-	-	-
Off-credit	-	-	-	-
Total	2,002,75	2,91	560,49	-

Details of Single Borrower Limit (SGL), Group Borrower Limit (GBL) exceeded by the Bank

During the year, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in case of NABARD, where the single borrower limits were exceeded. The board of directors of the Bank approved the excess over the prudential limits subject to a ceiling of 20% of capital funds. As at March 31, 2006, the book value of outstanding exposure to NABARD was at Rs. 1,199,14 lacs (previous year: Rs. 1,064,66 lacs). This exposure was within the board approved limit of 20% of capital funds as at March 31, 2006.

18 Movements in NPAs (funded) (Rs. lacs)

	2005-2006	2004-2005
(i) Net NPAs to Net Advances (%)	**0.44%**	0.24%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	**439,17**	335,61
(b) Additions during the year	**569,00**	258,31
(c) Reductions during the year	**499,28**	154,75
(d) Closing balance	**508,89**	439,17
(iii) Movement of Net NPAs		
(a) Opening balance	**60,63**	27,95
(b) Additions during the year	**110,78**	42,30
(c) Reductions during the year	**16,23**	9,62
(d) Closing balance	**155,18**	60,63

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

	2005-2006	(Rs. lacs) 2004-2005
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	**378,54**	307,66
(b) Additions during the year	**458,22**	216,01
(c) Reductions during the year	**483,05**	145,13
(d) Closing balance	**353,71**	378,54

NPAs include all assets that are classified as non- performing by the Bank. Movements in retail NPAs have been computed at a portfolio level.

19 Category-wise NPAs (funded)

(Rs. lacs)

Non Performing Asset Category	March 31, 2006	March 31, 2005
Gross NPAs		
Sub-standard	**292,14**	164,22
Doubtful	**86,61**	171,61
Loss	**130,14**	103,34
As at March 31	**508,89**	439,17
Provisions		
Sub-standard	**138,50**	107,16
Doubtful	**85,07**	168,04
Loss	**130,14**	103,34
As at March 31	**353,71**	378,54
Net NPA	**155,18**	60,63

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

20 Loans Restructured (Rs. lacs)

Item	2005-2006	2004-2005
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation	65,61	47,45
Of which under CDR	63,78	47,45
(ii) Total amount of Standard assets subjected to restructuring, rescheduling, renegotiation	46,53	37,12
Of which under CDR	44,70	37,12
(iii) Total amount of Sub - Standard assets subjected to restructuring, rescheduling, renegotiation	-	10,33
Of which under CDR	-	10,33
(iv) Total amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation	19,08	-
Of which under CDR	19,08	-

21 Other fixed assets (including furniture and fixtures) includes amount capitalised on software having useful life of four years. Cost as on March 31, 2005: Rs. 158,65 lacs, Additions during the year: Rs. 47,85 lacs, Accumulated depreciation: Rs. 131,81 lacs, Net value: Rs. 74,69 lacs.

22 Penalty

Based on a special scrutiny of certain customer accounts, RBI recently imposed penalties on the Bank aggregating to Rs. 30 lacs under the provisions of The Banking Regulation Act, 1949. The said penalties were imposed mainly for not displaying prudence in the opening and operations of certain deposit accounts, non compliance of Know Your Customer norms in certain accounts and non adherence to certain extant guidelines of the Reserve Bank of India.

23 Related Party Disclosures

As per (AS) 18, Related Party Disclosure, issued by the Institute of Chartered Accountants of India, the Bank's related parties are disclosed below:

Promoter

Housing Development Finance Corporation Ltd.

Subsidiary

HDFC Securities Limited (From September 28, 2005, associate up to that date)

Enterprises under common control of the promoter

HDFC Asset Management Company Ltd.

HDFC Standard Life Insurance Company Ltd.

HDFC Developers Ltd.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

HDFC Holdings Ltd.

HDFC Investments Ltd.

HDFC Trustee Company Ltd.

GRUH Finance Ltd.

HDFC Realty Ltd.

HDFC Chubb General Insurance Company Ltd.

HDFC Venture Capital Ltd.

HDFC Ventures Trustee Company Ltd.

Home Loan Services India Pvt. Ltd.

Associates

Computer Age Management Services Private Ltd.

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Atlas Documentary Facilitators Company Private Ltd.

Flexcel International Private Ltd.

HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

The Bank's related party balances and transactions are summarised as follows:

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

In fiscal year 2005-06, the Bank paid Rs. 68 lacs (previous year: Rs. 86 lacs) to HDFC Ltd. as rent, maintenance and service charges for the properties of HDFC Ltd. occupied by the Bank. The Bank has deposited an amount of Rs. 2 lacs (previous year: Rs. 2 lacs) to secure these leased properties.

During the fiscal year 2005-06 the Bank earned Rs. 23,93 lacs (previous year: Rs. 10,24 lacs) from HDFC Limited as fees for sourcing home loans (pursuant to the MOU between HDFC Ltd. and the Bank) and other services rendered. As on March 31, 2006, fees amounting to Rs. 2,92 lacs (previous year: Rs. 1,71 lacs) are receivable as fees for sourcing home loans. During the year, the Bank paid Rs. 19,13 lacs to HDFC Ltd. for purchase of additional 25.5% shares of HDFC Securities Ltd.

HDFC Securities Ltd. (HSL)

On September 28, 2005, the Bank increased its stake in HSL from 29.5 % to 55 %. Consequently HSL has become a subsidiary of the Bank since that date. As of March 31, 2006, the book value of the Bank's investment in HSL was Rs. 20,01 lacs (previous year: Rs. 89 lacs).

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

In fiscal year 2005-06, the Bank earned Rs. 3,38 lacs (previous year: Rs. 92 lacs) from HSL towards services rendered by the Bank and as rent and maintenance charges for the area sublet to HSL by the Bank. The Bank paid Rs. 2 lacs (previous year: Rs. 8 lacs) for sales assistance provided by HSL. In the previous year, the Bank paid Rs. 7 lacs for fixed asset acquired from HSL. The Bank received Rs. 51 lacs (previous year: Nil) as reimbursement of expenses incurred for HSL. An amount of Rs. 2,27 lacs (previous year: Rs. 16 lacs) was receivable from HSL as of March 31, 2006.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank has an arrangement with HDFC AMC to invest its funds primarily in debt instruments up to an amount approved by the Board of Directors of the Bank. This arrangement is upto March 31, 2006. The amount of investment outstanding as of March 31, 2006 was Rs. 341,66 lacs (previous year: Rs. 320,24 lacs). In fiscal year 2005-06, the Bank paid Rs. 7 lacs (previous year: Rs. 7 lacs) as professional fees and Rs 33 lacs (previous year: Rs. 33 lacs) towards rent for premises occupied by the Bank. Security deposit of Rs. 17 lacs (previous year: Rs. 17 lacs) has been kept with HDFC AMC to secure the above-mentioned leased property. The Bank earned Rs. 23,43 lacs (previous year: Rs. 10,09 lacs) for distribution of units of mutual funds of HDFC AMC and for other services provided. As of March 31, 2006, commission amounting to Rs. 2,28 lacs (previous year: Nil) is receivable from HDFC AMC.

HDFC Standard Life Insurance Company Ltd. (HDFC Standard Life)

In fiscal year 2005-06, the Bank contributed Rs. 2,18 lacs (previous year: Rs. 1,66 lacs) to a defined benefit plan to cover gratuity of the Bank's employees managed by HDFC Standard Life. In the same period, the Bank earned Rs. 88,14 lacs (previous year: Rs. 16,99 lacs) from HDFC Standard Life for sale of insurance policies and other services provided by the Bank to its customers. As of March 31, 2006, commission amounting to Rs. 2,92 lacs (previous year: Nil) is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2005-06, the Bank paid Rs 1,06 lacs (previous year: Rs. 79 lacs) towards insurance premium covering the professional liability of directors and officers of the Bank. A deposit of Rs. 1 lac (previous year: Rs. 1 lac) has been kept with HDFC Chubb. The Bank earned commission of Rs. 2,03 lacs (previous year: Rs. 2,19 lacs) for sale of HDFC Chubb's insurance policies to the Bank's customers.

Atlas Documentary Facilitators Company Private Ltd. (ADFC)

In fiscal year 2005-06, the Bank incurred an expense of Rs. 61,68 lacs (previous year: Rs. 38,86 lacs) for back-office processing services provided by ADFC. Deposit of Rs. 4,00 lacs (previous year: Rs. 60 lacs) has been kept with ADFC for various services provided. As of March 31, 2006, an amount of Rs 7,25 lacs (previous year: Rs. 4,01 lacs) is payable to ADFC for various back-office processing services rendered to the Bank. The Bank earned Rs 5,38 lacs (previous year: Rs. 2,95 lacs) from ADFC as rent of the premises occupied by ADFC and towards other services rendered by the Bank. As of March 31, 2006, the Bank has an equity investment of Rs. 2 lacs (previous year Rs. 2 lacs) in the company.

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

Flexcel International Private Ltd. (Flexcel)

The Bank has given a loan to Flexcel, the outstanding of which as of March 31, 2006 is Rs. 5 lacs (previous year: Rs. 25 lacs). Interest received on the same during the current year is Rs. 1 lac (previous year: Rs. 4 lacs). As of that date, the Bank has an equity investment of Rs.1,53 lacs (previous year Rs. 1,53 lacs) in the company. During the fiscal year 2005-06, the Bank received Rs. 0.46 lacs (previous year: Nil) as dividend from Flexcel.

HBL Global Private Ltd. (HBL Global)

In fiscal year 2005-06, the Bank incurred a net expense of Rs. 191,79 lacs (previous year: Rs. 117,31 lacs) in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 9,01 lacs (previous year: Rs. 4,07 lacs) has been kept with HBL Global towards services provided by them. As at March 31, 2006 an amount of Rs. 22,31 lacs was outstanding as temporary advance paid in respect of services to be provided by HBL Global. As of March 31, 2005 an amount of Rs. 3,37 lacs was payable to them for sourcing new loan customers. The Bank earned Rs. 1,26 lacs (previous year: Rs. 50 lacs) as rent for premises let to HBL Global by the Bank, during the fiscal year 2005-06.

Managerial Remuneration

The Bank paid a total amount of Rs. 1,55 lacs (previous year: Rs. 1,47 lacs) as remuneration to the managing director. This includes the taxable value of perquisites as defined in the Income Tax Rules.

Salisbury Investments Private Ltd.

Salisbury Investments Private Ltd. is a company in which the relatives of the managing director hold a stake. The company has leased a flat to the Bank towards the residential accommodation of the managing director of the Bank. As of March 31, 2006, the security deposit outstanding with Salisbury Investments was Rs. 3,50 lacs (previous year: Rs. 2,10 lacs). For the year ended March 31, 2006, the Bank paid rent of Rs. 22 lacs (previous year: Rs. 11 lacs) to the company.

Other Strategic Investments

The Bank frequently partners with other HDFC group companies when making strategic investments. The Bank currently has three strategic investments, Computer Age Management Services Private Ltd. (CAMS), SolutionNET India Private Ltd. (SolutionNET) and Softcell Technologies Ltd. (Softcell) in which HDFC group companies are co-investors. The Bank has invested an amount of Rs. 61 lacs (previous year: Rs. 61 lacs) in capital of CAMS, Rs. 76 lacs (previous year: Rs. 76 lacs) in capital of SolutionNET and Rs. 2,60 lacs (previous year: Rs. 2,60 lacs) in the capital of Softcell. During the fiscal year 2005-06 the Bank received Rs. 57 lacs (previous year: Rs. 57 lacs) as dividend from CAMS, Rs. 0.42 lacs (previous year: Rs.0.42 lacs) as dividend from SolutionNET.

The Bank also conducts business with some of the companies in which it has made strategic investments in the normal course. For the year ended March 31, 2006, the Bank paid CAMS Rs. 41 lacs (previous year: Rs.17 lacs) for mutual fund back office processing services and Softcell Rs. 84 lacs (previous year: Rs. 65 lacs) for providing software-related services. During the year ended March 31, 2006 the Bank has paid Rs. 7,24 lacs (previous year: Rs. 3,79 lacs) towards fixed assets purchased and Rs. 20 lacs (previous year: Nil) as capital advance to Softcell.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

24 Segment reporting

The Bank operates in three segments viz. retail banking, wholesale banking and treasury services.

Summary of the three operating segments of the Bank is:

(Rs. lacs)

	Particulars	2005-2006	2004-2005
1.	Segment Revenue		
	a) Retail Banking	5,173,84	3,536,27
	b) Wholesale Banking	2,853,38	2,056,35
	c) Treasury	773,89	286,89
	Total	8,801,11	5,879,51
	Less: Inter Segment Revenue	3,201,79	2,134,68
	Income from Operations	5,599,32	3,744,83
2.	Segment Results		
	a) Retail Banking	701,67	520,64
	b) Wholesale Banking	537,87	539,36
	c) Treasury	13,97	(81,06)
	Total Profit Before Tax	1,253,51	978,94
	Income Tax expense	(382,73)	(313,38)
	Total Result	870,78	665,56
3.	Capital Employed		
	Segment assets		
	a) Retail Banking	38,571,09	24,469,93
	b) Wholesale Banking	28,790,53	24,962,34
	c) Treasury	5,733,94	1,756,03
	d) Unallocated	410,83	240,70
	Total Assets	73,506,39	51,429,00
	Segment liabilities		
	a) Retail Banking	38,584,25	27,361,46
	b) Wholesale Banking	26,717,93	14,932,39
	c) Treasury	2,708,22	4,455,16
	d) Unallocated	196,46	160,14
	Total Liabilities	68,206,86	46,909,15

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		2005-2006	2004-2005
	Net Segment assets / (liabilities)		
	a) Retail Banking	**(13,16)**	(2,891,53)
	b) Wholesale Banking	**2,072,60**	10,029,95
	c) Treasury	**3,025,72**	(2,699,13)
	d) Unallocated	**214,37**	80,56
	Other Information		
4.	Capital Expenditure (including net CWIP)		
	a) Retail Banking	**248,74**	186,34
	b) Wholesale Banking	**74,40**	47,02
	c) Treasury	**44,85**	10,92
	Total	**367,99**	244,28
5.	Depreciation		
	a) Retail Banking	**134,87**	109,20
	b) Wholesale Banking	**31,02**	23,96
	c) Treasury	**12,70**	10,91
	Total	**178,59**	144,07

25 Derivatives

Overview of business and processes

The Bank offers derivative products to its customers, who use them to hedge their market risks, within the framework of regulations as may apply from time to time. The Bank deals in derivatives on its own account and also for the purpose of its own balance sheet risk management.

The Bank has a derivatives desk within the treasury front office, which deals in derivative transactions. The Bank has an independent back-office and mid-office as per regulatory guidelines. The Bank has a credit and market risk department that processes various counterparty and market risks limit assessments, within the risk architecture and processes of the Bank.

The Bank has in place a policy which covers various aspects that apply to the functioning of the derivatives business. The derivatives business is administered by various market risk limits such as position limits, tenor limits, sensitivity limits and value-at-risk limits that are approved by the Board and the Risk Management Committee (RMC). All methodologies used to assess credit and market risk for derivative transactions are specified by the market risk unit. Limits are monitored on a daily basis by the mid-office.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

Policies for hedging risk

All transactions undertaken by the Bank for trading purposes are classified under the trading book. All other transactions are classified as part of the banking book. The banking book includes transactions concluded for the purpose of providing structures to customers on a back-to-back basis. It also consists of transactions in the nature of hedges for the purpose of its own balance sheet management, based on identification of supporting trades, with appropriate linkages done for amounts and tenors which effectively cover the market risks of the underlying asset/liability which is being hedged. Derivative transactions in the nature of balance sheet hedges are identified at inception and the hedge effectiveness is measured periodically on PVBP basis.

Provisioning, collateral and credit risk mitigation

The Bank enters into derivative deals with counter parties based on their business ranking and financial position. The Bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The Bank, at the minimum, conforms to the Reserve Bank of India guidelines with regard to provisioning requirements. On a conservative basis, the Bank may make incremental provisions based on its assessment of impairment of the credit.

Disclosure on risk exposure in derivatives (Rs. crores)

Sr. No	Particulars	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (notional principal amount)		
	a) Banking (including hedging)	61,65	116,50
	b) Trading	47,41	1,094,14
2	Marked to market positions (net)		
	a) Asset (+)	40	-
	b) Liability (-)	-	(5)
3	Credit exposure	4,22	13,63
4	Likely change due to one percentage change in interest rate (100*PV01)		
	a) Banking (including hedging)	2	54
	b) Trading	0	98
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	7	58
	b) Trading	0	1,18

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. crores)

Sr. No	Particulars	Currency Derivatives	Interest Rate Derivatives
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	0	29
	b) Trading	0	39

The Bank has computed maximum and minimum of PV01 for the year based on balances at the end of every month.

Forward rate agreements/ Interest rate swaps (Rupees) (Rs. lacs)

Items		March 31, 2006	March 31, 2005
i.	The notional principal of swap agreements	**117,198,80**	72,999,48
ii.	Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	**910,40**	486,65
iii.	Concentration of credit risk arising from the swaps (with banks)	**86%**	83%
iv.	The fair value of the swap book	**(64,08)**	(8,50)

As per the prevailing market practice, the Bank does not insist on collateral from the counter parties of these contracts.

26 Provisions, contingent liabilities and contingent assets

Given below are movements in provision for credit card reward points and a brief description of the nature of contingent liabilities recognised by the Bank.

a) Movement in provision for credit card reward points (Rs. lacs)

	March 31, 2006	March 31, 2005
Opening provision for reward points	**3,24**	2,27
Provision for reward points made during the year	**6,60**	4,52
Utilisation/Write back of provision for reward points	**(1,09)**	(3,55)
Closing provision for reward points	**8,75**	3,24

The closing provision is based on actuarial valuation of accumulated credit card reward points. This amount will be utilised towards redemption of the credit card reward points as and when claim for redemption is made by the cardholders.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

b) Description of contingent liabilities

Sr.No.	Contingent liability*	Brief description
1.	Claims against the Bank not acknowledged as debts - taxation	The Bank is a party to various taxation matters in respect of which appeals are pending. This is being disputed by the Bank and not provided for.
2.	Claims against the Bank not acknowledged as debts - others	The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, results of operations or cash flows.
3.	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded, as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.
4.	Guarantees given on behalf of constituents, acceptances, endorsements & other obligations	As a part of its commercial banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.
5.	Other items for which the Bank is contingently liable	These include: a) Credit enhancements in respect of securitised out loans b) Bills rediscounted by the Bank. c) Capital commitments

*Also refer Schedule 12 – Contingent liabilities

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

27 Accounting for Employee Share based Payments

The shareholders of the Bank approved Plan "A" in January 2000, Plan "B" in June 2003 and Plan "C" in June 2005. Under the terms of each of these Plans, the Bank may issue stock options to employees and directors of the Bank, each of which is convertible into one equity share. The Bank reserved 1 crore equity shares, with an aggregate nominal value of Rs. 10 crore, for issuance under each of the above mentioned Plans.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the "Compensation Committee") at an average of the daily closing prices on the Bombay Stock Exchange Ltd. during the 60 days preceding the date of grant of options.

Plan B and Plan C provides for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. The price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks.

Such options vest at the discretion of the Compensation Committee, subject to a maximum vesting not exceeding five years, set forth at the time the grants are made. Such options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of the grant.

Method used for accounting for share based payment plan

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option.

Activity in the options outstanding under the Employees Stock Options Plan

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,03,13,500	344.88
Granted during the year	80,97,300	630.60
Exercised during the year	32,67,100	321.19
Forfeited / lapsed during the year	15,42,000	499.10
Options outstanding, end of year	136,01,700	503.18
Options Exercisable	18,98,500	-

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

Following summarises information about stock options outstanding as of March 31,2006

Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life	Weighted average Exercise Price
Plan A	Rs.131.33 to Rs.226.96	267,900	—	217.87
Plan B & C	Rs. 358.60 to Rs. 630.60	1,33,33,800	1.19	508.91

Fair Value methodology

The fair value of options used to compute *pro forma* net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2006 are:

	March 31, 2006
Dividend yield	0.7%
Expected volatility	21.25%
Risk-free interest rate	6.1%-6.6%
Expected life of the option	1-7 yrs

Impact of fair value method on net profit and EPS

Had compensation cost for the Bank's stock option plans outstanding been determined based on the fair value approach, the Bank's net profit income and earnings per share would have been as per the pro forma amounts indicated below:

	(Rs. lacs)
	March 31, 2006
Net Profit (as reported)	870,78
Add: Stock-based employee compensation expense included in net income	-
Less: Stock based compensation expense determined under fair value based method: (pro forma)	84,68
Net Profit: (pro forma)	786,10
	(Rs.)
Basic earnings per share (as reported)	27.92
Basic earnings per share (pro forma)	25.20
Diluted earnings per share (as reported)	26.33
Diluted earnings per share (pro forma)	23.79

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

28 Comparative figures

Figures for the previous year have been regrouped wherever necessary to conform to the current year's presentation.

PRINCIPAL ACCOUNTING POLICIES

A BASIS OF PREPARATION

The financial statements are prepared on the historical cost convention, on the accrual basis of accounting, and conform to statutory provisions and practices prevailing within the banking industry in India.

The preparation of financial statements requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates.

B SIGNIFICANT ACCOUNTING POLICIES

1 Investments

In accordance with the Reserve Bank of India guidelines, Investments are classified into "Held for Trading", "Available for Sale" and "Held to Maturity" categories (hereinafter called "categories"). Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.

Broken period interest on debt instruments is treated as a revenue item.

Cost of investments is based on the weighted average cost method.

Basis of classification:

Securities that are held principally for resale within 90 days from the date of purchase are classified as "Held for Trading".

Investments that the Bank intends to hold till maturity are classified as "Held to Maturity". These are carried at acquisition cost, unless acquired at a premium, which is amortised over the period remaining to maturity.

Securities which are not to be classified in the above categories, are classified as "Available for Sale".

An investment is classified as "Held for Trading", "Available for Sale" and "Held to Maturity" at the time of its purchase.

Transfer of security between categories:

The transfer of a security between these categories is accounted for at the acquisition cost/book

AS AT 31 MARCH, 2006 (contd.)

value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer is fully provided for.

Valuation:

Held for Trading and Available for Sale categories

Each scrip in the above two categories is revalued at the market price or fair value and only the net depreciation of each group for each category is recognised in the Profit and Loss Account.

The valuation of investments is made in accordance with the Reserve Bank of India guidelines.

Held to Maturity

These are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a straight-line basis.

Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

2 Advances

Advances are classified as performing and non-performing based on the Reserve Bank of India guidelines. Interest on non-performing advances is transferred to an interest suspense account and not recognised in the Profit and Loss Account until received.

Advances are net of specific loan loss provisions, interest in suspense, ECGC claims received and bills rediscounted.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines.

The Bank also maintains general provisions to cover potential credit losses, which are inherent in any loan portfolio but not yet identified. These general provisions are made based on management's assessment of the projected delinquencies having regard to overall portfolio quality, asset growth, economic conditions and other risk factors subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. This provision is included under Other Liabilities.

In respect of restructured standard and sub-standard assets, provision is made for interest component specified while restructuring the assets, based in the Reserve Bank of India guidelines.

The sub-standard assets which are thus subject to restructuring are eligible to be upgraded to the standard category only after a minimum period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due, subject to satisfactory performance during the said period. Once the asset is thus upgraded, the amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms, as aforesaid, is reversed.

3 Securitisation Transactions

The Bank securitises out its receivables to Special Purpose Vehicles (SPV) in securitisation

SCHEDULES TO THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration has been received by the Bank. Sales/transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitsed-out, the Bank provides credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to senior Pass Through Certificates (PTCs).

Gain or loss from the sale of receivables is computed as the difference between the sale consideration and the book value. Expenses incurred on account of servicing and incidental costs of the contracts so securitised out are not deferred but expensed out at the time of the transaction.

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

During the fiscal year 2005-06 the RBI issued guidelines on securitisation transactions vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, the Bank amortises any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the profit/loss account for the period in which the sale occurs. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

4 Non Performing Assets

The Bank classifies any credit facility/investment, other than advances granted for specified agricultural purposes, in respect of which the interest and / or installment of principal has remained due for over 90 days, as a non-performing asset. Loans granted for specified agricultural purposes are treated as non-performing when interest and/or installment of principal remain overdue for two harvest seasons but for a period not exceeding two half years.

5 Fixed assets and depreciation

Fixed assets are capitalised at cost. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is put to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit/ functioning capability from/of such assets.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are:

- Improvements to lease hold premises are charged off over the primary period of lease.
- VSATs at 10% per annum

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

- ATMs at 12.5% per annum
- Office equipment at 16.21% per annum
- Computers at 33.33% per annum
- Motor cars at 25% per annum
- Software and System development expenditure at 25% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items costing less than Rs 5,000/- are fully depreciated in the year of purchase
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

6 Transactions involving foreign exchange

Accounting for transactions involving foreign exchange is done in accordance with (AS) 11 (Revised 2003), The Effects of changes in Foreign Exchange Rates, issued by the Institute of Chartered Accountants of India.

Foreign currency monetary items are reported using the closing rate.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively and the resulting profit or losses are included in the Profit or Loss account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date are, in effect, valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract.

7 Lease accounting

The Bank recognizes lease income based on the Internal Rate of Return method over the primary period of the lease and accounted for in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8 Staff Benefits

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on retirement, on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually.

Superannuation

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's superannuation fund. The Bank annually contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director) to an insurance company, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Provident fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes monthly at a determined rate (currently 12% of employee's basic salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that in the case of employees who receive salary of up to Rs. 6,500 (specified employees), the Bank contributes monthly at a determined rate (currently 8.33% of employee's basic salary) out of the aforesaid contribution of the employer, to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC). The Bank has no liability for future provident fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Leave Encashment

The Bank does not have a policy of encashing unutilised / unavailed leave for its employee.

9 Interest Income

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets.

Income on discounted instruments is recognised over the tenor of the instrument on a constant yield basis.

Dividend on equity shares, preference shares and on mutual fund units is recognised as income when the right to receive the dividend is established.

Interest income is net of commission paid to sales agents (net of non volume based subvented income from dealers and manufacturers) – (hereafter called "net commission") for originating fixed tenor retail loans.

The net commission paid to sales agents for originating retail loans is expensed in the year in which it is incurred.

10 Fees and commission income

Fees and commission income is recognised when due, except for guarantee commission and annual fees for credit cards which are recognised over the period of service.

11 Credit cards reward points

The Bank estimates the probable redemption of credit card reward points using an actuarial method by employing an independent actuary. Provision for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

12 Income tax

Income tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year and fringe benefit tax. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and

AS AT 31 MARCH, 2006 (contd.)

liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognised subject to Management's judgment that realisation is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the timing differences are expected to be received, settled or reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

13 Derivative Financial Instruments

The Bank recognises all derivative instruments as assets or liabilities in the balance sheet and measures them at the market value as per the generally accepted practices prevalent in the industry. Derivative contracts classified as hedge are recorded on accrual basis. The hedge contracts are not marked to market unless their underlying is also marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the profit and loss account in the period of change.

The Bank enters into forward exchange contracts and currency options with its customers and typically covers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations. Option premia paid or received is generally recorded in profit and loss account at the expiry of the option.

The Bank enters into rupee interest rate swaps for managing interest rate risks for its customers and also for trading purposes. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically covers these exposures in the inter-bank market. Such contracts are carried on the balance sheet at fair value, based on market quotations where available or priced using market determined yield curves.

14 Earnings per share

The Bank reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued, by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

15 Segment Information – Basis of preparation

Business Segments

The Bank operates in three segments: retail banking, wholesale banking and treasury services. Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the internal business reporting systems.

The retail-banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest

AS AT 31 MARCH, 2006 (contd.)

earned on retail loans, net of commission (net of subvention received) paid to sales agents, interest on card receivables, gains / loans from securitisation receivables, fees for banking and advisory services and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The wholesale banking segment provides loans and transaction services to corporate and institutional customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers and the corporate supply chain customers, investment income from commercial paper, debentures and bonds, interest earned on the cash float arising from transaction services, fees from such transaction services and also trading operations on behalf of corporate customers in debt, foreign exchange and derivatives segment. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading. Revenues of the treasury services segment primarily consist of fees and gains or losses from trading operations and net interest earnings on assets held in the treasury desk book.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments.

Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment.

Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve, which broadly tracks market discovered interest rates. Transaction charges are made by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels; such transaction costs are determined on a cost plus basis.

Segment capital employed represents the net assets in that segment. It excludes capital and net unallocated items.

Geographic Segments

Since the Bank does not have material earnings emanating outside India, the Bank is considered to operate in only the domestic segment.

16 Accounting for Provisions, Contingent Liabilities and Contingent Assets

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Bank recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

AS AT 31 MARCH, 2006 (contd.)

No provision is recognised for -

a) Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or

b) Any present obligation that arises from past events but is not recognised because –

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- A reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

17 Net Profit

The net profit in the profit and loss account is after provision for any depreciation in the value of investments, provision for taxation and other necessary provisions.

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Vice President (Legal)
& Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Dr.Venkat Rao Gadwal
Renu Karnad
Arvind Pande
Bobby Parikh
Directors

Mumbai, 17 April, 2006

Rs. 10 lacs = Rs. 1 million

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANY

Sr. No.	Name of the Subsidiary Company	Financial year end of the subsidiary	Number of equity shares held by HDFC Bank Ltd. and/or its nominees in the subsidiary as on March 31, 2006	Extent of interest of HDFC Bank Ltd. in the capital of the subsidiary	For the financial year of the subsidiary: profit/(losses) so far as it concerns the members of HDFC Bank Ltd. and is not dealt with in the accounts of HDFC Bank Ltd. for the financial year ended March 31, 2006. (Rs. lacs)	For the financial year of the subsidiary: profit/(losses) so far as it concerns the members of HDFC Bank Ltd. and is dealt with or provided for in the accounts of HDFC Bank Ltd. for the financial year ended March 31, 2006. (Rs. lacs)
1	HDFC Securities Ltd.	31 - Mar - 06	82,50,000	55%	310*	Nil

* only post acquisition profit

Mumbai, 28 April, 2006

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Dr. Venkat Rao Gadwal
Director

SUMMARISED US GAAP FINANCIAL STATEMENT

We are providing herein below a reconciliation of net profit as reported in statutory financial statements prepared in accordance with Indian GAAP to the net income as determined in accordance with US GAAP.

By order of the Board

Vinod Yennemadi
Country Head - Finance,
Administration & Secretarial

Reconciliation of Net Profit / Income as per Indian GAAP and US GAAP		
		(Rs million)
Particulars	Results for the year ended 31-03-2006	Results for the year ended 31-03-2005
Net profit as per Indian GAAP	**8,707.8**	**6,655.6**
Reconciling items		
Investment valuation	271.9	1,070.7
Allowance for credit losses	(234.5)	(1,285.8)
Accounting for affiliates	172.5	188.2
Stock based compensation	(46.6)	(310.2)
Loan acquisition costs	1,647.5	496.4
Employee benefits	(321.8)	(173.0)
Guarantee related accruals	(160.3)	(50.1)
Others	(632.2)	9.5
Incomes taxes	(217.2)	8.4
Net profit as per US GAAP	**9,187.1***	**6,609.7**

***unaudited**

HDFC BANK
We understand your world

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of

HDFC Bank Limited

We have examined the compliance of conditions of corporate governance by HDFC Bank Limited ("the Bank") for the year ended on 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement of the Bank with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of corporate governance as stipulated in the abovementioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the Management has conducted the affairs of the Bank.

For P. C. Hansotia & Co.
Chartered Accountants

Khurshed Pastakia
(Partner)
(M. No. 31544)

Mumbai: 28th April, 2006

CORPORATE GOVERNANCE

(Report on Corporate Governance pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges and forms a part of the report of the Board of Directors).

PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE :

The Bank believes in adopting and adhering to best recognized corporate governance practices and continuously benchmarking itself against each such practice. The Bank understands and respects its fiduciary role and responsibility to shareholders and strives hard to meet their expectations. The Bank believes that best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value.

The Bank has infused the philosophy of corporate governance into all its activities. The philosophy on corporate governance is an important tool for shareholder protection and maximisation of their long term values. The cardinal principles such as independence, accountability, responsibility, transparency, fair and timely disclosures, credibility etc. serve as the means for implementing the philosophy of corporate governance in letter and spirit.

BOARD OF DIRECTORS :

The Composition of the Board of Directors of the Bank is governed by the Companies Act, 1956, the Banking Regulation Act, 1949 and the listing requirements of the Indian Stock Exchanges where the securities issued by the Bank are listed. The Board had a strength of 9 Directors as on March 31, 2006. The Board had an optimum combination of Executive and Non-executive Directors and not less than one-third of the Directors are independent Directors. The Board consists of eminent persons with considerable professional expertise and experience in banking, finance, agriculture, small scale industries and other related fields.

None of the Directors on the Board is a member of more than 10 Committees and Chairman of more than 5 Committees across all the companies in which he/she is a Director. All the Directors have made necessary disclosures regarding Committee positions occupied by them in other companies.

- Mr. Vineet Jain is nominated by the Bennett, Coleman Group on the Board of the Bank.
- All Directors other than Mr. Aditya Puri, Managing Director are Non–executive Directors on the Board.
- Mr. Jagdish Capoor, Mr. Aditya Puri, Mr. Keki Mistry, Mrs.Renu Karnad and Mr. Vineet Jain are non independent Directors on the Board.
- Mr. Bobby Parikh, Dr. V.R. Gadwal, Mr. Arvind Pande and Mr. Ashim Samanta are independent directors on the Board.
- The Bank has not entered into any materially significant transactions during the year, which could have a potential conflict of interest between the Bank and its promoters, directors, management and / or their relatives etc. other than the transactions entered into in the normal course of business. The Senior Management have made disclosures to the Board confirming that there are no material, financial and / or commercial transactions between them and the Bank which could have potential conflict of interest with the Bank at large.

REMUNERATION OF DIRECTORS :

Mr. Aditya Puri is the Managing Director of the Bank and holds office upto March 31, 2007. The details of the remuneration paid to the Managing Director during the year 2005-06 are as under:

Break up of remuneration	Amount Paid (Rs.)
Basic	72,00,000/-
Allowances	61,508/-
Performance Bonus (for FY 2004-05)	36,05,000/-
Provident Fund	8,64,000/-
Super Annuation	10,80,000/-

CORPORATE GOVERNANCE (Contd.)

In addition to the above, the Managing Director is eligible for gratuity as per the Payment of Gratuity Act, 1972.

Perquisites (evaluated as per Income Tax Rules wherever applicable and at actual cost to the Bank otherwise) such as the benefit of the Bank's furnished accommodation, gas, electricity, water and furnishings, club fees, personal accident insurance, use of car and telephone at residence, medical reimbursement, leave and leave travel concession, provident fund, super annuation and gratuity were provided in accordance with the rules of the Bank in this regard. No sitting fees are paid to Mr. Puri.

No stock options have been granted to any of the Directors of the Bank except Mr. Puri. Mr. Puri has been granted 1,50,000 stock options in the year 2003-04 of which 90,000 options have vested in him so far. Mr. Puri has not exercised these options during the year under review.

During the year Mr. Capoor was paid remuneration of Rs.9,00,000/-. Mr. Capoor has not availed of the benefit of Bank's leased accommodation. Mr. Capoor is also paid sitting fees for attending Board and Committee meetings.

The remuneration of the Managing Director and the Chairman have been approved by the Reserve Bank of India and the shareholders.

At the Board Meeting held on January 10, 2006 it was decided to increase the sitting fees from Rs. 10,000/- to Rs.20,000/- for attending each meeting of the Board and its various Committees. However, for attending Investor Grievance (Share) Committee meetings the sitting fees continue to remain at Rs.5,000/- per meeting.

During the year under review, options were granted to certain confirmed employees of the Bank pursuant to SEBI (Employees Stock Options Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

DETAILS OF REMUNERATION / SITTING FEES PAID TO DIRECTORS:

The Bank does not pay any remmuneration to any non-executive directors except to Mr. Capoor. No stock options have been granted to any of the non-executive directors. The sitting fees paid to non-executive directors during the year are as under :

Name of the Director	Sitting Fees (Rs.)
Mr. Jagdish Capoor	2,40,000
Mr. Keki Mistry	2,20,000
Dr. Venkat Rao Gadwal	3,70,000
Mr. Vineet Jain	20,000
Mrs. Renu Karnad	1,50,000
Mr. Arvind Pande	1,50,000
Mr. Ranjan Kapur*	3,10,000
Mr. Bobby Parikh	3,70,000
Mr. Ashim Samanta	1,80,000
Mr. Anil Ahuja**	30,000

* Ceased to be director w.e.f. March 29, 2006

** Ceased to be director w.e.f. June 17, 2005

COMPOSITION OF THE BOARD OF DIRECTORS:

MR. JAGDISH CAPOOR

Mr. Jagdish Capoor holds a Masters degree in Commerce and is a Certified Associate of the Indian Institute of Bankers.

Prior to joining the Bank, Mr. Capoor was the Deputy Governor of the Reserve Bank of India. He retired as Deputy Governor of the Reserve Bank of India after serving for 39 years. While with Reserve Bank of India, Mr. Capoor was the Chairman of the Deposit Insurance and Credit Guarantee Corporation of India and Bharatiya Reserve Bank Note Mudran Limited. He was also on the boards of Export Import Bank of India, National Housing Bank, National Bank for Agriculture and Rural Development (NABARD) and State Bank of India.

Mr. Capoor has been re-appointed as a part-time Chairman of the Bank for a period of three years with effect from July 6, 2004.

Mr. Capoor is on the boards of the Indian Hotels Company Limited, Bombay Stock Exchange Limited, GHCL Limited and Assets Care Enterprise Limited. He is also a member of the Board of Governors of the Indian Institute of Management, Indore and of the Academic Advisory Board of Asian Business School, Bangalore.

Mr. Capoor is a member of the Audit Committee of Indian Hotels Company Limited, GHCL Limited and Assets Care Enterprise Limited and Chairman of Audit Committee and Investors Grievance Committee of Bombay Stock Exchange Limited.

Mr. Capoor does not hold any equity shares in the Bank as on March 31, 2006.

MR. ADITYA PURI

Mr. Aditya Puri holds a Bachelors degree in Commerce from Punjab University and is an Associate Member of the Institute of Chartered Accountants of India. Mr. Puri is a member of SAMEA (South Asia, Middle East and Africa) Board of Master Card. Mr. Puri has been the Managing Director of the Bank since September 1994. He has about 32 years of banking experience in India and abroad.

Prior to joining the Bank, Mr. Puri was the Chief Executive Officer of Citibank, Malaysia from 1992 to 1994.

Mr. Puri holds 1,87,953 equity shares in the Bank as on March 31, 2006.

DR. VENKAT RAO GADWAL

Dr. V. R. Gadwal holds a Bachelor and Master of Science degree from Osmania University, Hyderabad and a doctorate in Agriculture from the Indian Agricultural Research Institute, New Delhi. He is also a Fellow Member of the Botanical Society of India and Indian Society of Genetics and Plant Breeding. Dr. Gadwal has been one of our non-executive Directors since March 15, 1999. Dr. Gadwal also serves as consultant and advisor to agricultural research and development institutions such as Maharashtra Hybrid Seeds Company Limited ("MAHYCO") and MAHYCO Research Foundation. Presently, Dr. Gadwal is the President of the Indian Society for Cotton Improvements.

Dr. Gadwal holds 4,000 equity shares in the Bank as on March 31, 2006.

MR. KEKI MISTRY

Mr. Keki Mistry holds a Bachelor of Commerce degree in Advanced Accountancy and Auditing and is also a Chartered Accountant. He was actively involved in setting up of several HDFC group companies including HDFC Bank. Mr. Mistry has been deputed on consultancy assignments for the Commonwealth Development Corporation (CDC) in Thailand, Mauritius, Caribbean Islands and Jamaica. He has also worked as a consultant for the Mauritius Housing Company and Asian Development Bank.

Mr. Mistry is the Managing Director of Housing Development Finance Corporation Limited (HDFC) and the Chairman of GRUH Finance Limited and Intelenet Global Services Pvt. Ltd. He is also a Director of the following companies.

HDFC Developers Limited,

HDFC Trustee Company Limited,

HDFC Standard Life Insurance Co. Limited,

CORPORATE GOVERNANCE (Contd.)

HDFC Chubb General Insurance Co. Limited,

Infrastructure Leasing & Financial Services Limited,

Sun Pharmaceutical Industries Limited,

Mahindra Holidays and Resorts India Limited,

The Great Eastern Shipping Co. Limited,

NexGen Publishing Limited,

India Value Fund Advisors Pvt. Limited.

Mr. Mistry is a member of the Audit Committee of HDFC Standard Life Insurance Co. Limited, HDFC Trustee Company Limited, Gruh Finance Limited, The Great Eastern Shipping Co. Limited and Infrastructure Leasing & Financial Services Limited & he is also the Chairman of the Audit Committee of HDFC Chubb General Insurance Co. Limited & Sun Pharmaceutical Industries Limited.

Mr. Mistry is a member of the Investor Grievance Committee of HDFC Limited. He is a member of the Share Transfer Committee of Infrastructure Leasing & Financial Services Limited.

Mr. Mistry is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Mistry holds 67,596 equity shares in the Bank as on March 31, 2006.

MRS. RENU KARNAD

Mrs. Renu Karnad is a Law graduate and also holds a Master's Degree in Economics from Delhi University.

Mrs. Karnad is an Executive Director of HDFC Limited. She is also a Director of HDFC Asset Management Co. Limited, GRUH Finance Limited, HDFC Realty Limited, Credit Information Bureau (India) Limited, HDFC Chubb General Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd., HDFC Venture Capital Ltd., Indraprastha Medical Corporation Ltd., ICI India Limited., Feedback Ventures Pvt. Ltd, Mother Dairy Fruit and Vegetables Pvt.Ltd., Intelenet Global Services Pvt. Ltd, Ascendas Pte. Limited, Singapore, Home Loan Services Pvt. Ltd. and Egyptian Housing Finance Company SAE.

Mrs. Karnad is a member of the Compensation Committee / Remuneration Committee of GRUH Finance Limited and Credit Information Bureau (India) Limited.

Mrs. Karnad is also a member of Audit Committee of Credit Information Bureau (India) Limited, HDFC Chubb General Insurance Co. Ltd. & ICI India Ltd.

Mrs. Karnad is liable to retire by rotation and being eligible, offers herself for re-appointment at the ensuing Annual General Meeting.

Mrs. Karnad holds 58,924 equity shares in the Bank as on March 31, 2006.

MR. ARVIND PANDE

Mr. Arvind Pande holds a Bachelor of Science degree from Allahabad University and BA. (Hons.) and MA (Economics) degrees from Cambridge University, U.K. He started his career in Indian Administrative Services and has held various responsible positions in the Government of India. He was a Joint Secretary to the Prime Minister of India for Economics, Science and Technology issues. He was also on the Board of Steel Authority of India (SAIL) and its Chairman and Chief Executive Officer (CEO). He was a Director, Department of Economic Affairs, Ministry of Finance, Government of India and has dealt with World Bank aided projects.

Mr. Pande is a Director of IVRCL Infrastructure and Projects Limited, Sandhar Technologies Limited, Visa Steel Limited, Assets Care Enterprise Limited and Era Constructions (India) Limited.

Mr. Pande is the Chairman of the Audit Commitee of IVRCL Infrastructure and Projects Limited.

Mr. Pande does not hold any equity shares in the Bank as on March 31, 2006.

MR. VINEET JAIN

Mr. Vineet Jain holds a Bachelor of Science degree and a degree in International Business Administration - Marketing.

Mr. Jain has been non-executive Director of the Bank since April 14, 2001. He is Managing Director of Bennett, Coleman & Co. Ltd. and Chairman of Times Internet Limited, Times of Money Limited, Bharat Nidhi Limited, Worldwide Media Limited and Times Global Broadcasting Co. Ltd. Mr. Jain has transformed The Times Group from India's leading publishing house to India's largest diversified and multi faceted media conglomerate. Mr. Jain is a nominee of the Bennett, Coleman Group.

Mr. Jain is also a Director of The Press Trust of India Limited, Times Infotainment Media Limited, Times Journal India Private Limited and Times Centre for Media Studies. He is also a member of the Managing Committee of S. P. Jain Foundation.

Mr. Vineet Jain holds 2,60,869 equity shares in the Bank as on March 31, 2006.

MR. BOBBY PARIKH

Mr. Bobby Parikh is a Chartered Accountant by profession and has specialised in the areas of Tax and Business Advisory Services. He has extensive experience in advising clients across a range of industries. He is a member of various trade and business associations and their committees. He is also as on the advisory / executive boards of certain non-government and non-profit organisations. Mr. Parikh was the Country Managing Partner of Arthur Andersen & Co and the Chief Executive Officer of Ernst & Young Private Limited in India. He is currently the Managing Partner of M/s. BMR & Associates. Mr. Parikh is an audit committee financial expert.

Mr. Bobby Parikh is also a Director of Erix Advisors Pvt. Ltd and Reliance Petroleum Limited. Mr. Parikh is a member of the Audit Committee of Reliance Petroleum Limited.

Mr. Bobby Parikh does not hold any equity shares in the Bank as on March 31, 2006.

MR. ASHIM SAMANTA

Mr. Ashim Samanta holds a Bachelor of Commerce degree from University of Bombay and has wide and extensive experience in business for nearly 26 years. He possesses vast experience in the field of bulk drugs and pharmaceutical formulations. He is a Director of Samanta Organics Private Limited for the last 16 years. He is a partner of a firm which manages mid sized poultry farms. Mr. Samanta has also been engaged in setting up and running of film editing and dubbing studio.

Mr. Samanta holds 600 equity shares in the Bank as on March 31, 2006.

BOARD MEETINGS :

During the period under review, six Board Meetings were held on April 13, 2005, June 17, 2005, July 14, 2005, October 17, 2005, January 10, 2006 and March 29, 2006.

Details of attendance at the Bank's Board Meetings, directorship, membership and chairmanship in other companies for each director of the Bank are as follows:

Name of Director	Attendance at the Bank's Board Meetings	Directorship of other Indian Public Limited Companies	Membership of other Companies' Committees	Chairmanship of other Companies' Committees
Mr. Jagdish Capoor, Chairman	6	4	5	2
Mr. Aditya Puri, Managing Director	6	Nil	Nil	Nil
Mr. Keki Mistry	6	11	8	2
Dr. V. R. Gadwal	6	Nil	Nil	Nil
Mr. Vineet Jain	2	8	Nil	Nil
Mrs. Renu Karnad	6	10	3	2
Mr. Arvind Pande	4	5	1	1
Mr. Ranjan Kapur*	5	N.A	N.A	N.A
Mr. Bobby Parikh	6	1	1	Nil
Mr. Ashim Samanta	5	Nil	Nil	Nil
Mr. Anil Ahuja **	Nil	N.A.	N.A.	N.A.

CORPORATE GOVERNANCE (Contd.)

* Mr. Ranjan Kapur has resigned as a Director of the Bank with effect from March 29, 2006.

** Mr. Anil Ahuja has relinquished from the office of Director of the Bank with effect from June 17, 2005.

ATTENDANCE AT LAST AGM:

All Directors of the Bank other than Mr. Anil Ahuja, Mr. Vineet Jain and Mr. Ashim Samanta attended the last Annual General Meeting held on June 17, 2005.

COMPOSITION OF COMMITTEES OF DIRECTORS AND THEIR ATTENDANCE AT THE MEETINGS:

The Board has constituted committees of Directors to take informed decisions in the best interest of the Bank. These committees monitor the activities falling within their terms of reference. The Board's Committees are as follows:

AUDIT AND COMPLIANCE COMMITTEE:

The Audit and Compliance Committee of the Bank is chaired by Mr. Bobby Parikh. The other members of the Committee are Mr. Arvind Pande, Dr. V. R. Gadwal and Mr. Ashim Samanta. Mr. Anil Ahuja and Mr. Ranjan Kapur ceased to be members of the committee w. e. f. June 17, 2005 and March 29, 2006 respectively. Mr. Ashim Samanta was inducted as member of the Audit Committee w.e.f. July 14, 2005. All the members of the Committee are independent directors and Mr. Bobby Parikh is a financial expert.

During the year, the Committee held six meetings.

The terms of reference of the Audit Committee are in accordance with clause 49 of the Listing Agreement entered into with the Stock Exchanges in India and inter alia includes the following:

a) Overseeing the Bank's financial reporting process and ensuring correct, adequate and credible disclosure of financial information;

b) Recommending appointment and removal of external auditors and fixing of their fees;

c) Reviewing with managment the annual financial satements before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;

d) Reviewing the adequacy of the Audit and Compliance functions, including their policies, procedures, techniques and other regulatory requirements;

e) Any other terms of reference as may be included from time to time in clause 49 of the listing agreement.

The Board has also adopted a charter for the audit committee in connection with certain U. S. regulatory standards.

COMPENSATION COMMITTEE:

The Compensation Committee reviews the overall compensation structure and policies of the Bank with a view to attract, retain and motivate employees, consider grant of stock options to employees, reviewing compensation levels of the Bank's employees vis-a-vis other banks and industry in general.

The Bank's compensation policy is to provide a fair and consistent basis for motivating and rewarding employees appropriately according to their job / role size, performance, contribution, skill and competence.

Mr. Jagdish Capoor, Mr. Bobby Parikh and Dr. Venkat Rao Gadwal are the members of the Committee. Mr. Anil Ahuja and Mr. Ranjan Kapur ceased to be members of the committee w. e. f. June 17, 2005 and March 29, 2006 respectively. The Committee is chaired by Mr. Jagdish Capoor.

All the members of the Committee other than Mr. Capoor are independent directors.

During the year the Committee held four meetings.

INVESTOR GRIEVANCE (SHARE) COMMITTEE:

The Committee approves and monitors transfer, transmission, splitting and consolidation of shares and bonds and allotment of shares to the employees pursuant to Employees Stock Option Scheme. The Committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

The Committee consists of Mr. Jagdish Capoor and Mr. Aditya Puri.

The Committee is chaired by Mr. Capoor and met thirteen times during the year. The powers to approve share transfers and dematerialisation requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee.

As on March 31, 2006, 36 instruments of transfer of shares were pending and since then the same have been processed. The details of the transfers are reported to the Board of Directors from time to time.

During the year, the Bank received 218 complaints from shareholders, which have been attended to.

RISK MONITORING COMMITTEE:

The committee is formed as per the guidelines of Reserve Bank of India on the Asset Liability Management / Risk Management Systems. The Risk Committee develops Bank's credit and market risk policies and procedures, verify adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The committee also ensures that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified.

The Committee consists of Mr. Bobby Parikh, Mr. Aditya Puri and Mrs. Renu Karnad and is chaired by Mr. Bobby Parikh. Mr. Anil Ahuja ceased to be member of the committee w. e. f. June 17, 2005 and Mr. Bobby Parikh was inducted as Chairman of the committee on July 14, 2005.

The Committee met five times during the year.

CREDIT APPROVAL COMMITTEE:

The Credit approval Committee approves credit exposures, which are beyond the powers delegated to executives of the Bank. This facilitates quick response to the needs of the customers and speedy disbursement of loans.

The Committee consists of Mr. Jagdish Capoor, Mr. Aditya Puri Mr. Bobby Parikh and Mr. Keki Mistry. The Committee is chaired by Mr. Capoor and met three times during the year.

PREMISES COMMITTEE:

The Premises Committee approves purchases and leasing of premises for the use of Bank's branches, back offices, ATMs and residence of executives in accordance with the guidelines laid down by the Board. The committee consists of Dr. Venkat Rao Gadwal, Mr. Aditya Puri and Mr. Ashim Samanta. Mr. Ranjan Kapur has resigned with effect from March 29, 2006.

The Committee is chaired by Dr. Venkat Rao Gadwal and met five times during the year.

NOMINATION COMMITTEE:

The Bank has constituted a Nomination Committee for recommending the appointment of independent / non-executive directors on the Board of the Bank. The Nomination Committee scrutinizes the nominations for independent / non–executive directors with reference to their qualifications and experience. For identifying 'Fit and Proper' persons, the Committee adopts the following criteria to assess competency of the persons nominated.

- Academic qualifications, previous experience,

CORPORATE GOVERNANCE (Contd.)

track record and

- Integrity of the candidates.

For assessing the integrity and suitability, features like criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to and expulsion from professional bodies, sanctions applied by regulators or similar bodies and previous questionable business practice are considered.

The members of the Committee are Mr. Arvind Pande, Dr. V. R. Gadwal and Mr. Ashim Samanta. Mr. Anil Ahuja and Mr. Ranjan Kapur have resigned from the committee w.e.f. June 17, 2005 and March 29, 2006 respectively. Mr. Samanta has been inducted as a member of the Committee w.e.f. July 14, 2005. All the members of the Committee are independent directors.

Two meetings of the Committee were held during the year.

FRAUD MONITORING COMMITTEE:

Pursuant to the directions of the Reserve Bank of India the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs.1 crore and above. The objective of this Committee is the effective detection of frauds and immediate reporting thereof to regulatory and enforcement agencies and actions taken against the perpetrators of frauds. The terms of reference of the Committee are as under:

a. Identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;

b. Identify the reasons for delay in detection, if any, reporting to top management of the Bank and RBI;

c. Monitor progress of CBI / Police Investigation and recovery position;

d. Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time;

e. Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls;

f. Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

The members of the Committee are Mr. Jagdish Capoor, Mr. Aditya Puri, Mr. Keki Mistry, Mr. Bobby Parikh and Mr. Arvind Pande.

The Committee is chaired by Mr. Capoor and met four times during the year.

CUSTOMER SERVICE COMMITTEE:

The Bank has constituted a Customer Service Committee. The Committee monitors the quality of services rendered to the customers and also ensures implementation of directives received from RBI in this regard. The terms of reference of the Committee are to formulate comprehensive deposit policy incorporating the issues arising out of death of a depositor for operations of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.

The members of the Committee are Mr. Keki Mistry, Dr. Venkat Rao Gadwal and Mr. Arvind Pande.

Four meetings of the Committee were held during the year.

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

AUDIT & COMPLIANCE COMMITTEE

Total 6 meetings held

Name	No. of Meetings Attended
Mr. Arvind Pande	4
Mr. Bobby Parikh	6
Mr. Ashim Samanta[2]	4
Dr. V. R. Gadwal	6
Mr. Ranjan Kapur[3]	5
Mr. Anil Ahuja[4]	1

RISK MONITORING COMMITTEE

Total 5 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	5
Mrs. Renu Karnad	5
Mr. Bobby Parikh[1]	3
Mr. Anil Ahuja[4]	Nil

COMPENSATION COMMITTEE

Total 4 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	4
Dr. V. R. Gadwal	4
Mr. Bobby Parikh[1]	3
Mr. Anil Ahuja[4]	1
Mr. Ranjan Kapur[3]	4

NOMINATION COMMITTEE

Total 2 meetings held

Name	No. of Meetings Attended
Dr. V. R. Gadwal	2
Mr. Arvind Pande	1
Mr. Ashim Samanta[2]	1
Mr. Anil Ahuja[4]	1
Mr. Ranjan Kapur[3]	2

INVESTOR GRIEVANCE (SHARE) COMMITTEE

Total 13 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	13
Mr. Aditya Puri	13

CORPORATE GOVERNANCE (Contd.)

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

CREDIT APPROVAL COMMITTEE

Total 3 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	3
Mr. Keki Mistry	2
Mr. Bobby Parikh	3
Mr. Aditya Puri	3

PREMISES COMMITTEE

Total 5 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	5
Dr. V. R. Gadwal	5
Mr. Ranjan Kapur[3]	4
Mr. Ashim Samanta[5]	1

FRAUD MONITORING COMMITTEE

Total 4 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	4
Mr. Aditya Puri	4
Mr. Keki Mistry	4
Mr. Arvind Pande	2
Mr. Bobby Parikh	4

CUSTOMER SERVICE COMMITTEE

Total 4 meetings held

Name	No. of Meetings Attended
Mr. Ranjan Kapur[3]	4
Mr. Keki Mistry	4
Dr. V. R. Gadwal	4
Mr. Arvind Pande	3

NOTE

1. Mr Bobby Parikh has been inducted as a member w.e.f. July 14, 2005.
2. Mr Ashim Samanta has been inducted as a member w.e.f. July 14, 2005.
3. Mr Ranjan Kapur ceased to be Director w.e.f. March 29, 2006.
4. Mr Anil Ahuja ceased to be a Director w.e.f. June 17, 2005.
5. Mr Ashim Samanta has been inducted as a member w.e.f. March 29, 2006.

OWNERSHIP RIGHTS:

Certain rights that a shareholder in a company enjoys

- To transfer the shares.
- To receive the share certificates upon transfer within the stipulated period prescribed in the Listing Agreement.
- To receive notice of general meetings, annual report, the balance sheet and profit and loss account and the auditors' report.
- To appoint proxy to attend and vote at the general meetings. In case the member is a body corporate, to appoint a representative to attend and vote at the general meetings of the company on its behalf.
- To attend and speak in person, at general meetings. Proxy cannot vote on show of hands but can vote on a poll.
- To vote at the general meeting on show of hands wherein every shareholder has one vote. In case of vote on poll, the number of votes of a shareholder is proportionate to the number of equity shares held by him.
- As per Banking Regulation Act, 1949, the voting rights on a poll of a shareholder of a banking company are capped at 10% of the total voting rights of all the shareholders of the banking company.
- To demand poll alongwith other shareholder(s) who collectively hold 5,000 shares or are not less than 1/10th of the total voting power in respect of any resolution.
- To requisition an extraordinary general meeting of any company by shareholders who collectively hold not less then 1/10th of the total paid-up capital of the company.
- To move amendments to resolutions proposed at meetings.
- To receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- To inspect various registers of the company.
- To inspect the minute books of general meetings & to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- To appoint or remove director(s) and auditor(s) and thus participate in the management through them.
- To proceed against the company by way of civil or criminal proceedings.
- To apply for the winding-up of the company.
- To receive the residual proceeds upon winding up of a company.

Kindly note that the rights mentioned above are prescribed in the Companies Act, 1956 and should be followed only after careful reading of the relevant sections. These rights are not necessarily absolute.

PROMOTERS' RIGHTS (HDFC LIMITED):

The Memorandum and Articles of Association of the Bank provides the following rights to HDFC Limited:

The Board shall appoint non-retiring Directors from amongst the Directors nominated by HDFC Limited with the approval of shareholders, so long as HDFC Limited and its subsidiaries, singly or jointly hold not less than 20% of the paid-up share capital of the Bank.

HDFC Limited shall nominate either a part-time Chairman and the Managing Director or a full time Chairman, with the approval of the Board and the shareholders, so long as HDFC Limited and its subsidiaries, singly or jointly hold not less than 20% of the paid-up share capital of the Bank.

Under the terms of our organisational documents, HDFC Limited has a right to nominate two directors who are not required to retire by rotation, so long as HDFC Limited, its susbsidiaries or any other company promoted by HDFC Limited either singly or in the aggregate holds not less than 20% of paid up equity share capital of the Bank. The two directors so nominated by HDFC Limited are the Chairman and the Managing Director.

For detailed provisions, kindly refer to the Memorandum and Articles of Association of the Bank, which are available on the web-site of the Bank at www.hdfcbank.com

KEY SHAREHOLDERS' RIGHTS PURSUANT TO AGREEMENTS:

HDFC Limited, the promoters of erstwhile Times Bank Limited-Bennett , Coleman & Co. Ltd. and its group companies (Bennett Coleman Group) and Chase Funds had entered into a tripartite agreement dated November 26, 1999 for effecting amalgamation of Times Bank Limited with the Bank. Under this Agreement, Bennett Coleman Group has a right to nominate one Director on the Board of the Bank as long as its holding exceeds 5% of the share capital of the Bank. Currently, as on March 31, 2006, the Bennett Coleman Group holds 5.17% of the share capital of the Bank and Mr. Vineet Jain represents the group on the Board of the Bank.

CORPORATE GOVERNANCE (Contd.)

SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT MARCH 31, 2006

Sr. No.	Name of the Shareholder	No. of shares held	% to share capital
1.	ADS Depository (J P Morgan Chase Bank)	6,03,38,247	19.27
2	Housing Development Finance Corporation Limited	3,88,60,000	12.41
3.	HDFC Investments Limited	3,00,00,000	9.58
4.	Crown Capital Limited	1,54,89,634	4.95
5	DBS Bank Limited	1,16,20,886	3.71
6	Life Insurance Corporation of India	95,18,096	3.04
7	Bennett Coleman & Company Limited	88,49,929	2.83
8	FID Funds (Mauritius) Limited	61,88,781	1.98
9	Small Cap World Fund INC	52,06,500	1.66
10	J P Morgan Fleming Asset Management (Europe) S A R L A/c Flagship Indian Investment Company (Mauritius) Limited	40,48,636	1.29
11	The New Economy Fund	37,46,000	1.20
12	Indocean Financial Holding Limited	39,82,752	1.27
13	Morgan Stanley & Co International Limited A/c Morgan Stanley Dean Writter Mauritius Company Limited	31,84,944	1.02

DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2006

No of equity shares held	Folio		Shares	
	Numbers	% to total holders	Numbers	% to total shares
upto 00500	**177826**	**96.56**	**21420048**	**6.84**
00501 to 01000	**3569**	**1.94**	**2694744**	**0.86**
01001 to 02000	**1144**	**0.62**	**1672992**	**0.54**
02001 to 03000	**427**	**0.23**	**1078876**	**0.35**
03001 to 04000	**177**	**0.10**	**635275**	**0.20**
04001 to 05000	**153**	**0.08**	**699864**	**0.22**
05001 to 10000	**310**	**0.17**	**2202554**	**0.70**
10001 and above	**562**	**0.31**	**282738055**	**90.29**
Total	**184168**	**100.00**	**313142408**	**100.00**

1,15,642 Folios comprising of 28,39,04,054 shares forming 90.66% of the share capital are in demat form.
68,526 Folios comprising of 2,92,38,354 shares forming 9.34% of the share capital are in Physical form.

CATEGORIES OF SHAREHOLDERS

SHAREHOLDING PATTERN AS AT MARCH 31, 2006

Category	No of shares	Total	% to Capital
A. Promoters			
i. Housing Development Finance Corporation Limited	3,88,60,000		
ii. HDFC Investments Limited	3,00,00,000		
iii. HDFC Holdings Limited	1,000	6,88,61,000	21.99
B Foreign Institutional Investors			
i. Crown Capital Limited	1,54,89,634		
ii. DBS Bank Limited	1,16,20,886		
iii. FID Funds (Mauritius) Limited	61,88,781		
iv Small Cap World Fund Inc	52,06,500		
v. J P Morgan Fleming Asset Management (Europe) S A R L A/c Flagship Indian Investment Company (Mauritius) Limited	40.48,636		
vi The New Economy Fund	37,46,000		
vii Morgan Stanley & Co. International Ltd. A/c. Morgan Stanley Dean Writter Mauritius Company Limited	31,84,944		
viii Others (Less than 1%)	5,22,31,095	10,17,16,476	32.48
C ADS Depository (J P Morgan Chase Bank)		6,03,38,247	19.27
D Bennett Coleman Group			
i. Bennett Coleman & Co. Limited	88,49,929		
ii. Dharmayug Investments Limited	24,86,956		
iii. Satyam Properties Finance limited	17,39,130		
iv. Vardhaman Publishers Limited	17,39,130		
v. Bharat Nidhi Limited	5,73,913		
vi. PNB Finance Industries Limited	4,31,743		
vii. Samir Jain	2,60,869		
viii.Times Publishing House Limited	75,956		
ix. Rajdhani Printers Limited	34,782	1,61,92,408	5.17
E Life Insurance Corporation of India		95,18,096	3.04
F Other Bodies Corporate		63,01,529	2.01
G Banks, Mutual Funds and Financial Institutions		53,63,370	1.71
H Indocean Financial Holding Limited		39,82,752	1.27
I GIC & its Subsidiaries		12,78,557	0.41
J Overseas Corporate Bodies			
i) Jarrington Pte Ltd.	12,55,330		
ii) Others	1,800	12,57,130	0.40
K Directors		5,75,942	0.19
L NRI's			
i. with repatriation	2,82,781		
ii. without repatriation	2,66,202	5,48,983	0.18
M Others		3,72,07,918	11.88
Total		31,31,42,408	100.000

CORPORATE GOVERNANCE (Contd.)

GENERAL BODY MEETINGS

Meeting	Date & Time	Venue	Special Resolutions passed
11th AGM	June 17, 2005 at 3.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	i) Approval for payment of sitting fees to the Directors of the Bank pursuant to amended clause 49; ii) Further issue of shares under Employee Stock Option Scheme (ESOS).
EGM	30th Nov 2004 at 11.00 a.m.	Amar Gian Grover AuditoriumLala Lajpatrai College, Haji Ali, Mumbai 400 034.	Issue of American Depository Shares (ADS).
10th AGM	May 26, 2004 at 3.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	i) Re-appointment of Mr. Jagdish Capoor as Chairman on part-time basis on revised terms and conditions; ii) Re-appointment of Mr. Aditya Puri as Managing Director on revised terms & conditions; iii) Delisting of equity shares from the Stock Exchange, Ahmedabad;
9th AGM	June 2, 2003 at 3.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	Further issue of shares under Employee Stock Option Scheme (ESOS).

No resolution was passed with the use of postal ballots.

MEANS OF COMMUNICATION:

The quarterly and half-yearly unaudited financial results were published in Business Standard in English and Mumbai Sakal in Marathi (regional language). The results were also displayed on the Bank's web-site at www.hdfcbank.com. The shareholders can visit the Bank's web-site for financial information, shareholding information, dividend policy, key shareholders' agreements, Memorandum and Articles of Association of the Bank, etc. The web-site also gives a link to www.sec.gov where the investors can view statutory filings of the Bank with the Securities and Exchange Commission, USA.

The Bank has also posted information relating to its financial results and shareholding pattern on Electronic Data Information Filing and Retreival System (EDIFAR) at www.sebiedifar.nic.in

Quarterly results, press releases and presentations etc are displayed on the Bank's website.

CODE FOR PREVENTION OF INSIDER TRADING:

The Bank has adopted a share dealing code for the prevention of insider trading in the shares of the Bank. The share dealing code, inter alia, prohibits purchase / sale of shares of the Bank by employees while in possession of unpublished price sensitive information in relation to the Bank.

FINANCIAL CALENDAR :

Financial Year April 1, 2005 To March 31, 2006	
Board Meeting for consideration of accounts and recommendation of dividend	April 17, 2006
Posting of Annual Report	**May 4, 2006 to May 6, 2006**
Book closure dates	**May 13 , 2006 to May 30, 2006**
Last date of receipt of proxy forms	May 27, 2006
Date, Time and Venue of 12th AGM	May 30, 2006 3.30 p.m. at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020
Dividend Payment Date	May 31, 2006
Probable date of dispatch of warrants	From May 31, 2006 onwards
Board meetings for considering unaudited results for first 3 quarters of FY. 2006-07	By 20th day of the succeeding quarter.

DISCLOSURES:

I) The Bank has not entered into any materially significant transactions during the year, which could have a potential conflict of interest between the Bank and its promoters, directors, management and/ or their relatives, etc. other than the transactions entered into in the normal course of business. Details of related party transactions entered into in the normal course of business are given in Notes to Accounts.

II) During the year the Reserve Bank of India has levied penalties on the Bank details of which are given in Note No. 22 of the Notes to Accounts. Other than this, no penalties or strictures were imposed on the Bank by any of the Stock Exchanges, SEBI or any statutory authority, on any matter relating to capital markets, during the last three years.

III) The Audit and Compliance Committee of the Bank has reviewed the functioning of the Whistle Blower mechanism and no personnel has been denied access to the audit committee.

COMPLIANCE WITH MANDATORY REQUIREMENTS:

The Bank has complied with the mandatory requirements of the Code of Corporate Governance as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges. The Bank has also complied with the requirements of amended clause 49 after it came into force.

COMPLIANCE WITH NON-MANDATORY REQUIREMENTS:

(1) **The Board**

The Bank maintains the expenses relating to the office of non-executive chairman of the Bank and reimburses all the expenses incurred in performance of his duties. Pursuant to Section 10(2A) of the Banking Regulation Act, 1949 all the directors other than its Chairman and / or whole time director cannot hold office continuously for a period exceeding eight years.

CORPORATE GOVERNANCE (Contd.)

(2) **Remuneration Committee**

The Bank has set-up a Compensation Committee of Directors to determine the Bank's policy on remuneration packages for all employees. The Committee is comprising of majority of independent directors. Mr. Jagdish Capoor is the Chairman of the Committee and is not an independent Director.

(3) Shareholder Rights

The Bank publishes its results on its website at www.hdfcbank.com which is accessible to all. Besides, it is also available on www.sebiedifar.nic. A half-yearly declaration of financial performance including summary of the significant events is presently not being sent to each household of shareholders. The Bank's half yearly results are published in English newspaper having a wide circulation and in a Marathi newspaper (having a wide circulation in Maharashtra). Hence they are not sent to the shareholders individually.

(4) Audit qualifications

During the period under review, there is no audit qualifications in its financial statements. The Bank continues to adopt best practices to ensure regime of unqualified financial statements.

(5) Training of Board Members

The Bank's Board of Directors consists of professionals with expertise in their respective fields and industry. They endeavour to keep themselves updated with changes in global economy and legislation. They attend various workshops and seminars to keep themselves abreast with the changes in business environment.

(6) Mechanism for evaluating non-executive Board Members

The Nomination Committee evaluates the non-executive Board members every year. The performance evaluation of the members of the Nomination Committee is done by the Board of Directors excluding the Director being evaluated.

(7) Whistle Blower Policy

The Bank has adopted the Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to the fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole.

DECLARATION OF COMPLIANCE WITH THE CODE OF CONDUCT / ETHICS:

All the Directors and senior management personnel have affirmed compliance with the Code of Conduct/ Ethics as approved and adopted by the Board of Directors.

LISTING ON STOCK EXCHANGES:

In order to impart liquidity and convenience for trading, the equity shares of the Bank are listed at the following Stock Exchanges. The annual fees for 2005-2006 have been paid to all the stock Exchanges where the shares are listed.

Sr. No.	Name & address of the Stock Exchange	Stock Code
1.	**Bombay Stock Exchange Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 023	500180
2.	**The National Stock Exchange of India Ltd** Exchange Plaza, 5th Floor, Bandra Kurla Complex, Bandra (East), Mumbai 400 051	HDFCBANK

Names of Depositories in India for dematerialisation of equity shares (ISIN No. INE040A01018):

- National Securities Depository Limited (NSDL)
- Central Depositories Services (India) Limited (CDSL)

The American Depository Shares (ADS) of the Bank are listed on:

The New York Stock Exchange (ticker – HDB)
11, Wall Street, New York, N.Y. 11005

The Depository for ADSs is (CUSIP No. 40415F101):

- J P Morgan Chase Bank, N.A.

The Depository is represented in India (for ADSs) by:

- ICICI Bank Limited, Bandra- Kurla Complex, Mumbai.

SHARE TRANSFER PROCESS:

The Bank's shares which are in compulsory dematerialised (demat) list are transferable through the depository system. Shares in physical form are processed by the Registrars and Share Transfer Agents, MCS Limited and approved by the Investor Grievance (Share) Committee of the Bank or authorised officials of the Bank. The share transfers are processed within a period of 8 days from the date of receipt of the transfer documents by MCS Limited.

INVESTOR HELPDESK:

Share transfers, dividend payments and all other investor related activities are attended to and processed at the office of our Registrars and Transfer Agents.

For lodgement of transfer deeds and any other documents or for any grievances / complaints, kindly contact at the following address:

Mrs. Valsa Sajan / Mr. Sachin Manve
MCS Limited, Registrars and Transfer Agents,
Unit: HDFC BANK,
Sri Venkatesh Bhavan,
Plot No. 27, Road No. 11
MIDC Area, Andheri (East),
Mumbai 400 093
Tel: (022) 6702 5235 - 44. Fax: 022 - 6702 5245
Email: mcssvb@eth.net / sachinm@mcsind.com
Counter Timing: 10 A M to 4 P M
(Monday to Saturday)

For the convenience of investors, transfers upto 500 shares and complaints from investors are accepted at the Bank's Office at 2nd Floor, Process House, Senapati Bapat Marg, Kamala Mills Compound, Lower Parel (West), Mumbai 400 013.

Investor Helpdesk Timings : 10.30 a.m to 3.30 p.m between Monday to Friday (except on Bank holidays)

Telephone : 2498 8484 , 2496 1616 Extn: 3463
Fax: 2496 5235
Email: investor.helpdesk@hdfcbank.com

Queries relating to the Bank's operational and financial performance may be addressed to:

investor.helpdesk@hdfcbank.com

Name of the Compliance Officer of the Bank:

Mr. Sanjay Dongre – Vice President (Legal) & Company Secretary

Telephone : 2498 8484 Extn: 3473

COMPLIANCE CERTIFICATE OF THE AUDITORS:

The Statutory Auditors have certified that the Bank has complied with the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with the Stock Exchanges and the same is annexed to the Annual Report.

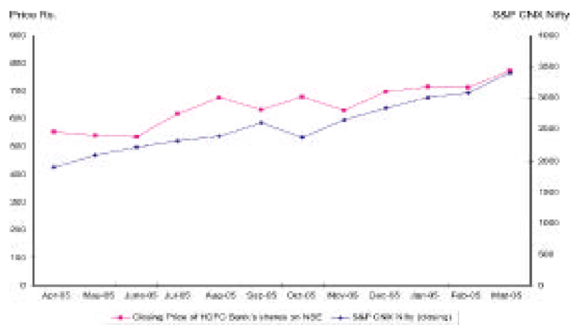
The Certificate from the Statutory Auditors will be sent to the Stock Exchanges along with the Annual Report of the Bank.

CORPORATE GOVERNANCE (Contd.)

SHARE PRICE / VOLUME

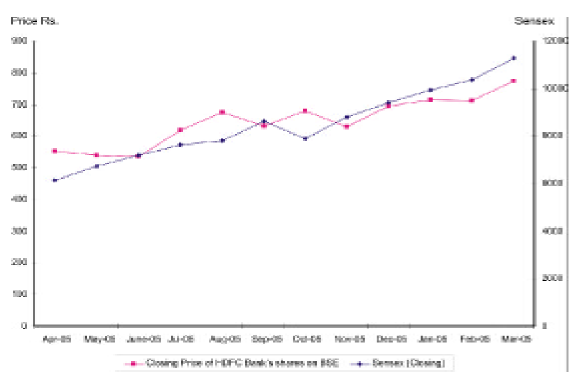
The monthly high and low quotation and the volume of shares traded on NSE			
Month	Highest (Rs.)	Lowest (Rs.)	Volume Traded
April, 05	632.25	516.10	4466659
May, 05	554.90	448.00	4366619
June, 05	609.90	534.00	8253246
July, 05	730.00	537.90	10139497
Aug, 05	765.00	628.25	7629375
Sept, 05	740.00	629.25	9867849
Oct, 05	715.00	603.00	8267121
Nov, 05	707.00	615.50	13292988
Dec, 05	748.50	676.50	7304949
Jan, 06	775.00	680.00	10043949
Feb, 06	775.00	706.00	10112739
Mar, 06	812.00	721.00	11944203

HDFC Bank share price versus the NSE-Nifty



The monthly high and low quotation and the volume of shares traded on BSE			
Month	Highest (Rs.)	Lowest (Rs.)	Volume Traded
Apr, 05	573.25	512.05	1841564
May, 05	564.00	515.00	1331706
June, 05	643.00	534.05	17462842
July, 05	724.90	600.00	4514247
Aug, 05	688.00	628.55	2780709
Sept, 05	737.40	628.10	1610528
Oct, 05	715.00	603.00	1962514
Nov, 05	709.00	616.00	14403317
Dec, 05	748.55	670.25	2445052
Jan, 06	774.00	707.00	2750074
Feb, 06	776.00	705.25	2320754
Mar, 06	790.00	726.00	17009416

HDFC Bank share price versus the BSE-Sensex



SHARE PRICE / VOLUME

The monthly high and low quotation and the volume of ADSs traded on the New York Stock Exchange			
Month	Highest (US$)	Lowest (US$)	Avg. Daily Volume
April, 05	45.17	39.95	132928
May, 05	44.30	40.67	139266
June, 05	48.48	41.30	139195
July, 05	52.70	45.25	184695
Aug, 05	52.25	45.65	107117
Sept, 05	52.97	46.99	156971
Oct, 05	54.75	41.96	288976
Nov, 05	50.78	44.90	207676
Dec, 05	54.29	49.52	147709
Jan, 06	59.70	51.21	175145
Feb, 06	59.41	51.50	259610
Mar, 06	55.75	52.35	170182

SHARE PRICE - NYSE

KEY COMPARATIVE BETWEEN U.S. AND INDIAN REGULATIONS

NYSE regulations applicable to U.S.listed companies	Indian Stock Exchange regulations and the Bank's practice
Companies must have a majority of independent directors. (NYSE Corporate Governance Standard 303A.01)	If the chairman of the board of directors is not an executive director of the company, at least one third of the directors should be independent. If the chairman is an executive director, at least half of the board of directors of the company should comprise independent directors.
Non-management directors must meet at regularly scheduled executive sessions without management (NYSE Corporate Governance Standard 303A.03)	There is no requirement for such sessions. However, as a good corporate governance practice, one meeting of the Audit Committee was held without management.
Companies must have a nominating/corporate governance committee composed entirely of independent directors. (NYSE Corporate Governance Standard 303A.04)	Constitution of Nomination Committee, is non-mandatory and need not comprise of Independent Directors. The Bank has constituted a Nomination Committee consisting of independent directors.
The nominating / corporate governance Committee must have a written charter that addresses certain specific committee purposes and responsibilities and provides for an annual performance evaluation of the committee. (NYSE Corporate Governance Standard 303A.04)	Pursuant to Listing Agreement constitution of Nomination Committee, is non-mandatory and does not require a charter for such a Committee. The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the Director being evaluated.
Companies must have a Compensation Committee composed entirely of independent directors. (NYSE Corporate Governance Standard 303A.05)	Listed Companies may constitute a compensation/ remuneration committee consisting of non-executive directors and an independent chairman. These are non-mandatory requirements. The Bank has constituted a Compensation Committee.
The compensation committee must have a written charter that addresses certain specific purposes and responsibilities of the committee and provides for an annual performance evaluation of the committee. (NYSE Corporate Governance Standard 303A.05)	Indian listing requirements do not require that the compensation committee have a charter.

KEY COMPARATIVE BETWEEN U.S. AND INDIAN REGULATIONS (contd.)

NYSE regulations applicable to U.S.listed companies	Indian Stock Exchange regulationsand the Bank's practice
Companies must have an audit committee that satisfies the independence requirements of Rule 10A-3 under the Exchange Act and the requirements of NYSE Corporate Governance Standard 303A.02. (NYSE Corporate Governance Standards 303A.06 and 303A.07)	Indian listing agreement requires listed companies to have a qualified and independent Audit Committee and stipulates the powers and role of Audit Committee. The audit committee need to have at least 2/3 of the members to be independent. All members should be financially literate and at least one member shall have accounting or related financial management expertise. The Bank has a written audit committee charter that satisfies the NYSE rule as well as Indian listing requirements.
The audit committee must have a written charter that addresses certain specific purposes and responsibilities of the committee, provides for an annual performance evaluation of the committee and sets forth certain minimum duties and responsibilities.(NYSE Corporate Governance Standard 303A.07)	All the listed companies need to comply with the corporate governance regulations stipulated in the listing agreement and disclose the compliance of mandatory and non-mandatory requirements in the Corporate Governance Report.
Companies must adopt and disclose corporate governance guidelines. (NYSE Corporate Governance Standard 303A.09) Companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. (NYSECorporate Governance Standard 303A.10)	As per clause 49 of Indian Listing Agreement, the Bank needs to adopt Code of conduct / ethics for all the Board of Directors and to all senior management one level below the Board. Annual Report should disclose compliance with the Code by the Board Members and Senior Management. Further as required by Indian SEBI regulations, the Bank has adopted a code governing trading in the Bank's securities by insiders.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To The Board of Directors

HDFC Bank Limited

1) We have audited the attached consolidated balance sheet of HDFC Bank Limited ("the Bank") and its subsidiary (the Bank and its subsidiary constitute "the Group") as at 31st March 2006 and the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These consolidated financial statements include investments in associates accounted for using the equity method in accordance with Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2) We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3) (a) We did not audit the financial statements of the subsidiary, whose financial statements reflect total assets of Rs. 150,47 lakhs as at 31st March 2006, total revenue of Rs. 332,81 lakhs and cash flows amounting to Rs. 23,37 lakhs for the year then ended. The financial statements have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of the other auditors.

(b) As stated in Note B of Schedule 19 of the consolidated financial statements, since audited financial statements of the Group's associates, whose financial statements reflect the Group's share of profit (net) of Rs. 8,25 lakhs, are not available, we have relied upon the unaudited financial statements of those associates as provided by the Management, for the purpose of our examination of the consolidated financial statements.

4. We report that :

(a) The consolidated financial statements have been prepared by the Bank's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India;

(b) Based on our audit and on consideration of the report of other auditors on separate financial statements and on the unaudited financial statements of the associates, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31st March, 2006;

(ii) in the case of the consolidated profit and loss account, of the profits of the Group for the year ended on that date; and

(iii) in the case of the consolidated cash flow statement, of the cash flows of the Group for the year ended on that date.

For P. C. Hansotia & Co.
Chartered Accountants
Khurshed Pastakia
(Partner)
(M. No. 31544)
Mumbai: 28th April, 2006

HDFC BANK LIMITED GROUP
CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH, 2006

(Rs. lacs)

		Schedule	As at 31-03-2006
CAPITAL AND LIABILITIES			
Capital		1	313,14
Reserves and surplus		2	5,014,10
Minority interest		2A	25,36
Employees' stock options (grants) outstanding			7
Deposits		3	55,747,14
Borrowings		4	2,858,48
Subordinated debt			1,702,00
Other liabilities and provisions		5	7,941,03
	Total		73,601,32
ASSETS			
Cash and balances with Reserve Bank of India		6	3,306,61
Balances with banks and money at call and short notice		7	3,635,76
Investments		8	28,390,67
Advances		9	35,062,30
Fixed assets		10	871,46
Other assets		11	2,334,52
	Total		73,601,32
Contingent liabilities		12	214,827,45
Bills for collection			2,828,89
The attached notes form part of the financial statements			

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 28 April, 2006

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Dr. Venkat Rao Gadwal
Director

Rs. 10 lacs = Rs. 1 million

HDFC BANK LIMITED GROUP CONSOLIDATED PROFIT AND LOSS ACCOUNT

HDFC BANK
We understand your world

FOR THE YEAR ENDED 31 MARCH, 2006

		Schedule	Year ended 31-03-2006 (Rs. lacs)
I.	**INCOME**		
	Interest earned	13	4,475,32
	Other income	14	1,155,60
	Total		5,630,92
II.	**EXPENDITURE**		
	Interest expended	15	1,929,18
	Operating expenses	16	1,714,79
	Provisions and contingencies [includes income tax provision of Rs. 386,02 lacs]	17	1,111,11
	Total		4,755,08
III.	**PROFIT**		
	Net profit for the year		875,84
	Less : Minority interest		2,53
	Add : Share in profits of associates		8,25
	Consolidated profit for the year attributable to the Group		881,56
	Balance of profit brought forward		602,34
	Share in the opening retained earnings of associates		9,04
	Transfer from investment fluctuation reserve		484,19
	Total		1,977,13
IV.	**APPROPRIATIONS**		
	Transfer to Statutory Reserve		217,70
	Proposed dividend		172,23
	Tax on dividend		24,16
	Transfer to General Reserve		87,08
	Transfer to Capital Reserve		1,12
	Balance carried over to Balance Sheet		1,474,84
	Total		1,977,13
V.	**EARNINGS PER EQUITY SHARE (Face value Rs. 10/- per share)**	18	Rs.
	Basic		28.26
	Diluted		26.66

The attached notes form part of the financial statements.

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 28 April, 2006

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Dr. Venkat Rao Gadwal
Director

Rs. 10 lacs = Rs. 1 million

HDFC BANK LIMITED GROUP
CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006

	(Rs. lacs)
	Year ended
	31-03-2006
Cash flows from operating activities	
Net profit before income tax	1,267,58
Adjustments for:	
Depreciation	181,21
Loss on Revaluation of Investments	89,66
Amortisation of premia on investments	245,16
Loan Loss provisions	479,63
Provision for wealth tax	30
Miscellaneous expenditure written off	5
(Profit) on sale of fixed assets	(27)
	2,263,32
Adjustments for :	
(Increase)/Decrease in Investments	(9,375,68)
(Increase) in Advances	(484,33)
(Decrease)/Increase in Borrowings	(1,931,53)
Increase in Deposits	19,392,89
(Increase) in Other assets	(754,56)
Increase/(Decrease) in Other liabilities and provisions	(6,864,14)
Decrease in Deposit Placements	2,66
	2,248,63
Direct taxes paid	(553,16)
Net cash flow from operating activities	1,695,47
Cash flows from investing activities	
Purchase of fixed assets	(375,29)
Proceeds from sale of fixed assets	5,15
Net cash used in investing activities	(370,14)

Rs. 10 lacs = Rs. 1 million

HDFC BANK LIMITED GROUP

HDFC BANK
We understand your world

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006

	(Rs. lacs)
	Year ended
	31-03-2006
Cash flows from financing activities	
Effect of consolidation of new subsidiary on cash and cash equivalents	40,83
Money received on exercise of stock options by employees	62,58
Proceeds / (Redemption) from issue of subordinated debt	1,202,00
Dividend provided last year paid during the year	(140,07)
Tax on Dividend	(19,64)
Net cash generated from financing activities	**1,145,70**
Net increase in cash and cash equivalents	**2,471,03**
Cash and cash equivalents as at 1 April, 2005	**3,741,00**
Cash and cash equivalents as at 31 March, 2006	**6,212,03**

In terms of our report of even date attached.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner

Mumbai, 28 April, 2006

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Dr. Venkat Rao Gadwal
Director

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006

		(Rs. lacs) As at 31-03-2006
SCHEDULE 1 - CAPITAL		
Authorised Capital		450,00
45,00,00,000 equity shares of Rs. 10/- each		
Issued, Subscribed and Paid-up Capital		313,14
31,31,42,408 equity shares of Rs. 10/- each		
	Total	313,14
SCHEDULE 2 - RESERVES AND SURPLUS		
I. Statutory Reserve		
Opening balance		618,76
Additions during the year		217,70
	Total	836,46
II. General Reserve		
Opening balance		214,86
Additions during the year		87,08
	Total	301,94
III. Balance in Profit and Loss Account		1,474,84
IV. Share Premium Account		
Opening balance		2,274,68
Additions during the year		102,03
	Total	2,376,71
V. Investment Fluctuation Reserve		
Opening balance		484,19
Transfer to Profit and Loss Account		(484,19)
	Total	-
VI. Amalgamation Reserve		
Opening balance		14,52
	Total	14,52
VII. Capital Reserve		
Opening balance		62
Additions during the year		1,12
	Total	1,74
VIII. Capital Reserve on Consolidation		7,89
	Total	5,014,10

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

		(Rs. lacs) As at 31-03-2006
SCHEDULE 2 A - MINORITY INTEREST		
Minority interest at the date on which parent subsidiary relationship came into existence		22,83
Subsequent increase/ (decrease)		2,53
	Total	25,36
SCHEDULE 3 - DEPOSITS		
I. Demand Deposits		
(i) From banks		595,78
(ii) From others		14,116,64
	Total	14,712,42
II. Savings Bank Deposits		16,185,79
III. Term Deposits		
(i) From banks		860,47
(ii) From others		23,988,46
	Total	24,848,93
	Total	55,747,14
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
(i) Reserve Bank of India		-
(ii) Other banks		1,243,97
(iii) Other institutions and agencies		166,81
	Total	1,410,78
II. Borrowings outside India		1,447,70
	Total	2,858,48
Secured borrowings included in I and II above Rs.166,81 lacs		
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I. Bills payable		2,079,58
II. Interest accrued		826,34
III. Others *(including provisions)*		4,838,72
IV. Proposed dividend *(including tax on dividend)*		196,39
	Total	7,941,03

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

		As at 31-03-2006
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in hand *(including foreign currency notes and gold coins)*		507,71
II. Balances with Reserve Bank of India		
(a) In current account		2,698,90
(b) In other deposit accounts		100,00
	Total	3,306,61
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
(i) Balances with banks :		
(a) In current accounts		487,62
(b) In other deposit accounts		1,311,40
	Total	1,799,02
II. Outside India		
(i) In current accounts		432,93
(ii) Money at call and short notice		1,403,81
	Total	1,836,74
	Total	3,635,76
SCHEDULE 8 - INVESTMENTS		
Investments in India in		
(i) Government securities		19,632,84
(ii) Other approved securities		5,73
(iii) Shares*		92,41
(iv) Debentures and bonds		8,121,82
(v) Joint venture*		2,80
(vi) Units, certificate of deposits and others		535,07
	Total	28,390,67

*Include goodwill net of capital reserves, on account of investment in associates, amounting to Rs. 1,42 lacs.

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

			(Rs. lacs) As at 31-03-2006
SCHEDULE 9 - ADVANCES			
A	(i) Bills purchased and discounted		1,376,77
	(ii) Cash credits, overdrafts and loans repayable on demand		7,883,03
	(iii) Term loans		25,802,50
		Total	35,062,30
B	(i) Secured by tangible assets*		15,278,15
	(ii) Covered by bank/government guarantees		116,74
	(iii) Unsecured		19,667,41
		Total	35,062,30
* Including advances against book debts			
SCHEDULE 10 - FIXED ASSETS			
A.	**Premises** (including Land)		
	Gross Block		
	At cost on 31 March of the preceding year		291,22
	Additions during the year		27,27
	Deductions during the year		(3,99)
		Total	314,50
	Depreciation		
	As at 31 March of the preceding year		40,60
	Charge for the year		11,18
	On deductions during the year		(54)
		Total	51,24
	Net Block		263,26
B.	**Other Fixed Assets** (including Furniture and Fixtures)		
	Gross Block		
	At cost on 31 March of the preceding year		976,62
	Additions during the year		313,51
	Deductions during the year		(27,34)
		Total	1,262,79
	Depreciation		
	As at 31 March of the preceding year		508,60
	Charge for the year		171,87
	On deductions during the year		(25,88)
		Total	654,59
	Net Block		608,20

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

		(Rs. lacs) As at 31-03-2006
C. **Assets on Lease** (Plant and Machinery)		
Gross Block		
At cost on 31 March of the preceding year		43,83
	Total	43,83
Depreciation		
As at 31 March of the preceding year		11,75
	Total	11,75
Lease Adjustment Account		
As at 31 March of the preceding year		32,08
	Total	32,08
Unamortised cost of assets on lease		-
	Total	871,46
SCHEDULE 11 - OTHER ASSETS		
I. Interest accrued		921,76
II. Advance tax (net of provision)		348,78
III. Stationery and stamps		17,96
IV. Security deposit for commercial and residential property		108,99
V. Cheques in course of collection		9,17
VI. Other assets *		927,86
	Total	2,334,52
**Includes deferred tax asset (net) of Rs. 59,62 lacs*		
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the Group not acknowledged as debts - taxation		244,11
II. Claims against the Group not acknowledged as debts - others		13,54
III. Liability on account of outstanding forward exchange contracts		73,473,37
IV. Liability on account of outstanding derivative contracts		131,969,84
V. Guarantees given on behalf of constituents - in India		3,088,77
VI. Acceptances, endorsements and other obligations		2,410,37
VII. Other items for which the Group is contingently liable		3,627,45
	Total	214,827,45

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

		(Rs. lacs) Year ended 31-Mar-2006
SCHEDULE 13 - INTEREST EARNED		
I. Interest/discount on advances/bills		2,700,26
II. Income from investments		1,631,09
III. Interest on balance with RBI and other inter-bank funds		142,55
IV. Others		1,42
	Total	4,475,32
SCHEDULE 14 - OTHER INCOME		
I. Commission, exchange and brokerage		1,077,44
II. Profit on sale of investments		37,54
III. (Loss) on revaluation of investments		(89,66)
IV. Profit on sale of building and other assets		27
V. Profit on exchange transactions		99,40
VI. Miscellaneous income		30,61
	Total	1,155,60
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on deposits		1,559,07
II. Interest on RBI/Inter-bank borrowings		315,01
III. Other interest*		55,10
	Total	1,929,18
**Principally includes interest on subordinated debt.*		
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and provisions for employees		494,08
II. Rent, taxes and lighting		169,57
III. Printing and stationery		69,59
IV. Advertisement and publicity		81,83
V. Depreciation on property		181,21
VI. Directors' fees, allowances and expenses		20
VII. Auditors' fees and expenses		62
VIII.Law charges		2,43
IX. Postage ,telegram, telephone etc.		153,06
X. Repairs and maintenance		91,37
XI. Insurance		51,84
XII. Other expenditure		418,99
	Total	1,714,79
SCHEDULE 17 - PROVISIONS AND CONTINGENCIES		
I. Income tax		386,02
II. Wealth tax		30
III. Loan loss provision		479,63
IV. Amortisation on investments		245,16
	Total	1,111,11

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

SCHEDULE 18 – EARNINGS PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net income after taxation of Rs. 881,56 lacs and the weighted average number of equity shares in issue during the year amounting to 31,19,39,366.

Following is the reconciliation between basic and diluted earnings per equity share: (Rupees)

	For the year 2005-2006
Nominal value per share	**10.00**
Basic earnings per share	**28.26**
Effect of potential equity shares for stock options and subordinated debt (per share)	**(1.60)**
Diluted earnings per share	**26.66**

Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

Following is the reconciliation of the earnings used in the computation of basic and diluted earnings per share:

(Rs. lacs)

	For the year 2005-2006
Earnings used in basic earnings per share	**881,56**
Impact of dilution on profits	**7,48**
Earnings used in diluted earnings per share	**889,04**

Following is the reconciliation of weighted average number of equity shares used in the computation of basic and diluted earnings per share:

	For the year 2005-2006
Weighted average number of equity shares used in computing basic earnings per equity share	**31,19,39,366**
Effect of potential equity shares for stock options outstanding and subordinated debt	**2,15,64,239**
Weighted average number of equity shares used in computing diluted earnings per equity share	**33,35,03,605**

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2006.

1 Subordinated Debt

Subordinated debt outstanding as at March 31, 2006 is a long-term unsecured non-convertible debt aggregating Rs.1,702 crores.

During the year the Bank raised Rs. 1,202 crores subordinated debt at an annualised coupon between 7.5% to 8.6% having a maturity ranging from 9 to 10 years. The debt is subordinated to present and future senior indebtedness of the Bank and qualifies as Tier 2 risk-based capital under RBI's guidelines for assessing capital adequacy.

Conversion clause

Of the outstanding amount of debt, principal amount of Rs. 90 crores issued to certain Government owned Indian Financial Institutions contains a clause, to convert into fully paid equity shares an amount not exceeding 20% of the amount outstanding in the event of a default in the payment of interest or principal. If the Bank were to default on all such debts and be obligated to issue the maximum number of shares based on the amount outstanding and interest payable until March 31, 2006, such amount would approximately be 1,84 lac shares.

2 Dividend in respect of shares to be allotted on exercise of stock options

The Bank may allot shares after the balance sheet date but before the book closure date pursuant to the exercise of options during the said period. These shares will be eligible for full dividend, if approved at the ensuing Annual General Meeting.

3 Investments

- Investments as at March 31, 2006 include securities held under Liquidity Adjustment Facility with the Reserve Bank of India Rs. 420,00 lacs.
- Investments include securities aggregating Rs. 90,95 lacs, which are kept as margin for clearing and Rs. 4,783,45 lacs, which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments amounting to Rs. 4,244,36 lacs are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).
- Other investments include deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 216,36 lacs.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

4 Other Assets

Other assets include deferred tax asset (net) of Rs. 59,62 lacs. The break up of the same is as follows:

(Rs. lacs)

Deferred tax asset	**March 31, 2006**
Loan loss provisions	**128,60**
Others	**13,28**
Total	**141,88**
Deferred tax liability	
Depreciation	**(82,26)**
Total	**(82,26)**
Deferred Tax Asset (net)	**59,62**

5 Commission, Exchange and Brokerage Income

Commission, Exchange and Brokerage Income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

6 Other Expenditure

Other Expenditure includes Sales and Marketing Expense amounting to Rs. 136,44 lacs and Outsourcing Fees amounting to Rs. 119,54 lacs exceeding 1% of the total income of the Bank.

7 Related Party Transactions

As per (AS) 18, Related Party Disclosures, issued by the Institute of Chartered Accountants of India, the related parties are disclosed below:

Promoter

Housing Development Finance Corporation Ltd.

Enterprises under common control of the promoter

HDFC Asset Management Company Ltd.

HDFC Standard Life Insurance Company Ltd.

HDFC Developers Ltd.

HDFC Holdings Ltd.

HDFC Investments Ltd.

HDFC Trustee Company Ltd.

GRUH Finance Ltd.

HDFC Realty Ltd.

HDFC Chubb General Insurance Company Ltd.

HDFC Venture Capital Ltd.

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

HDFC Ventures Trustee Company Ltd.

Home Loan Services India Private Ltd.

Associates

Computer Age Management Services Private Ltd.

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Atlas Documentary Facilitators Company Private Ltd.

Flexcel International Private Ltd.

HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Related Party to Key Management Personnel

Salisbury Investments Private Ltd.

The related party balances and transactions are summarised as follows:

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

In fiscal year 2005-06, the Bank paid Rs. 68 lacs to HDFC Ltd. as rent, maintenance and service charges for the properties of HDFC Ltd. occupied by the Bank. The Bank has deposited an amount of Rs. 2 lacs to secure these leased properties.

During the fiscal year 2005-06 the Bank earned Rs. 23,93 lacs from HDFC Limited as fees for sourcing home loans (pursuant to the MOU between HDFC Ltd. and HDFC Bank) and other services rendered. As on March 31, 2006, fees amounting to Rs. 2,92 lacs are receivable as fees for sourcing home loans. During the year, the Bank paid Rs.19,13 lacs to HDFC Ltd. for purchase of additional 25.5% shares of HDFC Securities Ltd.

During the fiscal year 2005-06, HDFC Securities Ltd. incurred an expense of Rs. 2 lacs towards services received from HDFC Ltd.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank has an arrangement with HDFC AMC to invest its funds primarily in debt instruments up to an amount approved by the Board of Directors of the Bank. This arrangement is upto 31st March, 2006. The amount of investment outstanding as of March 31, 2006 was Rs. 341,66 lacs. In fiscal year 2005-06, the Bank paid Rs. 7 lacs as professional fees and Rs. 33 lacs towards rent for premises occupied by the Bank. Security deposit of Rs. 17 lacs has been kept with HDFC AMC to secure the above-mentioned leased property. The Bank earned Rs. 23,43 lacs for distribution of units of mutual funds of HDFC AMC and for other services provided. As on March 31, 2006, commission amounting to Rs. 2,28 lacs is receivable from HDFC AMC.

HDFC Standard Life Insurance Company Ltd. (HDFC Standard Life)

In fiscal year 2005-06, the Bank contributed Rs. 2,18 lacs to a defined benefit plan to cover gratuity of the Bank's employees managed by HDFC Standard Life. In the same period, the Bank earned Rs. 88,14

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

lacs from HDFC Standard Life for sale of insurance policies and other services provided by the Bank to its customers. As on March 31, 2006, commission amounting to Rs. 2,92 lacs is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2005-06, the Bank paid Rs 1,06 lacs towards insurance premium covering the professional liability of directors & officers of the Bank. A deposit of Rs. 1 lac has been kept with HDFC Chubb. The Bank earned commission of Rs. 2,03 lacs for sale of HDFC Chubb's insurance policies to the Bank's customers.

Atlas Documentary Facilitators Company Private Ltd. (ADFC)

In fiscal year 2005-06, the Bank incurred an expense of Rs. 61,68 lacs for back-office processing services provided by ADFC. Deposit of Rs. 4,00 lacs has been kept with ADFC for various services provided. As on March 31, 2006, an amount of Rs 7,25 lacs is payable to ADFC for various back-office processing services rendered to the Bank. The Bank earned Rs. 5,38 lacs from ADFC as rent of the premises occupied by ADFC and towards other services rendered by the Bank. As of March 31, 2006, the Bank has an equity investment of Rs. 2 lacs in the company.

Flexcel International Private Ltd. (Flexcel)

The Bank has given a loan to Flexcel, the outstanding of which as of March 31, 2006 is Rs. 5 lacs. Interest received on the same during the current year is Rs. 1 lac. As of that date, the Bank has an equity investment of Rs.1,53 lacs in the company. During the fiscal year 2005-06, the Bank received Rs. 0.46 lacs as dividend from Flexcel.

HBL Global Private Ltd. (HBL Global)

In fiscal year 2005-06, the Bank incurred a net expense of Rs. 191,79 lacs in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 9,01 lacs has been kept with HBL Global towards services provided by them. As at March 31, 2006 an amount of Rs. 22,31 lacs was outstanding as temporary advance paid in respect of services to be provided by HBL Global. The Bank earned Rs. 1,26 lacs as rent for those premises let to HBL Global by the Bank, during the fiscal year 2005-06.

Managerial Remuneration

The Bank paid a total amount of Rs. 1,55 lacs as remuneration to the Managing Director. This includes the taxable value of perquisites as defined in the Income Tax Rules.

Salisbury Investments Private Ltd.

Salisbury Investments Private Ltd. is a company in which the relatives of the Managing Director hold a stake. The company has leased a flat to the Bank towards the residential accommodation of the Managing Director of the Bank. As at March 31, 2006, the security deposit outstanding with Salisbury Investments was Rs. 3,50 lacs. For the year ended March 31, 2006, the Bank paid rent of Rs. 22 lacs to the company.

Others Strategic Investments

The Bank frequently partners with other HDFC Group companies when making strategic investments. The Bank currently has three strategic investments, Computer Age Management Services Private Ltd.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(CAMS), SolutionNET India Private Ltd. (SolutionNET) and Softcell Technologies Ltd. (Softcell) in which HDFC group companies are co-investors. The Bank has invested an amount of Rs. 61 lacs in capital of CAMS, Rs. 76 lacs in capital of SolutionNET and Rs. 2,60 lacs in the capital of Softcell. During the fiscal year 2005-06 the Bank received Rs. 57 lacs as dividend from CAMS and Rs. 0.42 lacs as dividend from SolutionNet.

The Bank also conducts business with some of the companies in which it has made strategic investments in the normal course. For the year ended March 31, 2006, the Bank paid CAMS Rs. 41 lacs for mutual fund back office processing services and Softcell Rs. 84 lacs for providing software-related services. During the year ended March 31, 2006 the Bank has paid Rs. 7,24 lacs towards fixed assets purchased and Rs. 20 lacs as capital advance to Softcell.

8 Segment reporting

The Group operates in three segments viz. retail banking, wholesale banking and treasury services. Summary of the three operating segments is:

(Rs. lacs)

Particulars	**2005-2006**
1. Segment Revenue	
a) Retail banking	5,205,44
b) Wholesale banking	2,853,38
c) Treasury	773,89
Total	8,832,71
Less: Inter Segment Revenue	3,201,79
Income from operations	5,630,92
2. Segment Results	
a) Retail banking	710,02
b) Wholesale banking	537,87
c) Treasury	13,97
Total Profit Before Tax, Minority Interest & Earning from Associates	1,261,86
3. Capital Employed	
Segment assets	
a) Retail banking	38,668,45
b) Wholesale banking	28,790,53
c) Treasury	5,733,94
d) Unallocated	408,40
Total assets	73,601,32

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

(Rs. lacs)

Particulars	2005-2006
Segment liabilities	
a) Retail banking	38,651,47
b) Wholesale banking	26,717,93
c) Treasury	2,708,22
d) Unallocated	196,46
Total liabilities	68,274,08
Net Segment assets / (liabilities)	
a) Retail banking	16,98
b) Wholesale banking	2,072,60
c) Treasury	3,025,72
d) Unallocated	211,94
Other information	
4. Capital expenditure	
a) Retail banking	256,04
b) Wholesale banking	74,40
c) Treasury	44,85
Total	375,29
5. Depreciation	
a) Retail banking	137,49
b) Wholesale banking	31,02
c) Treasury	12,70
Total	181,21

9 Other fixed assets (including furniture and fixtures) include amount capitalized on software, website cost and Bombay Stock Exchange Card having useful life of 4/5/10 years: Cost as on March 31, 2005: Rs. 167,22 lacs, Additions during the year: Rs. 51,62 lacs, Accumulated depreciation: Rs.137,86 lacs, Net value: Rs.80,98 lacs.

10 Provisions, Contingent Liabilities and Contingent Assets

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, given below are movements in provision for credit card reward points and a brief description of the nature of contingent liabilities recognised by the Group.

a) Movement in provision for credit card reward points

(Rs. lacs)

	March 31, 2006
Opening provision for reward points	3,24
Provision for reward points made during the year	6,60
Utilisation/Write back of provision for reward points	(1,09)
Closing provision for reward points	8,75

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

The closing provision is based on actuarial valuation of accumulated credit card reward points. This amount will be utilized towards redemption of the credit card reward points as and when claim for redemption is made by the cardholders.

b) Description of Contingent Liabilities

Sr.No.	Contingent Liability*	Brief description
1.	Claims against the Group not acknowledged as debts - Taxation	The Group is a party to various taxation matters in respect of which appeals are pending. This is being disputed by the Group and not provided for.
2.	Claims against the Group not acknowledged as debts - Others	The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, results of operations or cash flows.
3.	Liability on account of forward exchange and derivative contracts	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded, as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.
4.	Guarantees given on behalf of constituents, Acceptances, Endorsements and other obligations	As a part of its commercial banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

5.	Other items for which the Group is contingently liable	These include: a) Credit enhancements in respect of securitised out loans. b) Bills rediscounted by the Bank. c) Capital Commitments. d) Bank guarantees.

* Also refer Schedule 12 – Contingent Liabilities

11 Accounting for Employee Share based Payments

The shareholders of the Bank approved in January 2000 Plan "A", Plan "B" in June 2003 and Plan "C" in June 2005. Under the terms of each of these Plans, the Bank may issue stock options to employees and directors of the Bank, each of which is convertible into one equity share. The Bank reserved 1 crore equity shares, with an aggregate nominal value of Rs. 10 crore, for issuance under each of the above mention Plans.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the "Compensation Committee") at an average of the daily closing prices on the Bombay Stock Exchange Ltd. during the 60 days preceding the date of grant of options.

Plan B and Plan C provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. The price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks.

Such options vest at the discretion of the Compensation Committee, subject to a maximum vesting not exceeding five years, set forth at the time the grants are made. Such options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of the grant.

Method used for accounting for share based payment plan

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option.

Activity in the options outstanding under the Employees Stock Options Plan

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,03,13,500	344.88
Granted during the year	80,97,300	630.60
Exercised during the year	32,67,100	321.19
Forfeited / lapsed during the year	15,42,000	499.10
Options outstanding, end of year	136,01,700	503.18
Options Exercisable	18,98,500	

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

Following summarises information about stock options outstanding as of March 31,2006

Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life	Weighted average Exercise Price
Plan A	Rs. 131.33 to Rs. 226.96	267,900	—	217.87
Plan B & C	Rs. 358.60 to Rs. 630.60	1,33,33,800	1.19	508.91

Fair Value methodology

The fair value of options used to compute *pro forma* net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2006 are:

	March 31, 2006
Dividend yield	0.7%
Expected volatility	21.25%
Risk-free interest rate	6.1%-6.6%
Expected life of the option	1-7 yrs

Impact of fair value method on net profit and EPS

Had compensation cost for the Bank's stock option plans outstanding been determined based on the fair value approach, the Bank's net profit income and earnings per share would have been as per the pro forma amounts indicated below:

	(Rs. lacs) March 31, 2006
Net Profit (as reported)	881,56
Add: Stock-based employee compensation expense included in net income.	-
Less: Stock-based compensation expense determined under fair value based method (pro forma)	84,68
Net Profit (pro forma)	796,88
	(Rs.)
Basic earnings per share (as reported)	28.26
Basic earnings per share (pro forma)	25.55
Diluted earnings per share (as reported)	26.66
Diluted earnings per share (pro forma)	24.12

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

12 Comparative figures

In terms of the transitional provisions under (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India, the comparative figures for the previous year have not been presented.

PRINCIPAL ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of HDFC Bank Ltd. ('Bank') its subsidiary and associates, which together constitute the 'Group'.

The Bank consolidates its subsidiary in accordance with (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India on a line-by-line basis by adding together the like items of assets, liabilities, income and expenditure. Capital reserve on consolidation represents the difference between the Bank's share in the net worth of the subsidiary and the cost of acquisition at the time of making the investment in the subsidiary. Further, the Bank accounts for investments in associates in accordance with (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India, by the equity method of accounting.

B. BASIS OF PREPARATION

The financial statements of the Group are prepared on the historical cost convention, on the accrual basis of accounting, and conform to statutory provisions and practices prevailing within the banking industry in India.

The preparation of financial statements requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates.

The Bank had bought a stake of 29.5% in HDFC Securities Ltd. during the fiscal year ended March 31, 2001. During the current financial year on September 28, 2005, the Bank bought a further stake of 25.5% from HDFC Ltd., thereby obtaining a controlling interest of 55.0% in HDFC Securities Ltd.

The consolidated financial statements present the accounts of HDFC Bank Ltd. with its following subsidiary and associates:

Name	Relation	Country of Incorporation	Ownership Interest
HDFC Securities Ltd.*	Subsidiary	India	55.0%
Atlas Documentary Facilitators Company Pvt. Ltd.**	Associate	India	29.0%
Flexcel International Pvt. Ltd.*	Associate	India	29.3%
Computer Age Management Services Pvt. Ltd.**	Associate	India	19.0%
SolutionNET India Pvt. Ltd.**	Associate	India	19.0%
Softcell Technologies Ltd.**	Associate	India	12.0%
HBL Global Pvt. Ltd.	Associate	India	Nil

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2006 (contd.)

* The audited financial statements of HDFC Securities Ltd. and the un-audited financial statements of Flexcel International Pvt. Ltd. have been drawn up to the same reporting date as that of the Bank, i.e. March 31, 2006.

** The un-audited financial statements of the associates have been drawn for the period ended February 28, 2006.

C. SIGNIFICANT ACCOUNTING POLICIES

1 Investments

HDFC Bank Ltd.

In accordance with the Reserve Bank of India guidelines, Investments are classified into “Held for Trading”, “Available for Sale” and “Held to Maturity” categories (hereinafter called “categories”). Under each of these categories, investments are further classified under six groups (hereinafter called “groups”) - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.

Broken period interest on debt instruments is treated as a revenue item.

Cost of investments is based on the weighted average cost method.

Basis of classification:

Securities that are held principally for resale within 90 days from the date of purchase are classified as “Held for Trading”.

Investments that the Bank intends to hold till maturity are classified as “Held to Maturity”. These are carried at acquisition cost, unless acquired at a premium, which is amortised over the period remaining to maturity.

Securities which are not to be classified in the above categories, are classified as “Available for Sale”.

An investment is classified as “Held for Trading”, “Available for Sale” and “Held to Maturity” at the time of its purchase.

Transfer of security between categories:

The transfer of a security between these categories is accounted for at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer is fully provided for.

AS AT 31 MARCH, 2006 (contd.)

Valuation:

Held for Trading and Available for Sale categories

Each scrip in the above two categories is revalued at the market price or fair value and only the net depreciation of each group for each category is recognised in the Profit and Loss Account.

The valuation of investments is made in accordance with the Reserve Bank of India guidelines.

Held to Maturity

These are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining maturity period of the security on a straight-line basis.

Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

HDFC Securities Ltd.

All investments of long-term nature are valued at cost. Provision is made to recognise a decline, other than temporary, in the value of Long-Term investments. Current investments are valued at cost or market value, whichever is lower.

2 Advances

HDFC Bank Ltd.

Advances are classified as performing and non-performing based on the Reserve Bank of India guidelines. Interest on non-performing advances is transferred to an interest suspense account and not recognised in the Profit and Loss Account until received.

Advances are net of specific loan loss provisions, interest in suspense, ECGC claims received and bills rediscounted.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines.

The Bank also maintains general provisions to cover potential credit losses, which are inherent in any loan portfolio but not yet identified. These general provisions are made based on management's assessment of the projected delinquencies having regard to overall portfolio quality, asset growth, economic conditions and other risk factors subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. This provision is included under Other Liabilities.

In respect of restructured standard and sub-standard assets, provision is made for interest component specified while restructuring the assets, based in the Reserve Bank of India guidelines.

The sub-standard assets which are thus subject to restructuring are eligible to be upgraded to the standard category only after a minimum period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due, subject to satisfactory performance during the said period. Once the asset is thus upgraded, the amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms, as aforesaid, is reversed.

AS AT 31 MARCH, 2006 (contd.)

3 Securitisation Transactions

HDFC Bank Ltd.

The Bank securitises out its receivables to Special Purpose Vehicles (SPV) in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration has been received by the Bank. Sales/transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitsed-out, the Bank provides credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to senior Pass Through Certificates (PTCs).

Gain or loss from the sale of receivables is computed as the difference between the sale consideration and the book value. Expenses incurred on account of servicing and incidental costs of the contracts so securitised out are not deferred but expensed out at the time of the transaction.

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by PTCs.

During the fiscal year 2005-06 the RBI issued guidelines on securitisation transactions vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, the Bank amortises any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the profit/loss account for the period in which the sale occurs. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

4 Non Performing Assets

HDFC Bank Ltd.

The Bank classifies any credit facility/investment, other than advances granted for specified agricultural purposes, in respect of which the interest and / or installment of principal has remained due for over 90 days, as a non-performing asset. Loans granted for specified agricultural purposes are treated as non-performing when interest and/or installment of principal remain overdue for two harvest seasons but for a period not exceeding two half years.

5 Fixed assets and depreciation

HDFC Bank Ltd.

Fixed assets are capitalised at cost. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is put to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit/ functioning capability from/of such assets.

AS AT 31 MARCH, 2006 (contd.)

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are:

- Improvements to lease hold premises are charged off over the primary period of lease.
- VSATs at 10% per annum
- ATMs at 12.5% per annum
- Office equipment at 16.21% per annum
- Computers at 33.33% per annum
- Motor cars at 25% per annum
- Software and System development expenditure at 25% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items costing less than Rs 5,000/- are fully depreciated in the year of purchase
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

HDFC Securities Ltd.

Fixed assets are capitalised at cost. Cost includes cost of purchase and all expenditure like site preparation, installation costs, and professional fees incurred for construction of the assets, etc. Subsequent expenditure incurred on assets put to use is capitalised only where it increases the future benefit/ functioning capability from/of such assets.

Costs incurred for the development/customisation of the Company's website, front-office system software and back-office system software are capitalised.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis as under:

▪ Leasehold improvements	Over the primary period of lease
▪ Computer Hardware – Personal Computers	3 years
▪ Computer Hardware – Others	4 years
▪ Computer Software	5 years
▪ Office equipments	6 years
▪ Furniture and Fixture	15 years
▪ Website Cost	5 years
▪ Motor cars	4 years
▪ Bombay Stock Exchange Card	10 years

Rs. 10 lacs = Rs. 1 million

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

Fixed assets costing less than Rs.5,000 are fully depreciated in the year of purchase.

6 Transactions involving foreign exchange

HDFC Bank Ltd.

Accounting for transactions involving foreign exchange is done in accordance with (AS) 11 (Revised 2003), The Effects of changes in Foreign Exchange Rates, issued by the Institute of Chartered Accountants of India.

Foreign currency monetary items are reported using the closing rate.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively and the resulting profit or losses are included in the Profit or Loss account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date are, in effect, valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract.

7 Lease accounting

HDFC Bank Ltd.

The Bank recognises lease income based on the Internal Rate of Return method over the primary period of the lease and accounted for in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8 Staff Benefits

HDFC Bank Ltd.

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on retirement, on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually.

Superannuation

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's superannuation fund. The Bank annually contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director) to an insurance company, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

AS AT 31 MARCH, 2006 (contd.)

Provident fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes monthly at a determined rate (currently 12% of employee's basic salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that in the case of employees who receive salary of up to Rs. 6,500 (specified employees), the Bank contributes monthly at a determined rate (currently 8.33% of employee's basic salary) out of the aforesaid contribution of the employer, to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC). The Bank has no liability for future provident fund benefits other than its annual contribution, and recognises such contributions as an expense in the year incurred.

Leave Encashment

The Bank does not have a policy of encashing unutilised / unavailed leave for its employees.

HDFC Securities Ltd.

The Company provides for gratuity covering all employees. The Company makes annual contributions to a fund administered by the trustees and managed by HDFC Standard Life Insurance Company Ltd. for an amount notified by HDFC Standard Life Insurance Company Ltd. The Company accounts for the liability for future gratuity benefits based on an actuarial valuation carried out annually.

Contribution to the provident fund is recognised when due. Provision for Superannuation is on accrual basis.

9 Revenue Recognition

HDFC Bank *Ltd.*

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets.

Income on discounted instruments is recognised over the tenor of the instrument on a constant yield basis.

Dividend on equity shares, preference shares and on mutual fund units is recognised as income when the right to receive the dividend is established.

Interest income is net of commission paid to sales agents (net of non volume based subvented income from dealers and manufacturers) – (hereafter called "net commission") for originating fixed tenor retail loans.

The net commission paid to sales agents for originating retail loans is expensed in the year in which it is incurred.

Fees and commission income is recognised when due, except for guarantee commission and annual fees for credit cards which are recognised over the period of service.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

HDFC Securities Ltd.

Income from brokerage activities is recognised as income on the trade date of the transaction. Brokerage is stated net of rebate.

Income from other services is recognised on completion of services.

10 Deferred Revenue Expenses and Preliminary Expenses

HDFC Securities Ltd.

Deferred revenue expenditure and preliminary expenses are amortised over the estimated period ranging from 3 to 5 years over which the benefit from these expenses are expected to be realised.

11 Credit cards reward points

HDFC Bank Ltd.

The Bank estimates the probable redemption of credit card reward points using an actuarial method by employing an independent actuary. Provision for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

12 Income tax

Group

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and fringe benefit tax. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognised subject to Management's judgment that realisation is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the timing differences are expected to be received, settled or reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

13 Derivative Financial Instruments

HDFC Bank Ltd.

The Bank recognizes all derivative instruments as assets or liabilities in the balance sheet and measures them at the market value as per the generally accepted practices prevalent in the industry. Derivative contracts classified as hedge are recorded on accrual basis. The hedge contracts are not marked to market unless their underlying is also marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the profit and loss account in the period of change.

The Bank enters into forward exchange contracts and currency options with its customers and typically covers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations. Option premia paid or received is generally recorded in profit and loss account at the expiry of the option.

The Bank enters into rupee interest rate swaps for managing interest rate risks for its customers and also for trading purposes. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically covers these exposures in the inter-bank market. Such contracts are carried on the balance sheet at fair value, based on market quotations where available or priced using market determined yield curves.

14 Earnings per share

Group

The Group reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share, issued by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

15 Segment Information – Basis of preparation

Group

Business Segments

The Group operates in three segments: retail banking, wholesale banking and treasury services. Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the internal business reporting systems. The operations of HDFC Securities Ltd. have been classified under the retail banking segment.

The retail-banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, net of commission (net of subvention received) paid to sales agents, interest on card receivables, gains / losses from securitisation receivables, fees for banking and advisory services and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The wholesale banking segment provides loans and transaction services to corporate and institutional customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers and the corporate supply chain customers, investment income from commercial paper, debentures and bonds, interest earned on the cash float arising from transaction services, fees from such transaction services and also trading operations on behalf of corporate customers in debt, foreign exchange and derivatives segment. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading. Revenues of the treasury services segment primarily consist of fees and gains or losses from trading operations and net interest earnings on assets held in the treasury desk book.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments.

Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment.

Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve, which broadly tracks market discovered interest rates. Transaction charges are made by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels; such transaction costs are determined on a cost plus basis.

Segment capital employed represents the net assets in that segment. It excludes capital and net unallocated items.

Geographic Segments

Since the Group does not have material earnings emanating outside India, the Group is considered to operate in only the domestic segment.

16 Accounting for Provisions, Contingent Liabilities and Contingent Assets

Group

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Group recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

No provision is recognised for -

a) Any possible obligation that arises from past events and the existence of which will be

AS AT 31 MARCH, 2006 (contd.)

confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

b) Any present obligation that arises from past events but is not recognised because –

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- A reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent Assets are not recognised in the consolidated financial statements since this may result in the recognition of income that may never be realised.

17 Net Profit

Group

The net profit in the profit and loss account is after provision for any depreciation in the value of investments, provision for taxation and other necessary provisions.

For and on behalf of the Board
Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Dr. Venkat Rao Gadwal
Director

Mumbai, 28 April, 2006

We understand your world

To the Members,

Your Directors have pleasure in presenting the Sixth Annual Report on the business and operations of the Company together with audited accounts for the year ended 31 March 2006.

FINANCIAL RESULTS

	(Rs. Crores) For the year ended	
	March 31, 2006	March 31, 2005
Total Income	60.26	34.94
Total Expenses	39.84	20.06
Profit before depreciation	**20.42**	**14.88**
Depreciation	4.46	4.62
Profit after depreciation	**15.96**	**10.26**
Add : Prior period items	0.83	-
Profit before tax	**16.79**	**10.26**
Provision for Tax	5.98	2.15
Profit after tax	**10.81**	**8.11**
Balance brought forward	3.40	(3.64)
Amortisation of BSE card	-	(1.07)
Amount available for Appropriation	14.21	3.40
Balance carried to Balance Sheet	**14.21**	**3.40**

OPERATIONS

The financial year 2005-06, witnessed a huge rally on the bourses encompassing all sectors of the economy. The rally benefited the Company with brokerage earnings increasing by 55% from Rs.31.32 crores to Rs 48.42 crores. Despite higher provision of tax of Rs. 5.98 crores as against Rs. 2.15 crores in the corresponding previous year, the net profit after tax increased by 33% to Rs.10.81 crores as against Rs. 8.11 crores in the corresponding previous year.

PROSPECTS AND OUTLOOK FOR THE FUTURE

Economic Outlook

Over the last few years, Indian economy has emerged as one of the fastest growing economies in the world, offering better investment avenues resulting in higher FDI and FII inflows.

The growth in Gross Domestic Product (GDP) of the Indian economy for the financial year 2005-06 is expected to be at 8.1%, The growth in GDP for 2006-07 is expected to be at 7.5% to 8%. Capacity utilization in most basic industries is at its peak. This necessitated adding to industrial capacities

DIRECTORS' REPORT (contd.)

resulting in higher demand for bank credit. This growth has put pressure on liquidity in the economy and interest rates are expected to harden.

The Union Finance Budget 2006-07, attempts to provide continuity to the current policy approach rather than push through any new reform agenda. However, it has brought focus to fiscal deficit, targeting to reduce it from 4.1% of GDP in 2005-06 to 3.8% of GDP in 2006-07.

The foreign exchange reserves have crossed 145 billion US dollars. However, the increasing current account deficit as a percentage of GDP (2.5% in FY06 versus 0.8% in FY05) is a concern. The increasing oil prices touching 70 US dollars per barrel, may create inflationary pressures affecting global economic growth.

Capital Market Outlook

The year under review was distinct and remarkable for the capital market.

Major factors affecting the rally on the bourses this year were

- firm global market/strong economic outlook buoyed by the increasing flow of money from foreign funds;
- absence of any negative elements in the Union Finance Budget 2006-07;
- focus of the Union Finance Budget on infrastructure and rural segments to propel economic growth and
- landmark Indo-US nuclear pact.

The above together with other macroeconomic factors resulted in the BSE Sensex rising during the year by almost 73 per cent and Nifty by 66 per cent.

However, expectations of higher growth in GDP and corporate earnings have currently made the Indian markets, the most expensive among all emerging markets and also among all markets in Asia. The Indian capital markets have risen by nearly 285 per cent since April 2003. Considering the liquidity pressures on the economy and the continuous uni-directional movement of the market, a short-term correction is expected in 2006-07. The correction will only make the rally healthier. The long-term outlook of capital market remains buoyant.

DIVIDEND

With a view to utilise the reserves for business expansion, no dividend is proposed for the year under review.

PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

A. Since the Company does not carry out any manufacturing activities, particulars to be disclosed with respect to conservation of energy and technology absorption under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable.

B. During the year under review there has been no earnings & outgo in foreign exchange.

DIRECTORS

Mr. Bharat Shah and Mr. S.S. Thakur, retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Ms. Latika Monga was appointed as an Additional Director with effect from 21 September 2005 and shall hold office up to the date of ensuing Annual General Meeting of the Company. The Company has received notice from a member pursuant to Section 257 of the Companies Act, 1956, signifying his intention to propose the candidature of Ms. Latika Monga for the office of Director.

During the year under review the following directors resigned from the Board of the Company

1) Mr. Anil Ahuja with effect from 11 April 2005.
2) Mr. Conrad D'souza with effect from 28 September 2005.

The Board places on record its sincere appreciation for the valuable services rendered by them, during their tenure with the Company.

PUBLIC DEPOSIT

During the year under review, the Company has not accepted any deposit pursuant to Section 58A of the Companies Act, 1956.

INFORMATION PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956

The information required to be given under the provisions of section 217 (2A) of the Companies Act, 1956 read with the Companies (particulars of employees) Rules, 1975, is given in the Annexure enclosed.

AUDITORS

M/s. S.B. Billimoria & Co., Chartered Accountants, Statutory Auditors of the Company, will retire at the conclusion of the forthcoming Annual General Meeting. Members are requested to consider their re-appointment on a remuneration, to be decided by the Board of Directors.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors hereby state that:

1. in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March, 2006 and of the profit of the Company for the year ended on that date;
3. they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities and
4. they have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT AND APPRECIATION

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from the Securities and Exchange Board of India, the Bombay Stock Exchange Limited, National Stock Exchange of India Limited, National Securities Depository Limited, Central Depository Services (India) Limited and other regulatory bodies.

Your Directors are grateful to the Company's customers and bankers for their continued support.

Your Directors thank all the employees for their contribution to the Company and rendering high quality services to the customers. The Directors also thank HDFC Ltd., HDFC Bank Ltd. & J.P. Morgan Partners Advisors, Singapore for the support received from them as major shareholders.

On behalf of the
Board of Directors

Place: Mumbai.
Date: 10 April 2006

K. N. Atmaramani
Chairman

ANNEXURE

INFORMATION PURSUANT TO SECTION 217 (2A) OF THE COMPANIES ACT, 1956

Name and Qualification	Age in yrs.	Designation/ Nature of Duties	Date of commencement of employment	Remuneration (Rs.)	Experience No. of years	Name of company last employed & Designation
Mr. Sunil Shah B.Com, MBA	48	Managing Director	14 March 2002	1,11,10,004	25	Evergreen Broking Private Ltd., Director
Mr.Adil Patrawala B.Sc, MMS	36	Whole time Director & COO	27 September 2003	46,51,670	15	Refco-Sify Securities India Pvt.Ltd Vice President - Strategy & Operations
Mr. Puneet Gupta MBA	32	Vice President, Retail Sales & Marketing	1 July 2000	34,21,864	9	Investsmart India Ltd. Sr. Executive,Marketing
Mr. Vivek Garg MMS	35	Vice President, Sp. Projects - Technology	21 January 2004	24,62,335	14	ICICI Bank Chief Manager
Mr. Jaideep Goswami BE,PGDM, MBA	39	Vice President, Institutional Sales & Research	1 February 2005	43,29,996	17	Tata TD Waterhouse Securities Ltd. Head – Equity
Mr. Sachin Neema* MMS,CFA	33	Vice President, Institutional Research	29 April 2005	25,83,912	9	Alchemy Shares & Stock Brokers Ltd. Sr. Research Analyst
Mr. Mahesh Jaokar* ACA	35	Vice President, Finance	20 June 2005	30,31,162	13	Kotak Mahindra Bank Ltd. Financial Controller

Notes:

1. Remuneration as shown above includes salary, performance bonus, house rent allowance, medical allowance, reimbursement of telephone bills, leave travel allowance, other taxable allowances and value of perquisites as per the Income Tax Rules, 1962. The remuneration does not include Company's contribution to provident fund which is 12% of the basic salary and superannuation, wherever applicable @15% of the basic salary. In addition to above, employees are entitled to gratuity benefit as per Company rule.

2. None of the above are related to any Directors of the Company.

3. Asterisk against a name indicates that employee was in service for part of the year.

AUDITORS' REPORT

TO THE MEMBERS OF HDFC SECURITIES LIMITED

1. We have audited the attached Balance Sheet of **HDFC SECURITIES LIMITED** as at 31st March, 2006, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in paragraph 3 above:

   (a) we have 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 Company so far as it appears from our examination of those books;

   (c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

   (d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting standards referred to in Section 211(3C) of the Companies Act, 1956;

   (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March, 2006;

      (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date and

      (iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

5. On the basis of the written representations from the directors as on 31st March , 2006 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2006 from being appointed as a director under Section 274 (1)(g) of the Companies Act, 1956.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No.15860)

MUMBAI, 10th April,2006

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

(i) The nature of the Company's business / activities during the year is such that clauses (ii), (iii), (viii), (x), (xiii), (xiv), (xv), (xvi), (xviii), (xix) and (xx) of CARO are not applicable.

(ii) In respect of its fixed assets:

(a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) Fixed assets were physically verified during the year by the Management in accordance with a programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification during the year.

(c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposals have, in our opinion, not affected the going concern status of the Company.

(iii) In our opinion and according to the information and explanations given to us, there are adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

(iv) To the best of our knowledge and belief and according to the information and explanations given to us, there were no contracts or arrangements that needed to be entered in the Register maintained under Section 301 of the Companies Act,1956.

(v) The Company has not accepted any deposits from the public within the meaning of Section 58A and Section 58AA of the Companies Act,1956.

(vi) In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and the nature of its business.

(vii) According to the information and explanations given to us in respect of statutory dues:

(a) The Company has generally been regular in depositing undisputed statutory dues, including Provident Fund, Employees' State Insurance, Income Tax, Wealth Tax, Service Tax, Cess and any other material statutory dues with the appropriate authorities during the year.

(b) There were no undisputed amounts payable on account of the above dues, outstanding as at 31 March 2006, for a period of more than six months from the date they became payable.

(c) There were no disputed Income Tax, Wealth Tax, Service Tax and Cess dues which were not deposited as on 31 March,2006.

(viii) In our opinion and according to the information and explanations given to us the Company has not defaulted in the repayment of dues to banks.

(ix) In our opinion the Company has maintained adequate documents and records where it has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(x) According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.

(xi) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No.15860)

MUMBAI, 10th April,2006

HDFC SECURITIES LIMITED

BALANCE SHEET

AS AT 31 MARCH, 2006

(Rs. thousands)

	Schedule		As at 31-03-2006		As at 31-03-2005
Sources of funds					
Shareholders' funds					
Share Capital	1	150,010		150,010	
Reserves and Surplus	2	413,742	563,752	305,603	455,613
Loan funds					
Unsecured Loans	3		-		124,608
Deferred Tax Liability			17,068		12,408
Total			580,820		592,629
Application of funds					
Fixed assets	4				
Gross Block		316,496		211,627	
Less: Depreciation & Amortisation		152,691		108,381	
Net Block			163,805		103,246
Capital Work-in-Progress			8,508		10,500
Investments	5		10		41
Current assets, Loans and advances					
Sundry Debtors	6	366,894		73,786	
Cash and Bank balances	7	730,481		428,872	
Loans and Advances	8	317,575		191,671	
		1,414,950		694,329	
Less:					
Current liabilities and Provisions	9				
Current liabilities		939,892		202,327	
Provisions		66,561		14,104	
		1,006,453		216,431	
Net current assets			408,497		477,898
Miscellaneous Expenditure	10		-		944
(To the extent not written off or adjusted)					
Total			580,820		592,629
The attached notes form part of the Accounts	16				

In terms of our report of even date attached.

For **S. B. BILLIMORIA & CO.**
Chartered Accountants

NALIN M. SHAH
Partner

Mumbai, 10 April, 2006

For and on behalf of the Board

K. N. ATMARAMANI
Chairman

SUNIL SHAH
Managing Director

SANTOSH HALDANKAR
Company Secretary

HDFC SECURITIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH, 2006

(Rs. thousands)

	Schedule	**Year ended 31-03-2006**	Year ended 31-03-2005
Income			
Brokerage income		484,207	313,180
Fee Income		99,332	21,737
Other income	11	19,038	14,535
		602,577	349,452
Expenditure			
Payments to and provisions for employees	12	115,291	67,212
Operating expenses	13	278,640	130,935
Finance charges	14	4,451	2,460
		398,382	200,607
Profit before depreciation and tax		204,195	148,845
Less: Depreciation and Amortisation		44,582	46,259
Profit before Prior Period Item		159,613	102,586
Add: Prior Period Item	15	8,351	-
Profit before tax		167,964	102,586
Provision for taxation			
Current tax [See Note 8(a)]		53,500	9,100
Fringe Benefit Tax		1,665	-
Deferred tax		4,660	12,408
Profit after Tax		108,139	81,078
Add/(Less): Balance brought forward from previous year		34,021	(36,375)
Less: Amortisation of BSE Card		-	(10,682)
Balance carried to Balance Sheet		142,160	34,021
Earnings per share (Basic & Diluted) (Rs.) (Face Value Rs 10/-) (See Note 7)		7.21	5.40
The attached notes form part of the Accounts	16		

In terms of our report of even date attached.

For **S. B. BILLIMORIA & CO.**
Chartered Accountants

NALIN M. SHAH
Partner

Mumbai, 10 April, 2006

For and on behalf of the Board

K. N. ATMARAMANI
Chairman

SUNIL SHAH
Managing Director

SANTOSH HALDANKAR
Company Secretary

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006

(Rs. thousands)

	Year ended 31-03-2006	Year ended 31-03-2005
A) Cash flows from operating activities		
Net profit before taxation	**167,964**	102,586
Adjustment for :		
Interest earned on Fixed Deposits	(16,349)	(11,238)
Interest earned on Loans and Deposits	(2,576)	(1,948)
Interest on Income Tax Refund	(23)	(198)
Loss / (Profit) on sale of Assets	7	(39)
Provision for Doubtful Debts	822	-
Provision for Wealth Tax	40	4
Depreciation and Amorisation	44,582	46,259
Miscellaneous expenditure written off	944	1,529
Interest paid	1,546	637
Operating profit before working capital changes	196,957	137,592
Adjustments for changes in working capital :		
Sundry Debtors	(293,930)	87,572
Loans and advances	(200,379)	9,364
Current liabilities and provisions	736,365	11,442
Cash generated from Operations	439,013	245,970
Direct taxes paid (net of refunds)	(47,442)	(4,422)
Net Cash from Operating activities	391,571	241,548

HDFC SECURITIES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH, 2006 (contd.)

(Rs. thousands)

	Year ended 31-03-2006	Year ended 31-03-2005
B) Cash flows from Investing activities :		
Additions to Fixed Assets and Capital work-in-progress	(103,487)	(58,792)
Loans given	(141,990)	(375,560)
Repayments of Loans given	263,201	248,365
Proceeds from sale of Fixed Assets	331	968
Fixed deposits with Scheduled Banks in excess of 90 days	(30,000)	(118,450)
Additions to Investments	(10)	-
Interest on Income Tax Refund received	23	198
Interest received	18,183	10,851
Net cash used in Investing activities	**6,251**	(292,420)
C) Cash flows from Financing activities :		
Proceeds from borrowings	574,000	407,108
Repayments of borrowings	(698,608)	(345,000)
Interest paid	(1,605)	(607)
Net Cash from Financing activities	**(126,213)**	61,501
Net increase in cash and cash equivalents	**271,609**	10,629
Cash and cash equivalents at the beginning of the year	**129,997**	119,368
Cash and cash equivalents at the end of the year	**401,606**	129,997
Reconciliation		
Cash and cash equivalents at the end of the year	401,606	129,997
Add : Fixed Deposits with Scheduled Banks in excess of 90 days	328,875	298,875
Cash and cash equivalents at the end of the year as per Schedule 7	**730,481**	428,872

In terms of our report of even date attached.

For **S. B. BILLIMORIA & CO.**
Chartered Accountants

NALIN M. SHAH
Partner

Mumbai, 10 April, 2006

For and on behalf of the Board

K. N. ATMARAMANI
Chairman

SUNIL SHAH
Managing Director

SANTOSH HALDANKAR
Company Secretary

SCHEDULES FORMING PART OF THE ACCOUNTS

AS AT 31 MARCH, 2006

(Rs. thousands)

	As at 31-03-2006	As at 31-03-2005
Schedule 1 - Share Capital		
Authorised		
20,000,000 Equity shares of Rs. 10/- each	200,000	200,000
Issued, Subscribed and Paid-up	150,010	150,010
15,001,000 Equity shares of Rs.10/- each fully paid up.	150,010	150,010
(includes 12,000,800 shares alloted as fully paid-up by way of bonus shares out of share premium account)		
(8,250,000 shares are held by the Holding Company - HDFC Bank Ltd.)		
Schedule 2 - Reserves and Surplus		
Share Premium	271,582	271,582
Profit and Loss Account	142,160	34,021
	413,742	305,603
Schedule 3 - Unsecured Loans		
Short Term Loan		
From Bank	-	124,608
	-	124,608

SCHEDULES FORMING PART OF THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

Schedule 4 - Fixed assets

(Rs. thousands)

Gross block	As at 01-04-2005	Additions / Adjustments during the year	Deletions / Adjustments during the year	As at 31-3-2006
Bombay Stock Exchange Card	28,816	-	-	28,816
Computer Software	52,602	37,683	-	90,285
Website Costs	4,241	-	-	4,241
Leasehold Improvements	19,760	13,916	-	33,676
Furniture & Fixtures	1,438	992	-	2,430
Computer Hardware	86,665	30,163	18	116,810
Office Equipment	15,049	17,566	-	32,615
Motor Cars	3,056	5,159	592	7,623
Total	**211,627**	**105,479**	**610**	**316,496**
Previous year	150,154	63,292	1,819	211,627
Depreciation / Amortisation	**As at 01-04-2005**	**Charge for the year**	**On deletions during the year**	**As at 31-3-2006**
Bombay Stock Exchange Card	13,563	2,882	-	16,445
Computer Software	29,191	10,451	-	39,642
Website Costs	3,707	534	-	4,241
Leasehold Improvements	8,978	4,400	-	13,378
Furniture & Fixtures	1,104	891	-	1,995
Computer Hardware	46,379	19,249	18	65,610
Office Equipment	4,293	4,996	-	9,289
Motor Cars	1,166	1,179	254	2,091
Total	**108,381**	**44,582**	**272**	**152,691**
Previous year	52,329	56,941	889	108,381
Net Block	**As at 01-04-2005**			**As at 31-3-2006**
Bombay Stock Exchange Card	15,253			12,371
Computer Software	23,411			50,643
Website Costs	534			-
Leasehold Improvements	10,782			20,298
Furniture & Fixtures	334			435
Computer Hardware	40,286			51,200
Office Equipment	10,756			23,326
Motor Cars	1,890			5,532
Total	**103,246**			**163,805**
Previous year	97,825			103,246

AS AT 31 MARCH, 2006 (contd.)

(Rs. thousands)

		As at 31-03-2006		As at 31-03-2005
Schedule 5 - Investments				
Unquoted: (non trade) (at cost)				
Equity Shares (Long Term)				
10,000 Equity Shares of Re 1/- each fully paid-up of Bombay Stock Exchange Limited		10		-
2,750 Equity Shares of Rs. 10/- each fully paid-up of Atlas Documentary Facilitators Co. Pvt. Ltd.		-		41
		10		41
Schedule 6 - Sundry Debtors				
Outstanding for a period of less than six months (Considered good)				
Secured - Considered Good	115,465		73,699	
Unsecured - Considered Good	251,429	366,894	87	73,786
Unsecured - Considered Doubtful	822		-	-
Less : Provision for Doubtful Debts	(822)	-	-	-
		366,894		73,786
Schedule 7 - Cash and Bank Balances				
Cash and Cheques on hand		3		89
In current accounts with Scheduled Banks		401,603		129,908
Fixed deposits with Scheduled Banks		328,875		298,875
[Including deposits under lien Rs. 328,875 thousand (Rs. 248,875 thousand previous year)]		730,481		428,872
Schedule 8 - Loans and Advances				
Secured Loans considered good		10,386		131,597
Unsecured, considered good				

SCHEDULE FORMING PART OF THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

(Rs. thousands)

		As at 31-03-2006		As at 31-03-2005
Advances recoverable in cash or in kind or value to be received		45,370		27,809
Advance taxes		58,181		12,227
Deposit with stock exchanges		202,338		18,738
Margin monies with clearing member		1,300		1,300
		317,575		191,671
Schedule 9 - Current Liabilities and Provisions				
Current Liabilities				
Sundry Creditors (other than small scale industrial undertaking)	839,480		200,754	
Other Liabilities	91,238		1,312	
Advance Fees	9,174		202	
Interest accrued but not due	-		59	
		939,892		202,327
Provisions				
For tax	65,388		11,671	
For retirement benefits	1,173		2,433	
		66,561		14,104
		1,006,453		216,431
Schedule 10 - Miscellaneous Expenditure (to the extent not written off or adjusted)				
Preliminary expenses		-		32
Deferred revenue expenses		-		912
		-		944

AS AT 31 MARCH, 2006 (contd.)

(Rs. thousands)

		Year ended 31-03-2006		Year ended 31-03-2005
Schedule 11 - Other Income				
Interest on fixed deposits [TDS - Rs. 3,335 thousand (previous year Rs. 2,283 thousand)]		16,349		11,238
Interest on loans and deposits [TDS - Rs. 10 thousand (previous year Rs. 10 thousand)]		2,576		1,948
Interest on Income Tax Refund		23		198
Profit on sale of Fixed assets		-		39
Miscellaneous income		90		1,112
		19,038		14,535
Schedule 12 - Payments to and provisions for employees				
Salaries [Including provision for leave encashment - Rs. Nil (previous year Rs. 484 thousand)] (See Note 3)		103,919		60,131
Contribution to provident & other funds		4,210		2,498
Staff training and welfare expenses		7,162		4,583
		115,291		67,212
Schedule 13 - Operating Expenses				
Stamp, registration and trading expenses		64,250		22,206
Professional fees [Including payment to Chairman - Rs. 900 thousand (previous year Rs. 700 thousand)] (See Note 4)		37,555		14,178
Directors' sitting fees		230		270
Repairs and maintenance - Buildings	5,097		2,634	
- Others	10,363	15,460	10,309	12,943
Rent		23,313		15,637

SCHEDULES FORMING PART OF THE ACCOUNTS

AS AT 31 MARCH, 2006 (contd.)

(Rs. thousands)

	Year ended 31-03-2006	Year ended 31-03-2005
Rates and taxes	1,233	52
Membership and subscriptions	1,976	1,676
Advertisement and Marketing	10,886	4,546
Commission	45,753	14,190
Electricity	7,011	4,170
Auditors' Remuneration		
Audit fees	450	450
Other matters	45	20
Out of pocket expenses	1	13
Website maintenance expenses	1,949	1,561
Printing and stationery	12,416	4,128
Insurance	249	238
Travelling expenses	2,932	1,476
Postage & communication expenses	47,118	21,844
Preliminary expenses written off	32	129
Deferred revenue expenses written off	912	1,400
SEBI turnover fees	317	8,642
Wealth Tax	40	4
Bad Debts written off	2	-
Provision for doubtful debts	822	-
Loss On Sale Of Fixed Assets	7	-
Miscellaneous expenses	3,681	1,162
	278,640	130,935
Schedule 14 - Finance Charges		
Bank Guarantee Charges	2,805	1,819
Bank charges	100	4
Interest paid - others	1,546	637
	4,451	2,460
Schedule 15 - Prior Period Item		
Sebi Turnover Fees Written Back	8,351	-
	8,351	-

AS AT 31 MARCH, 2006 (contd.)

Schedule 16 - Notes appended to and forming part of the Accounts for the year ended 31 March, 2006

1. Contingent liabilities

a) Bank Guarantees Rs.395,000 thousand (previous year - Rs. 290,000 thousand)

b) Claims against the Company not acknowledged as debt: For disputed trades – Rs.4,374 thousand (previous year – Rs. Nil). Management estimates that the cost of settling these trades in favour of the counterparty, as per byelaw 244 of Bombay Stock Exchange Limited would not exceed Rs. 84 thousand.

c) Income tax related matters in respect of which appeal is pending – Rs. 1,437 thousand (previous year – Rs. Nil). This is being disputed by the Company and not provided for.

2. Pending capital commitments

As at 31 March, 2006 the Company has contracts remaining to be executed on capital account and not provided for. The estimated amount of contracts (net of advances) towards fixed assets is Rs. 50,280 thousand (previous year - Rs 16,000 thousand).

3. Upto the previous year, the Company provided for leave encashment on accrual basis. In the current year, the policy for encashment of leave is discontinued and therefore the provision for Leave Encashment amounting to Rs. 1,604 thousand has been written back.

4. Managerial Remuneration

(Rs. thousands)

	2005-06	2004-05
Salary and Incentives	17,478	11,549
Provident Fund	397	248
Superannuation	270	500
Perquisites	220	228
Total	18,365	12,525

Managerial remuneration excludes provision for gratuity, since it is provided on actuarial valuation of the Company's liability to all its employees. Remuneration amounting to Rs.9,906 thousand is subject to the approval of the shareholders.

The Company has received permission from the Central Government for performance incentives paid to whole-time directors for the financial year 2004-05.

The Company has paid Rs. 900 thousand (Previous Year Rs. 700 thousand) towards advisory fees to Mr. K. N. Atmaramani, part time non-executive Chairman, towards services rendered by him. This is reflected as Professional Fees, for which the Company has received permission from the Central Government. Further, the Company also received permission from the Central Government ratifying the remuneration paid to Mr. K. N. Atmaramani, for the financial year 2004-05.

AS AT 31 MARCH, 2006 (contd.)

5. As per Accounting Standard on 'Related Party Disclosures' (AS-18) issued by the Institute of Chartered Accountants of India, the related parties of the Company are as follows:

List of related parties:

1. **Parent:**

   HDFC Bank Limited (The Company was an Associate of the Bank till September 27, 2005 and thereafter became a subsidiary)

2. **Enterprises having significant influence:**

   Housing Development Finance Corporation Limited (upto September 27, 2005)

3. **Key Management Personnel:**

   Mr. Sunil Shah, Managing Director

   Mr. Adil Patrawala, Whole Time Director

   Mr. Anish Shah, Whole Time Director

The following transactions were carried out with the related parties in the ordinary course of business:

(Rs. thousands)

Nature of Transaction	Parent	Enterprises having Significant Influence	Key Management Personnel
Placement of fixed deposits	131,875 (545,160)	Nil (Nil)	Nil (Nil)
Refund of fixed deposits	189,375 (511,710)	Nil (Nil)	Nil (Nil)
Finance received	Nil (Nil)	Nil (282,500)	Nil (Nil)
Finance repaid	Nil (Nil)	Nil (345,000)	Nil (Nil)
Rendering of services	69 (975)	Nil (Nil)	Nil (Nil)
Receiving of services	29,662 (13,851)	225 Nil	Nil (Nil)
Interest received	6,206 (7,268)	Nil (Nil)	Nil (Nil)
Interest paid	Nil (Nil)	Nil (261)	Nil (Nil)
Purchase of fixed assets	4,903 (Nil)	Nil (Nil)	Nil (Nil)

AS AT 31 MARCH, 2006 (contd.)

Remuneration to Key Personnel	Nil	Nil	
Sunil Shah			11,596 (7,002)
Adil Patrawala			4,787 (4,684)
Anish Shah			1,982 (840)
Balance outstanding as on 31 March, 2006:			
Receivables	1,161 (526)	Nil (Nil)	Nil (Nil)
Payables	23,729 (2,075)	Nil (Nil)	Nil (Nil)
Bank Balances	400,376 (127,721)	Nil (Nil)	Nil (Nil)
Fixed Deposits	96,375 (153,875)	Nil (Nil)	Nil (Nil)
Accrued Interest on			
Fixed Deposit –Receivable	686 (2,021)	Nil (Nil)	Nil (Nil)
Income receivable	Nil (87)	Nil (Nil)	Nil (Nil)
Prepaid charges	Nil (97)	Nil (Nil)	Nil (Nil)
Outstanding Expenses	Nil (2,700)	Nil (Nil)	7800 (5,452)

Figures in brackets pertain to the previous year.

6. Disclosures as required by Accounting Standard 19, "Leases", issued by the Institute of Chartered Accountants of India, are given below:

The Company has taken various office premises under leave and licence agreements, which range between 33 months and 9 years. The Company has given refundable interest free security deposits under certain agreements.

Lease payments are recognised in the Profit and Loss Account under 'Rent' in Schedule 13.

AS AT 31 MARCH, 2006 (contd.)

The future minimum lease payments are as follows:

(Rs. thousands)

	2005-06	2004-05
Not later than one year	20,428	14,704
Later than one year but not later than five years	60,538	45,069
Later than five years	25,070	1,330

7. In accordance with the Accounting Standard on 'Earnings Per Share' (AS 20), issued by the Institute of Chartered Accountants of India:

(i) The Earnings Per Share is computed by dividing the Net Profit After Tax by the weighted average number of equity shares.

(ii) The Company has not issued any potential equity shares during the year, hence the weighted average number of Equity Shares for computation of Basic and Diluted Earnings Per Share would be 15,001,000.

			2005-06	2004-05
a.	Calculation of weighted average number of equity shares:			
	Number of shares at the beginning of the year	Nos.	15,001,000	15,001,000
	Additions during the year	Nos.	-	-
	Number of shares at the end of the year	Nos.	15,001,000	15,001,000
b.	Net profit after tax available for equity shareholders	Rs. in '000	108,139	81,078
c.	Basic and diluted earnings per share of Rs. 10 each	Rs.	7.21	5.40

8. Taxation

a) Provision for current tax includes interest Rs. 582 thousand (previous year Rs. Nil).

b) Deferred Tax

The components of deferred tax assets and liabilities arising on account of timing differences are:

(Rs. thousands)

	31 March, 2006	31 March, 2005
Assets		
Provision for Retirement benefits	395	819
Provision for Doubtful debts	277	-
Total	672	819
Liabilities		
Depreciation	17,740	13,227
Total	17,740	13,227
Net Deferred tax liability	17,068	12,408

AS AT 31 MARCH, 2006 (contd.)

9. Segment Reporting

The Company's business is to provide broking services to its clients in the capital market in India. All other activities of the Company revolve around the main business. As such, there are no reportable segments, as per the Accounting Standard on Segment Reporting (AS 17), issued by the Institute of Chartered Accountants of India.

10. Comparative figures

The previous year's figures are regrouped and rearranged wherever necessary to conform with current year's presentation.

Principal accounting policies

A. Basis of preparation

The accounts are prepared on historical cost convention, on accrual basis of accounting, and conform to accounting principles generally accepted in India.

The preparation of the accounts requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the accounts and the reported income and expenses during the reporting period. Management believes that the estimates used in preparation of the accounts are prudent and reasonable. Future results could differ due to these estimates and differences between actual results and estimates are recognised in the periods in which the results are known/materialise.

B. Significant accounting policies

1 Revenue recognition

a) Income from brokerage activities is recognised as income on the trade date of the transaction. Brokerage is stated net of rebate.

b) Income from other services is recognised on completion of services.

2 Fixed assets and depreciation

Fixed assets are capitalised at cost. Cost includes cost of purchase and all expenditure like site preparation, installation costs, and professional fees incurred for construction of the assets, etc. Subsequent expenditure incurred on assets put to use is capitalised only where it increases the future benefit/ functioning capability from/of such assets.

Costs incurred for the development/customisation of the Company's website, Front-office System software and Back-office system software are capitalised.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis as under:

• Leasehold improvements	Over the primary period of lease.
• Computer Hardware – Personal Computers	3 years
• Computer Hardware – Others	4 years
• Computer Software	5 years

AS AT 31 MARCH, 2006 (contd.)

• Office equipments	6	years
• Furniture and Fixtures	15	years
• Website Cost	5	years
• Motor cars	4	years
• Bombay Stock Exchange Card	10	years

Fixed assets costing less than Rs.5,000 are fully depreciated in the year of purchase.

3 Investments

All investments of long-term nature are valued at cost. Provision is made to recognise a decline, other than temporary, in the value of Long-Term investments. Current investments are valued at cost or market value, whichever is lower.

4 Deferred revenue expenses and Preliminary expenses

These are amortised over the estimated period ranging from 3 to 5 years over which the benefit from these expenses is expected to be realised.

5 Retirement benefits

The Company provides for gratuity covering all employees. The Company makes annual contributions to a fund administered by the trustees and managed by HDFC Standard Life Insurance Company Ltd. for an amount notified by HDFC Standard Life Insurance Company Ltd. The Company accounts for the liability for future gratuity benefits based on an actuarial valuation carried out annually.

Contribution to the provident fund is recognised when due. Provision for Superannuation is on accrual basis.

6 Taxes on Income

Current tax is determined as the amount of tax payable in respect of taxable income for the year, using applicable tax rates and laws.

Deferred tax is recognised, subject to the consideration of prudence in respect of deferred tax assets, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. They are measured using substantively enacted tax rates and tax regulations.

For and on behalf of the Board

K. N. ATMARAMANI
Chairman

SUNIL SHAH
Managing Director

SANTOSH HALDANKAR
Company Secretary

Mumbai, 10 April, 2006

PART IV

BALANCE SHEET ABSTRACT & COMPANYS' GENERAL BUSINESS PROFILE

I Registration Details

Registration No.	152193	State Code:	11
Balance Sheet Date	31-03-06		

II Capital Raised during the period (Amount in Rs. '000)

Public Issue	N I L	Rights Issue	N I L
Bonus Issue	N I L	Private Placement	N I L

III Position of Mobilisation and Deployment of Funds (Amount in Rs. '000)

Total Liabilities	580,820	Total Assets	580,820

Sources of Funds (Amount in Rs. 000)

Paid-up Capital	150,010	Reserves & Surplus	413,742
Secured Loans	N I L	Unsecured Loans	N I L
Deferred Tax Liability	17,068		

Application of Funds (Amount in Rs. '000)

Net Fixed Assets	172,313	Investments	10
Net Current Assets	408,497	Misc. Expenditure	N I L
Accumulated losses	N I L		

IV Performance of Company (Amount in Rs. '000)

Turnover	610,928	Total Expenditure	442,964
Profit/Loss before Tax	167,964	Profit/Loss after Tax	108,139
Earning Per Share in Rs.	7.21	Dividend Rate %	N I L

V Generic Names of Principal Product/Services of the Company (as per monetary terms)

Item Code No. (ITC Code)	-----
Product Description	Stock broking and related services