HDFC BANK
We understand your world

Board of Directors

Mr. Jagdish Capoor, *Chairman*

Mr. Aditya Puri, *Managing Director*

Mr. Keki Mistry

Mr. Vineet Jain

Mrs. Renu Karnad

Mr. Arvind Pande

Mr. Ashim Samanta

Mr. C. M. Vasudev
(Appointed as Additional Director w.e.f. 17.10.2006)

Mr. Gautam Divan
(Appointed as Additional Director w.e.f. 17.10.2006)

Mr. Bobby Parikh
(Resigned w.e.f. 17.10.2006)

Dr. Venkat Rao Gadwal
(Relinquished Office w.e.f. 14.3.2007)

Dr. Pandit Palande
(Appointed as Additional Director w.e.f. 24.04.2007)

Senior Management Team

Mr. A Parthasarthy

Mr. A. Rajan

Mr. Abhay Aima

Mr. Bharat Shah

Mr. C. N. Ram

Mr. G. Subramanian

Mr. Harish Engineer

Mr. Kaizad Bharucha

Mrs. Mandeep Maitra

Mr. Paresh Sukthankar

Mr. Pralay Mondal

Mr. Sudhir M. Joshi

Mr. Vinod G. Yennemadi

Executive Vice President (Legal) & Company Secretary

Mr. Sanjay Dongre

Auditors

M/s. Haribhakti & Co.,
Chartered Accountants

Registered Office

HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013.
Tel: 5652 1000
Fax: 2496 0737
Website : www.hdfcbank.com

Registrars & Transfer Agents

Datamatics Financial Services Ltd
Plot No. A. 16 & 17,
Part B Crosslane, MIDC, Marol,
Andheri (East),
Mumbai 400093
Tel: 66712151-56
(Extn Nos. 207, 264 and 220)
Fax: 28213404;

E-mail: hdinvestors@dfssl.com

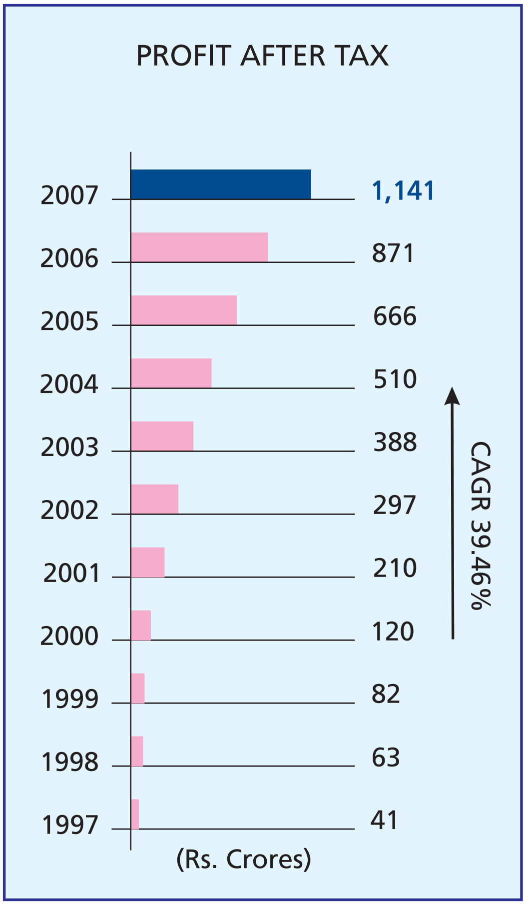
Financial Highlights

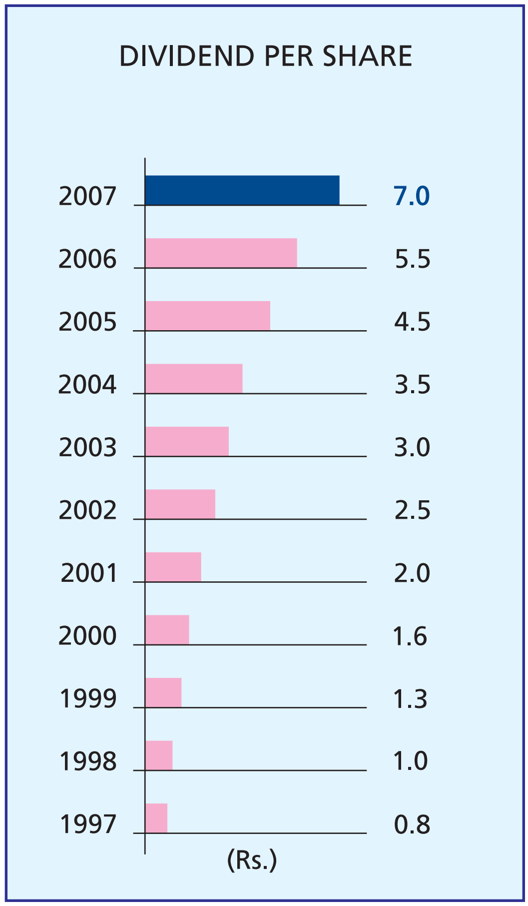
	1997-1998	1998-1999	1999-2000
Interest Income	240,80	376,08	679,87
Interest Expense	137,55	229,18	374,28
Net Interest Income	**103,25**	**146,90**	**305,59**
Other Income	6,1,05	67,13	119,54
Net Revenues	**164,30**	**214,03**	**425,13**
Operating costs	6,2,71	88,79	171,39
Operating Result	**101,59**	**125,24**	**253,74**
Provisions and Contingencies	7,24	8,39	58,89
Loan Loss Provisions	7,22	7,58	53,60
Amortisation on investments	-	-	-
Others	2	81	5,29
Profit before tax	**94,35**	**116,85**	**194,85**
Provision for taxation	31,20	34,45	74,81
Profit after tax	**63,15**	**82,40**	**120,04**
Funds :			
Deposits	2,191,74	2,915,11	8,427,72
Subordinated debt	100,00	135,00	150,00
Stockholders' Equity	285,13	338,93	751,52
Working Funds	2,829,98	4,349,96	11,731,03
Loans	841,98	1,400,56	3,462,34
Investments	1,121,33	1,903,80	5,748,28
Key Ratios :			
Earnings per share (Rs)	3.16	4.12	5.93
Return on Average Networth	23.87%	26.41%	29.00%
Tier 1 Capital Ratio	10.21%	8.34%	9.56%
Total Capital Ratio	13.92%	11.86%	12.19%
Dividend per share (Rs)	1.00	1.30	1.60
Dividend payout ratio	34.84%	34.71%	29.96%
Book value per share as at March 31 (Rs)	14.30	16.90	30.90
Market price per share as at March 31 (Rs)*	70.80	69.15	257.20
Price to Earnings Ratio	22.42	16.78	43.37

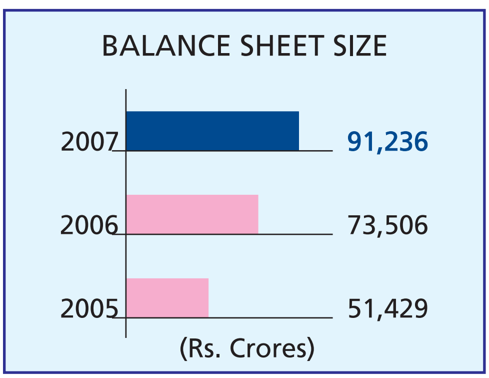
Rs. 10 Lac = Rs. 1 Million Rs. 1 Crore = Rs. 10 Million **Proposed *Source : NSE

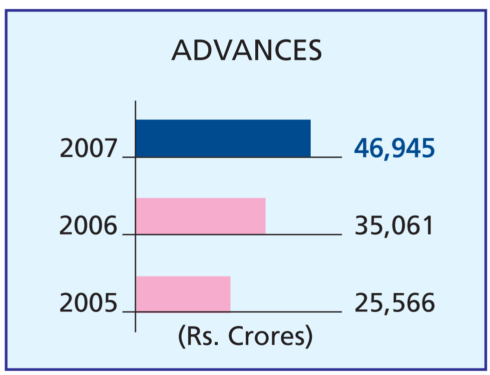
(Rs. lacs)

2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
1,259,46	1,702,99	2,013,61	2,548,93	3,093,49	4,475,34	6,889,02
753,75	1,073,74	1,191,96	1,211,05	1,315,56	1,929,50	3,179,45
505,71	**629,25**	**821,65**	**1,337,88**	**1,777,93**	**2,545,84**	**3,709,57**
176,57	335,90	465,55	480,03	651,34	1,123,98	1,516,23
682,28	**965,15**	**1,287,20**	**1,817,91**	**2,429,27**	**3,669,82**	**5,225,80**
309,59	417,95	577,05	810,00	1,085,40	1,691,09	2,420,80
372,69	**547,20**	**710,15**	**1,007,91**	**1,343,87**	**1,978,73**	**2,805,00**
57,63	121,82	139,30	288,95	364,93	725,22	1,166,25
52,96	85,77	88,39	178,28	176,22	479,76	861,01
4,42	21,81	50,44	93,22	188,06	245,16	241,09
25	14,24	47	17,45	65	30	64,15
315,06	**425,38**	**570,85**	**718,96**	**978,94**	**1,253,51**	**1,638,75**
104,94	128,34	183,25	209,46	313,38	382,73	497,30
210,12	**297,04**	**387,60**	**509,50**	**665,56**	**870,78**	**1,141,45**
11,658,11	17,653,81	22,376,07	30,408,86	36,354,25	55,796,82	68,297,94
200,00	200,00	200,00	600,00	500,00	1,702,00	3,282,60
913,09	1,942,28	2,244,83	2,691,88	4,519,85	5,299,53	6,433,15
15,617,33	23,787,38	30,424,08	42,306,99	51,429,00	73,506,39	91,235,61
4,636,66	6,813,72	11,754,86	17,744,51	25,566,30	35,061,26	46,944,78
7,145,14	12,004,02	13,388,08	19,256,79	19,349,81	28,393,96	30,564,80
8.64	11.01	13.75	17.95	22.92	27.92	36.29
24.53%	18.30%	18.10%	20.14%	20.44%	17.47%	19.40%
8.69%	10.81%	9.49%	8.03%	9.60%	8.55%	8.58%
11.09%	13.93%	11.12%	11.66%	12.16%	11.41%	13.08%
2.00	2.50	3.00	3.50	4.50	5.50	7.00**
25.55%	23.68%	24.72%	22.15%	24.00%	22.55%	22.92%
37.50	69.00	79.60	94.52	145.86	169.24	201.42
228.35	236.60	234.55	378.75	573.64	774.25	954.15
26.43	21.50	17.06	21.10	25.03	27.74	26.29

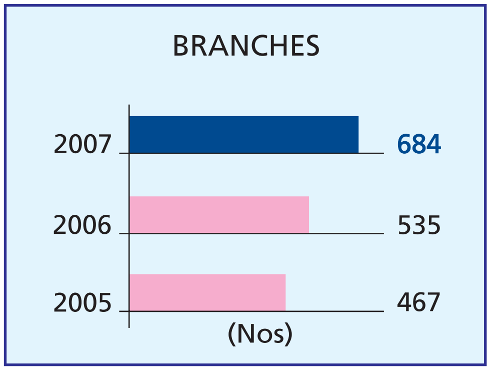

PROFIT AFTER TAX
2007 1,141
2006 871
2005 666
2004 510
2003 388
2002 297
2001 210
2000 120
1999 82
1998 63
1997 41
CAGR 39.46%
(Rs. Crores)

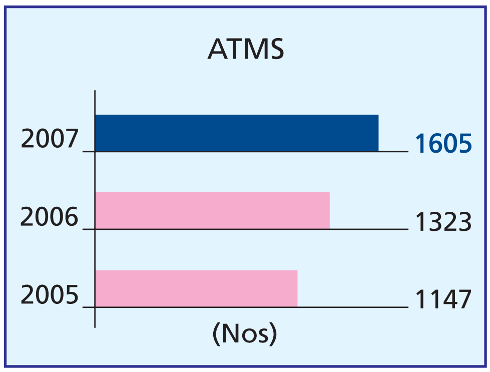

DIVIDEND PER SHARE
2007 7.0
2006 5.5
2005 4.5
2004 3.5
2003 3.0
2002 2.5
2001 2.0
2000 1.6
1999 1.3
1998 1.0
1997 0.8
(Rs.)

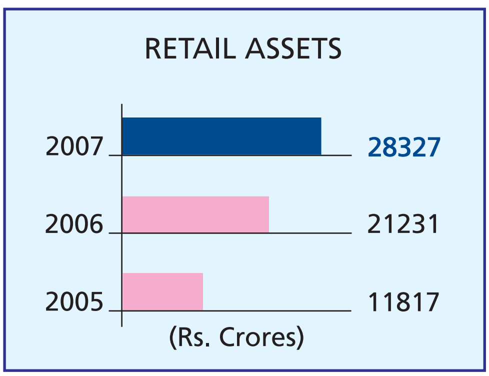

BALANCE SHEET SIZE
2007 91,236
2006 73,506
2005 51,429
(Rs. Crores)

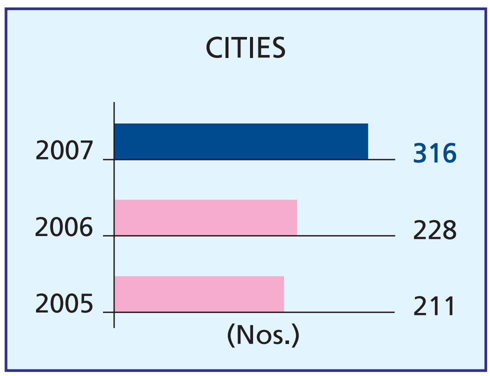

ADVANCES
2007 46,945
2006 35,061
2005 25,566
(Rs. Crores)

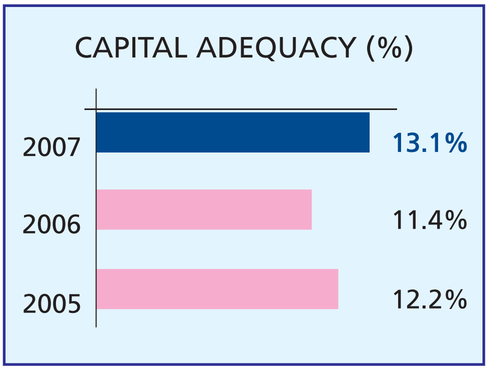

EARNING PER SHARE
2007 36.29
2006 27.92
2005 22.92
2004 17.95
2003 13.75
2002 11.01
2001 8.64
2000 5.93
1999 4.12
1998 3.16
1997 2.03
(Rs.)

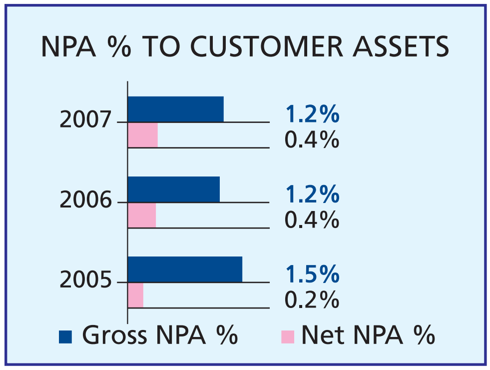

BRANCHES
2007 684
2006 535
2005 467
(Nos)

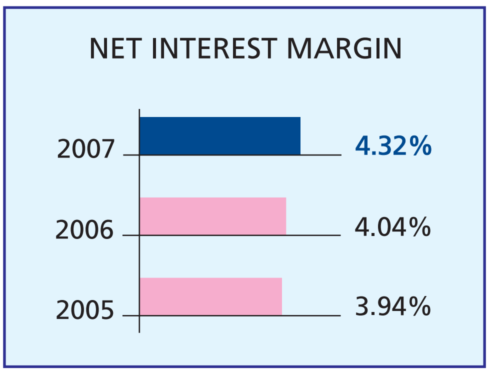

ATMS
2007 1605
2006 1323
2005 1147
(Nos)

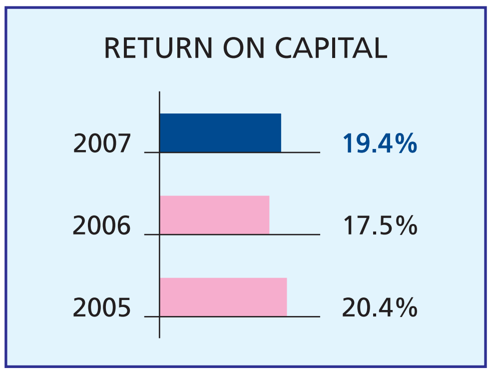

RETAIL ASSETS
2007 28327
2006 21231
2005 11817
(Rs. Crores)

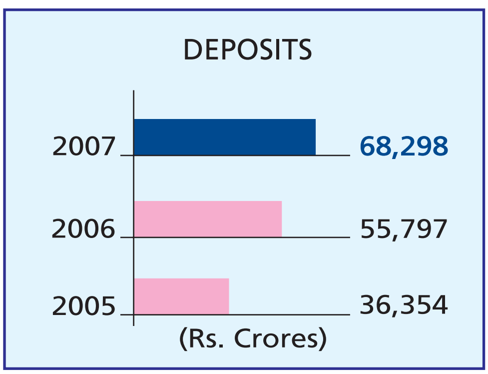

CITIES
2007 316
2006 228
2005 211
(Nos.)

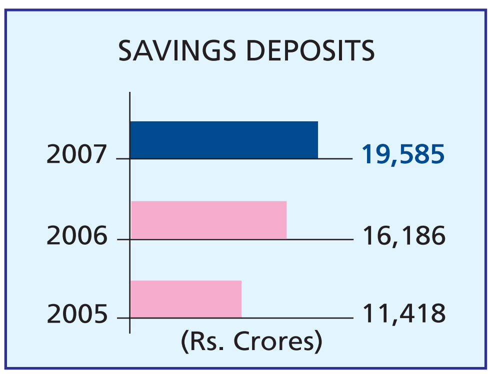

CAPITAL ADEQUACY (%)
2007
2006
2005
13.1%
11.4%
12.2%


NPA % TO CUSTOMER ASSETS
2007
2006
2005
1.2%
0.4%
1.2%
0.4%
1.5%
0.2%
Gross NPA %
Net NPA %

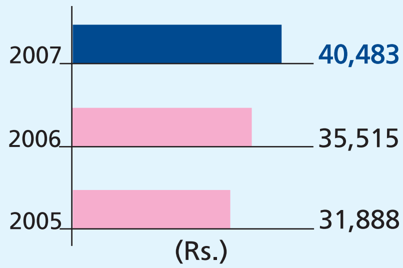

NET INTEREST MARGIN
2007
2006
2005
4.32%
4.04%
3.94%


RETURN ON CAPITAL
2007
2006
2005
19.4%
17.5%
20.4%

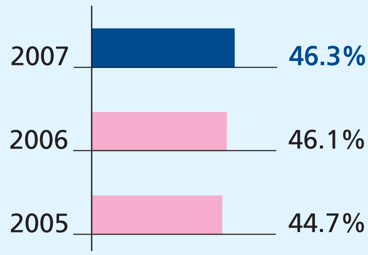

DEPOSITS
2007
2006
2005
68,298
55,797
36,354
(Rs. Crores)


SAVINGS DEPOSITS
2007
2006
2005
19,585
16,186
11,418
(Rs. Crores)

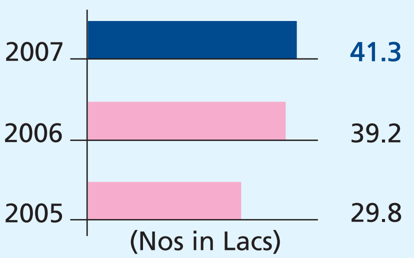
AVERAGE SAVINGS BALANCE PER ACCOUNT



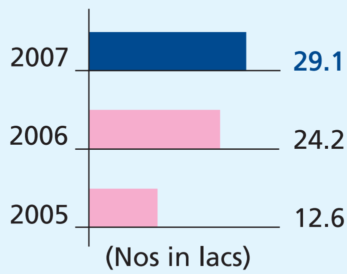
COST TO REVENUE



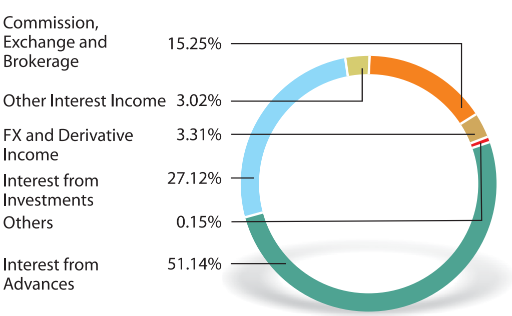
DEBIT CARDS



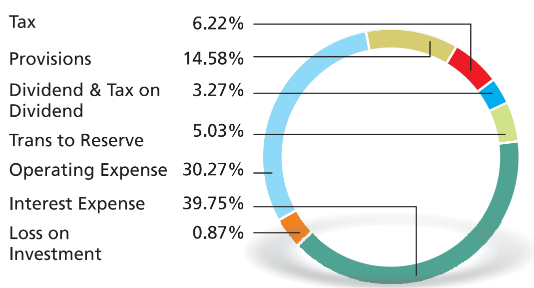
CREDIT CARDS



RUPEE EARNED



RUPEE SPENT



Directors' Report

To the Members,

Your Directors have great pleasure in presenting the Thirteenth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2007.

FINANCIAL PERFORMANCE

(Rs. in crores)
For the year ended

	March 31, 2007	March 31, 2006
Deposits and other borrowings	71,113.3	58,655.3
Advances	46,944.8	35,061.3
Total income	8,405.3	5,599.3
Profit before depreciation and tax	1,858.4	1,432.1
Net profit	1,141.5	870.8
Profit brought forward	1,455.0	602.3
Transfer from Investment Fluctuation Reserve	-	484.2
Total profit available for appropriation	2,596.5	1,957.3
Appropriations:		
Transfer to statutory reserve	285.4	217.7
Transfer to general reserve	114.1	87.1
Transfer to capital reserve	0.0	1.1
Transfer to investment reserve account	3.0	-
Proposed dividend	223.6	172.2
Tax including surcharge and education cess on dividend	38.0	24.2
Dividend paid for prior year	0.4	-
Balance carried over to Balance Sheet	1,932.0	1,455.0

The Bank posted total income and net profit of Rs. 8,405.3 crores and Rs. 1,141.5 crores respectively for the financial year 2006-07 as against Rs. 5,599.3 crores and Rs. 870.8 crores respectively in the previous year. Appropriations from the net profit have been effected as per the table given above.

Dividend

Your Bank has had a track record of moderate but steady increases in dividend declarations for the last 10 years and the dividend payout ratio in the last few years has been in the range of

20-25%. 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 2006-07, your directors are pleased to recommend a dividend of 70% for the year ended March 31, 2007 as against 55% for the year ended March 31, 2006. This dividend shall be subject to dividend distribution tax 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 the fiscal 2006-07. The Bank was selected as the"Best Bank in India" by the Business Today magazine for the fourth consecutive year. Forbes magazine named the Bank as 'One of Asia Pacific's Best 50 companies'. The Bank was named as the 'Best Listed Bank of India' by the Businessworld magazine. The Bank was selected as the 'Best Domestic Bank' at The Asset Magazine's Triple A Country Awards. The Bank was named as the 'Best Local Cash Management Bank in Large and Medium Segments' at the Asiamoney Awards and as the 'Best Bank in India' at the Euromoney awards. The Bank was also named as one of the best companies in terms of corporate governance in India by the The Asset magazine. The Managing Director of your Bank, Mr Aditya Puri, was awarded the Asian Banker Leadership Achievement Award 2006 for India.

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 II) Bonds rated by CARE and Fitch Ratings India Private Limited and its Tier I perpetual Bonds and Upper Tier II Bonds rated by CARE and CRISIL Ltd. CARE has assigned the rating of "CARE AAA" for the subordinated Tier II Bonds while Fitch Ratings India Pvt. Ltd. has assigned the rating "AAA (ind)" with the outlook on the rating as "stable". CARE has also assigned "CARE AAA [Triple A] for the Banks Perpetual bond and Upper Tier II bond issues. CRISIL has assigned the rating "AAA / Stable" for the Bank's Perpetual Debt programme and Upper Tier II Bond issue. 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, 62.5 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.

The Bank raised Rs. 635.90 crores during the year at an annualized coupon ranging between 8.80% to 9.20% p.a. and also raised foreign currency borrowing of USD 100 million at an annualized coupon rate of 6-month LIBOR plus 120 bps as Upper Tier II capital. The bank raised Rs. 410 crores as Lower Tier II capital at an annualized coupon ranging between 8.45% to 9.10% p.a. The debts are subordinated to present and future senior indebtedness of the Bank and qualifies as Tier II capital under RBI's guidelines for assessing capital adequacy. The Bank also raised Rs.200 crores as unsecured non-convertible subordinated perpetual bonds in the nature of debentures for inclusion as Tier I capital at an annualized coupon 9.92% p.a. payable semi-annually.

The Bank has grown rapidly over the last several years. Given the market opportunity in light of continued economic growth and the Bank's strong positioning in each of its major franchises, it is important that your Bank has adequate capital to support its growth plans. Further, incremental capital would also facilitate meeting the changing regulatory requirements such as the proposed capital adequacy framework (based on Basel II Accord) and the new capital market exposure norms. Your Bank thus proposes to raise additional equity capital equivalent to US$ 1 billion (approximately Rs 4200 crores).

The above proposed equity issue will result in the reduction of the present shareholding of the promoter viz HDFC Group which is currently at 21.56%. With a view to maintain the shareholding of the promoter group at around 23% of the enhanced capital base, it is proposed to offer 1,35,82,000 equity shares of Rs. 10 each at an issue price to be determined in accordance with a specified formula in respect of each share, as per SEBI (Disclosure and Investor Protection) Guidelines, 2000. The balance amount of the proposed equity capital may be raised either as domestic public offering or an international offering.

Employee Stock Options

The information pertaining to Employee Stock Options is given in an annexure to this report.

Capital Adequacy Ratio

As of March 31, 2007 your Bank's total Capital Adequacy Ratio (CAR) stood at 13.1%, well above the regulatory minimum of 9.0%. Of this, Tier I CAR was 8.6%.

SUBSIDIARY COMPANY

In terms of the approval granted by the Government of India, the provisions contained under Section 212(1) of the Companies Act, 1956 shall not apply in respect of the Bank's subsidiary namely, HDFC Securities Limited (HSL). Accordingly, a copy of the balance sheet, profit and loss account, report of the Board of Directors and Report of the Auditors of HSL have not been attached to the accounts of the Bank for the year ended March 31, 2007.

The Annual Report of the Bank, the annual accounts and the related documents of HSL are posted on the website of the Bank, www.hdfcbank.com. Investors who wish to have a copy of the annual accounts and detailed information on HSL may download the same from the website or alternatively write to the Bank for the same. Further, the said documents shall be available for inspection by the investors at the registered office of the Bank and HSL.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Macro-economic and Industry Developments

The average growth rate of the Indian economy over a period of 25 years since 1980-81 (financial year beginning April) has been about 6.0% p.a., with the growth rate averaging 9.1% p.a. during the last two years.

The strengthening of economic activity in the recent years has been supported by a persistent increase in the domestic investment rate from 22.9% of GDP in 2001-02 to 33.8% in 2005-06 coupled with more efficient use of capital. Domestic saving rate improved from 23.5% to 32.4% of GDP during the same period. The services sector continues to be the driver of growth with a share of around 60% in the overall GDP and contributing almost three-fourth to overall growth. The manufacturing sector has shown good growth supported by domestic as well export demand. The Real GDP Growth for 2006-07 is expected to be 8.5-9.0%.

India's merchandise exports recorded a growth rate of 22% during April-December 2006 as compared with 22.9% in the corresponding period of 2005. Imports rose by 24.8% as compared with 37.8% a year ago. While petroleum, oil and lubricants imports rose by 39.2% during April-December 2006 as compared to 46.9% a year ago, non-oil imports showed a lower growth of 18.7% from as against a growth of 34.3% in the previous financial year.

Exports have been growing at an average rate of around 25% during the last three years. Sustained growth in export of services and remittances continued to provide buoyancy to the surplus in the invisible account which enabled financing a large part of trade deficit. There was a significant strengthening in the capital account with the foreign exchange reserves crossing US $ 200 billion, The reserves currently exceed the country's external debt of about US $ 140 billion as on September 2006.

During 2006-07, non-food credit expanded by 31.2% compared to 25.2% a year ago. The Y-o-Y growth in aggregate deposits at 22.5% was higher than that of 17.2% a year ago and was also the highest since 1993-94 on a comparable basis. Bank deposit rates increased by 100 - 300 basis points during the year across various maturities on account of tighter liquidity conditions coupled with high credit growth.

The financial year 2006-2007 started with the banking system remaining surplus in liquidity till mid of December 2006. However, thereafter due to the tightening of monetary policy by way of increase in CRR and advance tax outflows, the banking system remained net borrowers of funds from RBI for most part of the January - March 07 quarter. Tight liquidity coupled with high credit growth led to an increase in rates offered on deposits by the banks. During the financial year, the benchmark reverse repo rate was revised upwards by 50 basis points to 6.00% presently. Similarly the repo rate was revised upwards by 125 basis points to 7.75%. The Cash Reserve Ratio was also increased from 5% to 6% during the financial year 2006-07.

The one year Government Securities (G Sec) yields which reflects the liquidity condition in the economy climbed from 6.54% in March 2006 to 7.31% in March 2007, an increase of approximately 77 basis points through the year. The 10 year G Sec yield showed a smaller year-on-year movement of 42 basis points to 7.94% at the end of the year.

The capital markets remained buoyant in the last fiscal with the stock indices touching their all time highs in the recent months. During 2006-07, the Assets Under Management (AUM) of mutual funds have grown by Rs. 95,283 crores, an increase of 41.2% over the previous year's AUM.

(Sources: Ministry of Finance, 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 emphasizes 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 volume growth while 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 for 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 healthy earnings growth with low volatility.

Financial Performance:

The financial performance during the fiscal year 2006-07 remained healthy with total net revenues (net interest income plus other income) increasing by 42.4% to Rs. 5225.8 crores from Rs.3669.8 crores in 2005-06. The revenue growth was driven principally by an increase in net interest income. Net interest income grew by 45.7% primarily due to an increase in the average balance sheet size by 36.6% and an increase in net interest margin from 4.0% to 4.3%. The increase in net interest margin was due to better mix of deposits with a higher proportion of current accounts (arising out of an increase in our transaction banking business) and an increase in lending rates which was only partially offset by higher costs of deposits and costs of borrowings. The Bank increased its Benchmark Prime Lending Rate (BPLR) thrice during the year as a result of increase in interest rates in the banking system due to tight liquidity conditions. Average cost of time (fixed) deposits increased by over 100 basis points on a year-on-year basis.

The other income (non-interest revenue) increased by 34.9% to Rs. 1516.2 crores primarily due to fees and commissions and income from foreign exchange and derivatives. In 2006-07, commission income increased by 23.7% to Rs. 1292.4 crores with the main drivers being commission from distribution of third party mutual funds and insurance, fees on debit/credit cards and transactional charges/fees. The Bank incurred net losses on sale /revaluation of investments of Rs. 68.4 crores (primarily on non-SLR investments) as a result of the sharp increase in short term yields in the debt markets in March 2007. A large portion of the non-SLR investments were bonds in which the Bank had invested in previous years for meeting priority sector lending requirements. Foreign exchange and derivatives revenues grew from Rs. 118.6 crores to Rs. 280.3 crores which largely related to higher customer transaction volumes.

Operating (non-interest) expenses increased from Rs.1691.1 crores in 2005-06 to Rs. 2420.8 crores in 2006-07, due to significant expansion in new branch infrastructure, retail loan products and the credit card business. The ratio of operating cost to net revenues however, remained more or less stable at 46.3% as against 46.1% in the corresponding year. Staff expenses accounted for 32.1% of non-interest expenses in 2006-07 as against 28.8% in 2005-06, due to an increase in staff strength from 14878 to 21477 and also due to increase in salary levels. Specific loan loss provisions for NPAs and general provisions for standard assets increased from Rs.479.8 crores to Rs. 861.0 crores in 2006-07. In May 2006 and January 2007 the Reserve Bank of India increased the general provision requirement for certain standard assets such as personal loans, credit card receivables, capital market exposures and real estate exposures resulting in an extraordinary one-time general provision of Rs 158 crores for 2006-07. Provision for amortisation of investments was Rs. 241.09 crores, principally due to the amortisation of the premium of SLR investments in the 'Held to Maturity' category.

Net profit increased by 31.1% from Rs. 870.8 crores in 2005-06 to Rs. 1141.5 crores in 2006-07. Return on average net worth was higher at 19.4% from the previous year figure of 17.5%. The Bank's basic earning per share increased from Rs. 27.92 to Rs. 36.29 per equity share. The diluted earnings was Rs.26.33 per equity share in 2005-06 and for the current year is Rs. 36.06.

During 2006-07, the Bank's total balance sheet size increased by 24.1% to Rs. 91236 crores. Total Deposits increased from Rs. 55797 crores (as of March 31, 2006) to Rs. 68298 crores (as of March 31, 2007) with savings account deposits at Rs. 19585 crores and current account deposits at Rs. 19812 crores. In the January to March 2007 quarter time (fixed) deposit rates in the banking system increased sharply to levels which the Bank considered unattractive and unsustainable. The Bank, therefore, allowed some of its wholesale deposits to run-off, without affecting its liquidity position. As a result, demand (CASA) deposits were around 57.7% of total deposits as of March 31, 2007. During 2006-07, gross advances grew by 29.6 % to Rs. 49780 crores. This was driven by a growth of 33.4% in retail advances to Rs. 28327 crores, and an increase of 24.9% in wholesale advances to Rs. 21452 crores.

Business Segment Update:

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 its growth in 2006-07. In this business, the Bank has positioned itself as a one-stop-shop financial services provider, catering primarily to the middle class, mass affluent and high networth segments. 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 its 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 78% of customer initiated transactions are serviced through non-branch channels. The Bank's data warehouse and Customer Relationship Management (CRM) solutions have helped it to target its customers more effectively and offer appropriate products depending on customer profiles, thus reducing costs of acquisition and deepening customer relationships.

The Bank's total customer base increased from 96.0 lacs in March 2006 to 100.1 lacs in March 2007. On receiving regulatory approvals in the third quarter of the financial year, the Bank could resume its branch expansion efforts and opened 149 branches by March 2007. The distribution network was thus expanded with the number of branches increasing from 535 (in 228 cities) in March 2006 to 684 (in 316 cities) in March 2007 and the number of ATMs from 1323 to 1605 over the same period. The Bank's focus on semi-urban and under-banked markets continued, with about 62% 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 21% to Rs.19585 crores in 2006-07. The retail gross loan portfolio increased from Rs. 21231 crores as of March 31, 2006 to Rs. 28327 crores as of March 31, 2007, an increase of 33.4%. The Bank also extends almost half of its retail loans in non-metro markets (outside top nine cities).

The Bank's credit card business strategy in 2006-07 was to focus on quality customer acquisitions and improve processes to reduce cycle times and bring in cost efficiencies. The total number of cards in force has crossed the 2.9 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 51000. The Bank's third party distribution business continued to be a key revenue earner with income from sales of mutual funds and life insurance policies contributing over 18% of retail fees and commission. On the Bank's housing loan business, the origination of the HDFC home loan product increased to around Rs. 450 crores per month.

The wholesale banking business too registered a healthy growth in 2006-07. In this 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 Emerging Corporate and 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 working captial and term finance, cash management services, foreign exchange products and electronic banking.

During the financial year 2006-07, 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 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.1000000 crores in FY 2005-06 to over Rs.1300000 crores in FY 2006-07. 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 current account 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 also achieved healthy growth in its agriculture and micro finance portfolios. 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 40% during the year. The Bank has targeted potential outreach locations within a certain radius of its semi-urban and rural branches, distributing a set of products that includes savings accounts, fixed deposits, two wheeler and auto loans, kisan card loans , tractor loans and warehouse receipt loans. The Bank has also rolled out special rural fixed deposit and savings account products. The Bank also has specialised Agri Desks at certain branches across the country which work as single point contacts for farmers.

The Bank has relationships with over 70 micro finance institutions and has provided financing where the ultimate beneficiaries exceed 600000 households. The Bank has successfully commenced direct lending to Self Help Groups (SHG). The Bank opened a dedicated branch for lending to SHGs, in Thudiyalur village (Tamil Nadu). With this successful pilot, the Bank plans to open more such branches which are also involved in promoting financial literacy in the rural and tribal areas.

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 their trade flows and hedging needs. In addition, the treasury group seeks to optimise profits from proprietary trading within established limits. During 2006-07, revenues from foreign exchange and derivative transactions grew by 136.3% to Rs 280 crores with the revenue streams well diversified across large corporate, 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 bond yields rise. To reduce this volatility as of March 2007, around 85% of the SLR book was held in the 'Held to Maturity' (HTM) category. 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 as the regulations do not allow new non-SLR investments to be classified in the HTM category.

Service Quality Initiatives

In January 2006, the Bank had launched a new Quality Initiative – Lean Sigma Project Management. Through this initiative more than 500 projects have been executed to reduce transaction turnaround times and improve business cycle efficiencies.

The Service Quality Initiative was upgraded during the year to measure and improve the customer service experience across all touch points. The Bank plans to re-engineer key processes in the coming year using technology, Six Sigma and Five S (a technique used for workplace transformation) to further improve customer experience.

Risk Management & Portfolio Quality

The Bank's risk philosophy involves developing and maintaining a healthy porfolio within its risk appetite and the regulatory framework. While the Bank is exposed to various types of risks, the most important among them are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The measurement, monitoring and management of risks remains a key focus areas for the Bank. For credit risk, distinct policies and processes are in place, separately for wholesale and retail credit exposures. For wholesale credits, management of credit risk is carried out through target market definition, portfolio diversification, appraisal and approval processes, post sanction monitoring and remedial management procedures. In the retail asset businesses, the credit cycle is managed through credit policy definition, appropriate front-end credit buying, operations, fraud control 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 (excluding the retail loan portfolio), as of March 31, 2007, the following table gives industry wise classification of the Loans and Investments outstanding (excluding SLR investments, equity shares and mutual funds).

	(Rs. Crores) Funded exposure	% to total exposure
Transportation	6187	10.74%
Banks and Financial Institutions	3175	5.51%
Trade	2606	4.52%
Automobiles and Auto Ancillaries	2573	4.47%
Other Financial Intermediaries	1657	2.88%
Food Processing	1342	2.33%
Engineering	1235	2.14%
Fertilisers and Pesticides	1216	2.11%
Other industries < 2% each of Loans and Investments outstanding (38 sectors))	12210	21.20%
Retail – Except where otherwise classified	25399	44.10%
Total	57600	100.00%

As of March 31, 2007, the Bank's ratio of gross non-performing assets (NPAs) to total customer assets was 1.2%, about the same as of March 31, 2006. Increases in NPAs during the year were mainly related to delinquencies in various retail loan products. These delinquencies and NPAs remained largely within the product parameters for various retail asset products. Net non-performing assets (gross non-performing assets less specific loan loss provisions, interest in suspense and ECGC claims received) were 0.4% of customer assets as of March 31, 2007, again about the same level as last year. The specific loan loss provisions that the Bank has made for its non performing assets continue to be more conservative than the regulatory requirement. In May 2006 and January 2007, the Reserve Bank of India increased the general provision requirements for certain standard assets such as personal loans, credit card receivables, capital market exposures and real estate exposures, resulting in a one-time general provision of Rs.158 crores during the year.

The Basel Committee on Banking Supervision (BCBS) released the International Convergence of Capital Measurement & Capital Standards in June 2004, providing the new framework for Capital Adequacy (Basel II). Pursuant to this Accord, Reserve Bank of India came out with its draft guidelines for implementation of the New Capital Adequacy Framework in February 2005, following it up with the revised final guidelines in March 2007 and final guidelines in April 2007. In terms of the guidelines of Reserve Bank of India, Indian banks having operational presence outside India will have to migrate to the selected approaches (Standardised Approach for credit risk and Basic Indicator Approach for operational risk) with effect from March 31, 2008. All other scheduled commercial banks are required to migrate to these approaches no later than March 31, 2009. The Bank views the implementation of the Basel II framework as synchronous with its objective of adopting international best practices in risk management. The Bank has assessed the key requirements of the New Framework as released by BCBS and as they evolve under the Reserve Bank of India guidelines. Based on this assessment, the Bank has progressed on various initiatives to enhance its risk management systems in terms of architecture, capabilities, technology, etc., in areas such as ratings systems, borrower segmentation, exposure consolidation, risk mapping, risk estimation, capital computation, etc. While the Bank, to start with, will migrate to the above approaches defined in the Reserve Bank of India guidelines, the initiatives undertaken are geared towards enabling the Bank comply with the standards set out for the more advanced capital measurement approaches in the BCBS accord.

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, Securities and Exchange Board of India (SEBI) in the course of its investigations into the irregularities identified in regard to the applications tendered for the IPO offerings made by companies during the period 2003-05, observed that several Depository Participants (DPs) including HDFC Bank Ltd. prima facie, had appeared to have grossly failed in adhering to the Know Your Client norms as laid down by SEBI and thereby facilitated opening of demat accounts in ficticious / benami names. Consequently, SEBI passed an ex- parte interim order directing certain DPs not to open fresh demat accounts till further directions, and initiated enquiry proceedings. Simultaneously, SEBI also passed an order for disgorgement amounting to Rs. 1.64 crores. The Bank in its response to the ex-parte order submitted that the prescribed Know Your Client norms were followed by the Bank and that the Bank had obtained all the prescribed documentation as prescribed by SEBI at the relevant points of time. The Bank, has been allowed to open fresh demat accounts since November 2006. The Bank has also submitted its response to the Enquiry Notice and is awaiting the response from SEBI. The Bank preferred an appeal against the disgorgement order with the Securities Appellate Tribunal. The Securities Appellate Tribunal has passed an interim order staying the operations of the disgorgement order.

SOCIAL INITIATIVES

Pursuing a vision towards the socio-economic empowerment of underprivileged and marginalised sections of society the Bank supports social initiatives with special focus on education and livelihood support. This supplements the Bank's support and lending to self-help groups as part of its Microfinance activities.

In addition to the continued support to the 'ensuring children learn' and the 'girl child' projects, the bank has assisted in setting up a learning resource center 'LRC' at a shelter home for street boys. The LRC houses a bank of materials, books, teaching and learning aids and aims to help expand the skill sets of underprivileged students.

The Bank supports a day care center for the children of construction laborers. The center offers a comprehensive day care program which facilitates the holistic development and education of the children through its crèche, kindergarten and non-formal/ "bridge" schools. The bank also supports a program, which reaches out to the developmentally challenged to equip them with skills so as to enable them to lead a a self reliant and productive life. The program offers a vocational course that taps and fosters their skills in various fields such as art and crafts, catering and hospitality services, office skills etc.

HUMAN RESOURCES

The Bank's staffing needs continued to increase during the year particularly in the retail banking businesses in line with the business growth. Total number of employees increased from 14878 as of March 31, 2006 to 21477 as of March 31, 2007. 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 so far covers around 9000 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 21477 employees as on March 31, 2007. One hundred seventy one employees employed throughout the year were in receipt of remuneration of Rs. 24.0 lacs per annum and twenty three 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 the 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, 2007 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 the fraud and other irregularities;

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

DIRECTORS

Mr. Arvind Pande and Mr. Ashim Samanta will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Mr. Bobby Parikh has resigned from the Board w.e.f. October 17, 2006 and Dr. V. R. Gadwal relinquished his office of Director with effect from March 14, 2007. Your directors wish to place on record their sincere appreciation for the contribution made by Mr. Bobby Parikh and Dr. V. R. Gadwal during their tenure as Directors.

The Board at its meeting held on October 17, 2006, appointed Mr. C. M. Vasudev and Mr. Gautam Divan as Additional Directors. The Bank has received notices in writing under Section 257 of the Act, proposing candidatures of Mr. Vasudev and Mr. Divan for the office of Directors of the Bank.

The term of office of Mr. Jagdish Capoor as part-time Chairman of the Bank comes to an end by flux of time on 5th July, 2007. It is proposed to renew the term of Mr. Capoor seeking approval of the members. Resolution to this effect has been included in the notice convening the ensuing Annual General Meeting.

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. Haribhakti & Co., Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. Members are requested to consider their re-appointment on remuneration to be decided by the Audit and Compliance Committee of the Board.

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 for the hard work and dedicated efforts put in by the Bank's employees and look forward to their continued contribution in building a world class Indian bank.

On behalf of the Board of Directors

Jagdish Capoor
Chairman

Mumbai, May 17, 2007

Annexure to Directors' Report for the year ended March 31, 2007

EMPLOYEES' STOCK OPTIONS

Details of the stock options granted, vested, exercise and lapsed during the year under review are as under:

Scheme(s)	Exercise Price (Rs.)	Options Granted	Options Vested	Options Exercised	Options Lapsed	Total Options in Force As on March 31,2007
ESOP I	131.33	-	-	21000	2100	0
ESOP II	225.43	-	-	128200	17800	1500
ESOP III	226.96	-	-	74400	15300	7600
ESOP IV	358.60	-	2564400	2795900	175300	413600
ESOP V	366.30	-	967700	1385900	75600	194400
ESOP VI	362.90	-	600300	672600	108900	205600
ESOP VII	630.60	-	2611700	1169200	1610700	4526100
ESOP VIII	994.85	3586500	-	-	432900	3153600
ESOP IX	994.85	3046800	-	-	227600	2819200
Total		6633300	6744100	6247200	2666200	11321600

Note : One (1) share would arise on exercise of one (1) stock option.

Other details are as under:

Money realized by exercise of options	The Bank received Rs. 6,24,72,000 towards share capital and Rs. 2,47,77,20,850/- towards share premium on account of 62,47,200 stock options exercised and allotted during the year under review.
Pricing Formula	**ESOS VIII** : Closing market price on the stock exchange where there is highest trading volume during the preceding 2 weeks from the date of grant. **ESOS IX** : Closing market price on the stock exchange where there is highest trading volume on the preceding date of grant.
Details of options granted to:	
i. Senior managerial personnel	Nil
ii. 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 Accounting Standard (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. 36.06.
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	Had the Bank followed fair value method for accounting the stock option compensation expense would have been higher by Rs. 134.89 crores. Consequently profit after tax would have been lower by Rs. 89.5 crores and the basic EPS of the Bank would have been Rs. 33.44 per share (lower

Other details are as under:

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.	by Rs. 2.85 per share) and the Diluted EPS would have been Rs. 33.23 per share (lower by Rs. 2.83)
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 options.	The weighted average price of the stock options exercised is Rs. 406.61 and the weighted average fair value is Rs. 595.10.
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 internally developed and tested model with the following assumptions:
i. Risk-free interest rate,	It will remain between 7.8% to 7.9%.
ii. Expected life,	3 (three) years.
iii. Expected volatility,	It will be around 31.75%.
iv. Expected dividends, and	Around Rs. 5.50 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. 994.85 at the time of grant of options.

AUDITORS' REPORT

To The Shareholders of HDFC Bank Limited

1. We have audited the attached Balance Sheet of HDFC Bank Limited ("the Bank") as at 31st March 2007 and also the Profit and Loss Account of the Bank and the Cash Flow Statement annexed thereto 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.

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 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. 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.

4. We report that:

   a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of the audit and found them to be satisfactory.

   b) In our opinion the transactions of the Bank, which have come to our notice have been within the powers of the Bank.

   c) As the financial accounting systems of the Bank are centralized no separate accounting returns are received from the branches.

5. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, in so far as they apply to Bank.

6. We further report that :

   a) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account of the Bank.

   b) 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.

   c) On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section 1 of Section 274 of the Companies Act, 1956.

7. In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956 in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) in case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2007;

   b) in case of the Profit and Loss Account, of true balance of profit for the year ended on that date; and

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

For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner
Membership No.30823

Mumbai : April 24, 2007

HDFC Bank Limited
Balance Sheet

AS AT 31 MARCH, 2007

(Rs. in lacs)

	Schedule	As at 31-03-2007	As at 31-03-2006
CAPITAL AND LIABILITIES			
Capital	1	319,39	313,14
Reserves and Surplus	2	6,113,76	4,986,39
Employees' Stock Options (Grants) Outstanding		-	7
Deposits	3	68,297,94	55,796,82
Borrowings	4	2,815,39	2,858,48
Other Liabilities and Provisions	5	13,689,13	9,551,49
Total		91,235,61	73,506,39
ASSETS			
Cash and balances with			
Reserve Bank of India	6	5,182,48	3,306,61
Balances with Banks and Money at Call and Short notice	7	3,971,40	3,612,39
Investments	8	30,564,80	28,393,96
Advances	9	46,944,78	35,061,26
Fixed Assets	10	966,67	855,08
Other Assets	11	3,605,48	2,277,09
Total		91,235,61	73,506,39
Contingent Liabilities	12	328,148,24	214,782,34
Bills for Collection		4,606,83	2,828,89
Notes and Principal Accounting Policies forming integral part of the financial statements	19		

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President
(Legal) & Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Renu Karnad
Arvind Pande
C M Vasudev
Gautam Divan
Dr. Pandit Palande
Directors

HDFC Bank Limited
Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Schedule	Year ended 31-03-2007	Year ended 31-03-2006
I. INCOME			
Interest earned	13	6,889,02	4,475,34
Other income	14	1,516,23	1,123,98
Total		8,405,25	5,599,32
II. EXPENDITURE			
Interest expended	15	3,179,45	1,929,50
Operating expenses	16	2,420,80	1,691,09
Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 497,30 lacs (previous year: Rs. 382,73 lacs)]	17	1,663,55	1,107,95
Total		7,263,80	4,728,54
III. PROFIT			
Net Profit for the year		1,141,45	870,78
Profit brought forward		1,455,02	602,34
Transfer from Investment Fluctuation Reserve		-	484,19
Total		2,596,47	1,957,31
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		285,36	217,70
Proposed dividend		223,57	172,23
Tax (including cess) on dividend		38,00	24,16
Dividend (including tax/cess thereon) pertaining to previous year paid during the year		35	-
Transfer to General Reserve		114,14	87,08
Transfer to Capital Reserve		4	1,12
Transfer to Investment Reserve Account		2,98	-
Balance carried over to Balance Sheet		1,932,03	1,455,02
Total		2,596,47	1,957,31
V. EARNINGS PER EQUITY SHARE			
(Face value Rs.10 per share)	18	Rs.	Rs.
Basic		36.29	27.92
Diluted		36.06	26.33
Notes and Principal Accounting Policies forming integral part of the financial statements	19		

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President
(Legal) & Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Renu Karnad
Arvind Pande
C M Vasudev
Gautam Divan
Dr. Pandit Palande
Directors

HDFC Bank Limited
Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
Cash flows from operating activities		
Net profit before income tax	1,638,75	1,253,51
Adjustments for:		
Depreciation	219,60	178,59
(Profit)/Loss on Revaluation of Investments	(5,99)	89,66
Amortisation of premia on investments	241,09	245,16
Loan Loss provisions	691,15	384,85
Provision against standard assets	169,86	94,91
Provision for wealth tax	40	30
Contingency provision	63,75	-
Loss/(Profit) on sale of fixed assets	1,05	(27)
	3,019,66	2,246,71
Adjustments for :		
(Increase) in Investments	(2,420,94)	(9,350,30)
(Increase) in Advances	(12,574,67)	(9,889,35)
(Decrease) in Borrowings	(43,09)	(1,931,53)
Increase in Deposits	12,501,12	19,442,57
(Increase) in Other assets	(1,443,48)	(738,33)
Increase in Other liabilities and provisions	2,246,80	2,495,49
(Increase)/Decrease in Deposit Placements	(241,77)	2,66
	1,043,63	2,277,92
Direct taxes paid (net of refunds)	(377,00)	(553,16)
Net cash flow from/(used in) operating activities	666,63	1,724,76
Cash flows from investing activities		
Purchase of fixed assets	(313,33)	(367,99)
Proceeds from sale of fixed assets	1,93	5,15
Long term investments	-	(19,13)
Net cash used in investing activities	(311,40)	(381,97)

HDFC Bank Limited

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
Cash flows from financing activities		
Money received on exercise of stock options by employees	254,02	62,58
Proceeds from issue of Upper Tier II capital, Lower Tier II capital and Innovative Perpetual Debt Instruments	1,680,60	1,202,00
Redemption of subordinated debt	(100,00)	-
Dividend during the year	(172,58)	(140,07)
Tax on Dividend	(24,16)	(19,64)
Net cash generated from financing activities	1,637,88	1,104,87
Net increase in cash and cash equivalents	1,993,11	2,447,66
Cash and cash equivalents as at 1 April, 2006	6,188,66	3,741,00
Cash and cash equivalents as at 31 March, 2007	8,181,77	6,188,66

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board
Jagdish Capoor
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Aditya Puri
Managing Director

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(Legal) & Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Renu Karnad
Arvind Pande
C M Vasudev
Gautam Divan
Dr. Pandit Palande
Directors

Schedules to the Accounts

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 1 - CAPITAL		
Authorised Capital	450,00	450,00
45,00,00,000 (31 March, 2006 : 45,00,00,000)		
Equity Shares of Rs. 10/- each		
Issued, Subscribed and Paid-up Capital	319,39	313,14
31,93,89,608 (31 March, 2006 : 31,31,42,408)		
Equity Shares of Rs. 10/- each		
Total	319,39	313,14
SCHEDULE 2-RESERVES AND SURPLUS		
I. Statutory Reserve		
Opening Balance	836,46	618,76
Additions during the year	285,36	217,70
Total	1,121,82	836,46
II. General Reserve		
Opening Balance	301,94	214,86
Additions during the year	114,14	87,08
Total	416,08	301,94
III. Balance in Profit and Loss Account	1,932,03	1,455,02
IV. Share Premium Account		
Opening Balance	2,376,71	2,274,68
Additions during the year	247,84	102,03
Total	2,624,55	2,376,71
V. Investment Fluctuation Reserve		
Opening Balance	-	484,19
Transfer to Profit and Loss Account	-	(484,19)
Total	-	-

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
VI. Amalgamation Reserve		
Opening Balance	14,52	14,52
Total	14,52	14,52
VII. Capital Reserve		
Opening Balance	1,74	62
Additions during the year	4	1,12
Total	1,78	1,74
VIII. Investment Reserve Account		
Opening Balance	-	-
Additions during the year	2,98	-
Total	2,98	-
Total	6,113,76	4,986,39
SCHEDULE 3 - DEPOSITS		
I. Demand Deposits		
(i) From Banks	695,35	595,78
(ii) From Others	19,116,49	14,156,68
Total	19,811,84	14,752,46
II. Savings Bank Deposits	19,584,82	16,185,79
III. Term Deposits		
(i) From Banks	1,505,29	860,47
(ii) From Others	27,395,99	23,998,10
Total	28,901,28	24,858,57
Total	68,297,94	55,796,82

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
(i) Reserve Bank of India	-	-
(ii) Other Banks	925,63	1,243,97
(iii) Other Institutions and agencies	155,66	166,81
Total	1,081,29	1,410,78
II. Borrowings outside India	1,734,10	1,447,70
Total	2,815,39	2,858,48
Secured borrowings included in I & II above: Rs.155,66 lacs (previous year: Rs. 166,81 lacs)		
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I. Bills Payable	3,678,14	2,079,58
II. Interest Accrued	1,703,81	826,41
III. Others (including provisions)	4,419,09	4,563,03
IV. Upper and Lower Tier II capital and		
Innovative Perpetual Debt*	3,282,60	1,702,00
V. Contingent Provisions against standard assets	343,92	184,08
VI. Proposed Dividend (including tax on dividend)	261,57	196,39
Total	13,689,13	9,551,49

* *Issued during the year : Innovative Perpetual Debt : Rs. 200,00 lacs (previous year: nil), Upper Tier II Debt : Rs. 635,90 lacs and USD 100 million (previous year: nil) and Lower Tier II Debt: Rs. 410,00 lacs (previous year : nil)*

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	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)	746,51	507,71
II. Balances with Reserve Bank of India		
(a) In current accounts	4,335,97	2,698,90
(b) In other accounts	100,00	100,00
Total	4,435,97	2,798,90
Total	5,182,48	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	429,74	487,50
(b) In other deposit accounts	1,223,54	1,288,15
Total	1,653,28	1,775,65
(ii) Money at call and short notice :		
(a) With banks	100,00	-
(b) With other institutions	90,00	-
Total	190,00	-
Total	1,843,28	1,775,65
II. Outside India		
(i) In current accounts	420,66	432,93
(ii) In deposit accounts	12,13	20,75
(iii) Money at call and short notice	1,695,33	1,383,06
Total	2,128,12	1,836,74
Total	3,971,40	3,612,39

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 8 - INVESTMENTS		
A. Investments in India in		
(i) Government securities	22,544,22	19,632,84
(ii) Other approved securities	68	5,73
(iii) Shares	58,31	76,87
(iv) Debentures and Bonds	7,389,85	8,121,82
(v) Subsidiary / Joint Ventures	21,56	21,56
(vi) Units, Certificate of Deposits and Others	549,96	535,07
Total	30,564,58	28,393,89
B. Investments outside India	22	7
Total	30,564,80	28,393,96
1) Gross Value of Investments		
(a) In India	30,658,83	28,494,12
(b) Outside India	22	7
Total	30,659,05	28,494,19
2) Provision for Depreciation		
(a) In India	94,25	100,23
(b) Outside India	-	-
Total	94,25	100,23
3) Net Value of Investments		
(a) In India	30,564,58	28,393,89
(b) Outside India	22	7
Total	30,564,80	28,393,96

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

		As at 31-03-2007	As at 31-03-2006
SCHEDULE 9 - ADVANCES			
A	(i) Bills purchased and discounted	804,76	1,376,77
	(ii) Cash Credits, Overdrafts and Loans repayable on demand	10,344,53	7,881,99
	(iii) Term loans	35,795,49	25,802,50
	Total	46,944,78	35,061,26
B	(i) Secured by tangible assets*	32,845,44	23,729,96
	(ii) Covered by Bank/Government Guarantees	522,36	518,58
	(iii) Unsecured	13,576,98	10,812,72
	Total	46,944,78	35,061,26
	** Including advances against Book Debts*		
C	Advances in India		
	(i) Priority Sector	17,683,07	10,864,53
	(ii) Public Sector	205,15	384,99
	(iii) Banks	38,32	11,87
	(iv) Others	29,018,24	23,799,87
	Total	46,944,78	35,061,26
	(Advances are net of specific loan loss provisions)		
SCHEDULE 10 - FIXED ASSETS			
A.	Premises (including Land)		
	Gross Block		
	At cost on 31 March of the preceding year	314,50	291,22
	Additions during the year	53,21	27,27
	Deductions during the year	-	(3,99)
	Total	367,71	314,50

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
Depreciation		
As at 31 March of the preceding year	51,24	40,60
Charge for the year	14,05	11,18
On deductions during the year	-	(54)
Total	65,29	51,24
Net Block	302,42	263,26
B. Other Fixed Assets (including furniture and fixtures)		
Gross Block		
At cost on 31 March of the preceding year	1,231,14	955,46
Additions during the year	283,18	302,96
Deductions during the year	(8,30)	(27,28)
Total	1,506,02	1,231,14
Depreciation		
As at 31 March of the preceding year	639,32	497,76
Charge for the year	205,55	167,41
On deductions during the year	(3,10)	(25,85)
Total	841,77	639,32
Net Block	664,25	591,82
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
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	966,67	855,08

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 11 - OTHER ASSETS		
I. Interest accrued	1,592,54	921,83
II. Advance tax (net of provision)	445,23	349,50
III. Stationery and stamps	16,87	17,96
IV. Bond and share application money pending allotment	15,00	-
V. Security deposit for commercial and residential property	129,20	107,57
VI. Cheques in course of collection	6,59	9,17
VII. Other assets*	1,400,05	871,06
Total	3,605,48	2,277,09
* *Includes deferred tax asset (net) of Rs. 157,91 lacs (previous year: Rs. 61,33 lacs)*		
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the bank not acknowledged as debts - Taxation	389,17	243,97
II. Claims against the bank not acknowledged as debts - Others	13,10	13,10
III. Liability on account of outstanding forward exchange contracts	123,416,46	73,473,37
IV. Liability on account of outstanding derivative contracts	193,736,67	131,969,84
V. Guarantees given on behalf of constituents - in India	4,054,22	3,088,77
VI. Acceptances, endorsements and other obligations	2,605,05	2,410,37
VII. Other items for which the Bank is contingently liable	3,933,57	3,582,92
Total	328,148,24	214,782,34

Rs. 10 lacs = Rs. 1 million

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
SCHEDULE 13- INTEREST EARNED		
I. Interest/discount on advances/bills	4,334,15	2,700,20
II. Income from investments	2,298,62	1,631,66
III. Interest on balance with RBI and other inter-bank funds	252,94	142,55
IV. Others	3,31	93
Total	6,889,02	4,475,34
SCHEDULE 14 - OTHER INCOME		
I. Commission, exchange and brokerage	1,292,38	1,045,05
II. (Loss) / Profit on sale of investments	(74,40)	37,54
III. Profit / (Loss) on revaluation of investments	5,99	(89,66)
IV. (Loss) / Profit on sale of building and other assets (net)	(1,05)	27
V. Profit on exchange transactions (net)	190,35	99,40
VI. Miscellaneous income	102,96	31,38
Total	1,516,23	1,123,98
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	2,695,32	1,559,43
II. Interest on RBI/Inter-bank borrowings	274,05	315,01
III. Other interest*	210,08	55,06
Total	3,179,45	1,929,50
* *Principally includes interest on subordinated debt.*		
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and provisions for employees	776,86	486,82
II. Rent, taxes and lighting	193,97	168,31
III. Printing and stationery	85,30	68,76
IV. Advertisement and publicity	74,88	80,85
V. Depreciation on Bank's property	219,60	178,59
VI. Directors' fees, allowances and expenses	46	19

Rs. 10 lacs = Rs. 1 million

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
VII. Auditors' fees and expenses*	57	59
VIII. Law charges	5,55	2,43
IX. Postage ,telegram, telephone etc.	185,05	150,29
X. Repairs and maintenance	125,74	90,51
XI. Insurance	71,66	51,82
XII. Other Expenditure **	681,16	411,93
Total	2,420,80	1,691,09
* *Excludes Nil (previous year: Rs. 51 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		
I. Income tax	497,30	382,73
II. Wealth tax	40	30
III. Loan loss provision	691,15	384,85
IV. Provision against standard assets	169,86	94,91
V. Amortisation on investments	241,09	245,16
VI. Others*	63,75	-
Total	1,663,55	1,107,95
* *Includes: Contingent provisions for tax Rs. 54,71 lacs (previous year: nil); Provisions for securitised-out assets Rs. 11,95 lacs (previous year:nil) and write back of provision of country risk: Rs. 2,91 lacs (previous year: nil)*		

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

Schedule 18 - EARNING PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net profit after taxation of Rs.114,145 lacs (previous year: Rs. 870,78 lacs) and the weighted average number of equity shares outstanding during the year amounting to 31,45,63,347 (previous year: 31,19,39,366).

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

(Rupees)

	For the year	
	2006-2007	2005-2006
Nominal value per share	10.00	10.00
Basic earnings per share	36.29	27.92
Effect of potential equity shares for stock options and subordinated debt (per share)	(0.23)	(1.59)
Diluted earnings per share	36.06	26.33

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have 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	
	2006-2007	2005-2006
Earnings used in basic earnings per share	114,145	870,78
Impact of dilution on profits	-	7,48
Earnings used in diluted earnings per share	114,145	878,26

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	
	2006-2007	2005-2006
Weighted average number of equity shares used in computing basic earnings per equity share	31,45,63,347	31,19,39,366
Effect of potential equity shares for stock options outstanding and subordinated debt	19,69,537	2,15,64,239
Weighted average number of equity shares used in computing diluted earnings per equity share	31,65,32,884	33,35,03,605

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007.

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)

	2006-2007	For the year 2005-2006
CAPITAL STRUCTURE		
Tier I capital		
Subscribed and paid-up capital	319,39	313,14
Innovative perpetual debt	200,00	-
Statutory reserve	1,121,82	836,46
Balance in profit and loss account	1,932,03	1,455,02
Share premium account	2,624,55	2,376,71
Amalgamation reserve	14,52	14,52
General reserve	416,08	301,94
Capital reserve	1,78	1,74
Less: Deferred tax asset	(157,91)	(61,33)
Less: Credit enhancement on securitisation (50%)	(99,54)	(68,28)
Less: Investment in subsidiary	(20,01)	(20,01)
Total	6,352,71	5,149,91
Tier II capital		
Upper Tier II capital	1,070,60	-
Lower Tier II capital	2,012,00	1,602,00
Provision for Standard assets	343,92	184,08
Provision for country risk	-	2,91
Floating Provision	10,03	-
Investment Reserve Account	2,98	-
Less: Credit enhancement on securitization	(99,54)	(68,28)
Total	3,339,99	1,720,71
Total capital funds	9,692,70	6,870,62
Risk weighted assets and contingents		
Credit risk	65,624,80	49,936,63
Market risk (including specific risk)	8,457,12	10,280,99
Total	74,081,92	60,217,62
Capital Adequacy Ratios		
Tier 1	8.57%	8.55%
Tier 2	4.51%	2.86%
Total	13.08%	11.41%

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

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.

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	
	2006-2007	2005-2006
Interest income as a percentage of working funds[1]	8.01%	7.11%
Net interest income as a percentage of working funds	4.32%	4.04%
Non-interest income as a percentage of working funds	1.76%	1.79%
Operating profit[2] as a percentage of working funds	2.98%	2.75%
Return on assets *(average)*	1.33%	1.38%
Business[3] per employee[4] (Rs. lacs)	607	758
Profit per employee[4] (Rs. Lacs)	6.13	7.39
Percentage of net non performing assets[5] to customer assets[6]	0.38%	0.36%
Percentage of net non performing assets to net advances[7]	0.43%	0.44%
Gross non performing assets to gross advances	1.32%	1.32%

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 (net of inter-bank deposits).
4. Productivity ratios are based on average employee numbers.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

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. 114,14 lacs (previous year: Rs 87,08 lacs) out of profits for the year ended March 31, 2007 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment reserve account

During the year, the Bank has transferred an amount of Rs. 2,98 lacs from the Profit and Loss Account to Investment Reserve Account pursuant to the Reserve Bank of India guidelines under reference RBI No. 2006-07/ 30 DBOD No. BP. BC. 14 / 21.04.141 / 2006-07 'Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks' dated July 1, 2006.

4 Upper and lower Tier II capital and Innovative perpetual debt instruments

Subordinated debt (lower Tier II capital), Upper tier II capital and Innovative Perpetual Debt Instruments outstanding as at March 31, 2007 are Rs. 2,012,00 lacs (previous year: Rs. 1,702,00 lacs), Rs. 1,070,60 lacs (previous year: Rs. Nil) and Rs. 200,00 lacs (previous year: Rs. Nil) respectively.

During the year, the Bank raised Rs. 635,90 lacs as Upper Tier II capital at an annualized coupon ranging between 8.80 % to 9.20 %. The Bank also raised foreign currency borrowing of USD 100 million as Upper Tier II capital at an annualized coupon rate of 6-month USD LIBOR plus 120 bps. The Bank raised Rs. 410,00 lacs as Lower Tier II capital at an annualized coupon ranging between 8.45% to 9.10%. The Bank raised a further Rs. 200,00 lacs as unsecured non-convertible subordinated perpetual bonds (Innovative perpetual debt instruments) in the nature of debentures for inclusion as Tier I capital at an annualized coupon of 9.92 % payable semi annually.

Based on the balance term to maturity as at March 31, 2007, 100% of the book value of subordinated debt (lower tier II capital) and upper tier II capital is considered as Tier 2 capital for the purpose of capital adequacy computation.

Conversion clause

Of the outstanding amount of subordinated debt, principal amount of Rs. Nil (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, 2007, such amount would approximately be Nil shares (previous year: 1,84 lac shares).

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5 Other liabilities

- Other liabilities include Provision towards standard assets of Rs. 343,92 lacs (previous year Rs. 184,08 lacs)
- Others in other liabilities include provision for country risk of Rs. Nil (previous year: Rs. 2,91 lacs) and floating provision of Rs.10,03 lacs (previous year : Rs. Nil)

Movement in Floating Provision

(Rs.lacs)

Particulars	March 31, 2007
Opening Balance*	10,03
Provisions made during the year	-
Draw down made during the year	-
Closing Balance	10,03

* Consequent upon the Reserve Bank of India circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006 the excess in the bank's general provision for standard assets over the regulatory provisions for standard assets was categorized as floating provisions effective June 1, 2006

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, 2007				As at March 31, 2006			
	Held for Trading	Available for Sale	Held to Maturity	Total	Held for Trading	Available for Sale	Held to Maturity	Total
Government securities	163,79	3,268,52	19,111,91	22,544,22	294,56	3,000,79	16,337,49	19,632,84
Other approved securities	-	68	-	68	-	5,73	-	5,73
Shares	8,19	33,34	17,00	58,53	-	43,53	33,41	76,94
Bonds and debentures	-	7,046,53	3,43,32	7,389,85	-	7,665,90	455,92	8,121,82
Subsidiary / joint ventures	-	-	21,56	21,56	-	-	21,56	21,56
Others	256,23	293,73	-	549,96	-	535,07	-	535,07
Total	428,21	10,642,80	19,493,79	30,564,80	294,56	11,251,02	16,848,38	28,393,96

- Investments as at March 31, 2007 include securities held under Liquidity Adjustment Facility with Reserve Bank of India Rs. Nil (previous year: Rs. 420,00 lacs).
- Investments include securities aggregating Rs. 89,40 lacs (previous year: Rs. 90,95 lacs) which are kept as margin for clearing of securities and Rs 3,841,08 lacs (previous year: 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. 8,467,73 lacs (previous year: Rs. 4,244,36 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).

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- Other investments include commercial paper amounting to Rs. 9,89 lacs (previous year: Rs Nil), investments in debt mutual fund units amounting to Rs. 256,23 lacs (previous year: Rs 318,71 lacs), investments in equity mutual fund units amounting to Rs. 100 lacs (previous year : Rs Nil) and deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 282,84 lacs (previous year: Rs. 216,36 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 Ltd. has become a subsidiary company of the Bank since that date.
- Issuer composition of Non-SLR Investments as on March 31, 2007 (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	2,874,02	1,897,34	-	282,84	317,20
2	Financial institutions	90,18	10,94	-	-	-
3	Banks	425,39	350,00	-	-	350,00
4	Private corporate	698,00	399,97	-	26,54	71,54
5	Subsidiaries/ Joint ventures	21,56	21,56	-	-	21,56
6	Others	4,004,81	2,837,39	-	-	3,745,33
7	Provision held towards depreciation	(94,06)				
	Total	8,019,90	5,517,20	-	309,38	4,505,63

* *Excludes investments in equity and units*

- 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
6	Others	4,841,67	3,275,75	-	22,04	4,510,72
7	Provision held towards depreciation	(99,98)				
	Total	8,755,38	6,332,16	-	300,17	5,403,26

* *Excludes investments in equity and units*

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- Details of Repo / Reverse Repo deals done during the year ended March 31, 2007 (Rs.lacs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2007
Securities sold under repos	—	2,489,75	173,93	1,050,00
Securities purchased under reverse repos	—	12,180,00	956,59	—

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, 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 investments

(Rs. lacs)

	March 31, 2007	March 31, 2006
Value of investments		
Gross value of investment		
In India	30,658,83	28,494,12
Outside India	22	7
Provisions for Depreciation		
In India	94,25	100,23
Outside India	-	-
Net Value of Investments		
In India	30,564,58	28,393,89
Outside India	22	7

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(Rs. lacs)

	March 31, 2007	March 31, 2006
Movement of provisions held towards depreciation		
on investments.		
As at April 1	100,23	5,50
Add: Provisions made during the year *	5	100,08
Less: Write-off, write back of excess provision during the year	6,03	5,35
As at March 31	94,25	100,23

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

* *Previous year figure includes transfer of provision form an existing non-performing loan, which has been partially restructured as an investment.*

8 Non performing Non-SLR investments

(Rs. lacs)

Particulars	2006-2007	2005-2006
Opening balance	9,69	9,08
Additions during the year since 1st April*	-	9,54
Reductions during the above period	-	8,93
Closing balance	9,69	9,69
Total provisions held	9,69	9,69

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

9 Other assets

Other assets include deferred tax asset (net) of Rs. 157,91 lacs (previous year: Rs. 61,33 lacs). The break up of the same is as follows:

(Rs. lacs)

Deferred tax asset	March 31, 2007	March 31, 2006
Loan loss provisions	204,29	128,56
Others	37,30	13,25
Total	241,59	141,81
Deferred tax liability		
Depreciation	(83,68)	(80,48)
Total	(83,68)	(80,48)
Deferred tax asset (net)	157,91	61,33

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

10 Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2007 on units, equity and preference shares amounting to Rs. 141,83 lacs (previous year: Rs 36,36 lacs).

11 Earnings from Securitised-out Assets

(Rs. lacs except numbers)

Particulars	March 31, 2007	March 31, 2006
Book value of loans securitized	641,76	1,987,83*
Total no. of contracts securitised (nos.)	834,30	1,666,41
Sale consideration received	653,58	1,973,33
Profit / (Loss) on sell off**	5,40	(3,13)

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

*** Pursuant to RBI guidelines dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/ 2005-06, 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.*

Form and quantum of services and liquidity provided by way of credit enhancement

The Bank has provided credit and liquidity 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, 2007 was Rs. 462,84 lacs (previous year Rs. 474,45 lacs)

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. 89,91 lacs (previous year: Rs. 19,21 lacs) pertaining to derivative transactions.

14 Other expenditure

Other expenditure includes sales and marketing expense amounting to Rs. 113,08 lacs (previous year: Rs. 136,44 lacs), Expenses on collections and recoveries amounting to Rs. 113,59 lacs (previous

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year: Rs. 47,77 lacs) and outsourcing fees amounting to Rs. 197,29 lacs (previous year: Rs. 119,54 lacs) exceeding 1% of the total income of the Bank.

15 Income Taxes

The income tax expense comprises the following:

(Rs. lacs)

	2006-2007	2005-2006
Current income tax expense	581,88	359,56
Deferred income tax (benefit) / expense	(96,58)	12,17
	485,30	371,73
Fringe benefit tax (FBT)	12,00	11,00
Income tax expense	497,30	382,73
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	1,638,75	1,253,51
Effective statutory income tax rate	33.66%	33.66%
Expected income tax expense	551,60	421,93
Adjustments to reconcile expected income tax to actual tax expense:		
Permanent differences:		
Income exempt from taxes	(64,88)	(50,68)
Other (including adjustments for prior years) net	11	48
Effect of change in statutory tax rates – net	(153)	-
	485,30	371,73
Fringe benefit tax (FBT)	12,00	11,00
Income tax expense	497,30	382,73

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16 Maturity pattern of key assets and liabilities

(Rs. lacs)

As at March 31, 2007	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	4,481,81	(1,613,33)	3,231,20	4,491,54	7,563,55	22,427,23	3,127,39	3,235,39	46,944,78
Investments	3,160,80	921,77	2,310,01	1,705,30	2,741,86	16,169,09	1,660,93	1,895,04	30,564,80
Deposits	8,417,19	1,440,50	4,379,40	3,656,22	4,173,62	40,451,21	3,811,43	1,968,37	68,297,94
Borrowings	1,016,30	6,14	1,715,12	37,87	5,00	4,69	30,27	-	2,815,39
FCY assets	2,683,27	94,68	430,25	372,81	22,17	159,06	271,75	154,20	4,188,19
FCY liabilities	506,42	46,12	1,856,55	209,98	514,12	681,88	105,97	434,70	4,355,74

The negative figure in the 15-28 day bucket under loans and advances is due to the expected maturity of inter-bank participation certificates which are netted from advances.

(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

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.

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17 Lending to sensitive sector

Details of exposure to real estate sector

(Rs. lacs)

Category		March 31, 2007	March 31, 2006
a)	*Direct exposure*	6,841,36	4,327,51
(i)	Residential mortgages	1,803,11	789,10
(ii)	Commercial real estate	3,552,72	1,818,04
(iii)	Investments in mortgage backed securities (MBS) and other securitised exposures		
	1) Residential	1,485,53	1,720,37
	2) Commercial real estate	-	-
b)	*Indirect exposure*	478,76	507,02
	Fund based and non-fund based exposures on National Housing Bank (NHB) and housing finance companies (HFCs)	478,76	507,02
Total real estate exposure		7,320,12	4,834,53

Details of capital market exposure

(Rs. lacs)

		March 31, 2007	March 31, 2006
(i)	Investments made in equity shares	38,03	40,02
(ii)	Investments in bonds/ convertible debentures	-	-
(iii)	Investments in units of equity-oriented mutual funds	100	-
(iv)	Advances against shares to individuals for investment in equity shares (including IPOs / ESOPS), bonds and debentures, units of equity oriented mutual funds	109,83	117,27
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	1,415,62	1,406,92
(vi)	Others	-	30,00
	Total exposure to capital market	1,564,48	1,594,21
	Of (v) above, the total finance extended to stockbrokers for margin trading.	-	-
	Capital market exposure as a ratio of advances	4.42%	6.12%
	Capital market exposure as a ratio of net worth	29.52%	35.27%

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- 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.

18 Details of Risk Category wise Country Risk Exposure

(Rs. lacs)

Risk Category	Exposure (Net) March 2007	Provision March 2007	Exposure (Net) March 2006	Provision March 2006
Insignificant	**1,874,86**	-	1,909,95	2,91
Low	**435,47**	-	75,58	-
Moderate	**24,25**	-	8,66	-
High	**20**	-	6,27	-
Very high	**4,24**	-	2,18	-
Restricted	-	-	11	-
Off-credit	-	-	-	-
Total	**2,339,02**	-	2,002,75	2,91

19 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. In the previous year, in case of NABARD single borrower limits were exceeded, which was approved by the board of directors of the Bank. As at March 31, 2006, the book value of outstanding exposure to NABARD was at Rs. 1,199,14 lacs and was within the board approved limit of 20% of capital funds as at March 31, 2006.

20 Movements in NPAs (funded)

(Rs. lacs)

	2006-2007	2005-2006
(i) Net NPAs to Net Advances (%)	**0.43%**	0.44%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	**508,89**	439,17
(b) Additions during the year	**778,60**	569,00

Rs. 10 lacs = Rs. 1 million

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(Rs. lacs)

			2006-2007	2005-2006
	(c)	Reductions during the year	629,73	499,28
	(d)	Closing balance	657,76	508,89
(iii)	Movement of Net NPAs			
	(a)	Opening balance	155,18	60,63
	(b)	Additions during the year	54,68	110,78
	(c)	Reductions during the year	6,97	16,23
	(d)	Closing balance	202,89	155,18
(iv)	Movement of provisions for NPAs			
	(excluding provisions on standard assets)			
	(a)	Opening balance	353,71	378,54
	(b)	Additions during the year	723,92	458,22
	(c)	Write-off/ write-back of excess provisions	622,76	483,05
	(d)	Closing balance	454,87	353,71

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

21 Category-wise NPAs (funded)

(Rs. lacs)

Non Performing Asset Category	March 31, 2007	March 31, 2006
Gross NPAs		
Sub-standard	375,94	292,14
Doubtful	105,75	86,61
Loss	176,07	130,14
As at March 31	657,76	508,89
Provisions		
Sub-standard	173,72	138,50
Doubtful	105,08	85,07
Loss	176,07	130,14
As at March 31	454,87	353,71
Net NPA	202,89	155,18

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22 Loans Restructured

(Rs. lacs)

Item	2006-2007	2005-2006
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation	9,42	65,61
Of which under CDR	9,42	63,78
(ii) Total amount of Standard assets subjected to restructuring, rescheduling, renegotiation	9,42	46,53
Of which under CDR	9,42	44,70
(iii) Total amount of Sub - Standard assets subjected to restructuring, rescheduling, renegotiation	-	-
Of which under CDR	-	-
(iv) Total amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation	-	19,08
Of which under CDR	-	19,08

23 Other Fixed Assets (including furniture and fixtures)

It includes amount capitalized on software having useful life of four years: Cost as on March 31, 2006: Rs. 204,95 lacs, Additions during the year Rs. 58,15 lacs, Accumulated depreciation: Rs. 166,75 lacs, Net value: Rs. 96,35 lacs.

24 Penalty

- During the previous year, based on a special scrutiny of certain customer accounts, RBI 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.
- During the year, SEBI, in the course of its investigations into the same subject matter, had observed that several DPs including HDFC Bank Ltd. had, prima facie, appeared to have grossly failed in adhering to the Know Your Client norms as laid down by SEBI and thereby facilitated opening of demat accounts in fictitious / benami names. Consequently SEBI passed an ex- parte interim order directing all the said DPs not to open fresh demat accounts till further directions. The Bank in its response submitted that the prescribed Know Your Client norms were followed by the Bank and the Bank had obtained all the prescribed documentation as prescribed by SEBI at the relevant points of time. Subsequently in November, 2006, SEBI issued directions that there is no need to continue the directions issued to HDFC Bank not to

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open fresh demat accounts. Simultaneously, however, SEBI also initiated Enquiry Proceedings against the Bank. The Bank has already submitted its response to the Enquiry Notice and is awaiting the response from SEBI. Meanwhile, an order of disgorgement was also passed by SEBI in November 2006 whereby HDFC Bank Ltd. was required to disgorge an amount of Rs. 1.64 crores. An appeal against the order was filed by the Bank with the Honorable Securities Appellate Tribunal. The Honorable Securities Appellate Tribunal has passed an interim order staying the operations of the disgorgement order.

- During the year, the National Securities Depository Limited (NSDL) imposed a penalty of Rs. 23 lacs due to incorrect Permanent Account No. (PAN) records maintained for certain depository clients.

25 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. (HDFC Ltd.)

Subsidiaries

HDFC Securities Limited (from September 28, 2005; Associate upto that date)

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.

HDFC Ventures Trustee Company Ltd.

Home Loan Services India Pvt. Ltd.

HDFC Property Ventures Ltd.

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Associates

Computer Age Management Services Private Ltd.

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Flexcel International Private Ltd.

Atlas Documentary Facilitators Company 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 summarized as follows:

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

In fiscal year 2006-07, the Bank paid Rs. 57 lacs (previous year: 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 (previous year: Rs. 2 lacs) to secure these leased properties.

For the fiscal year ended 2006-07, the Bank earned Rs. 27,80 lacs (previous year: 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, 2007, fees amounting to Rs. 3,68 lacs (previous year: Rs. 2,92 lacs) are receivable as fees for sourcing home loans. The Bank also enters into foreign exchange and derivative transactions with HDFC Limited in the normal course of business.

HDFC Securities Ltd (HSL)

On September 28, 2005, the Bank increased its stake in HSL from 29.5% to 55%. Consequently, HSL became a subsidiary of the Bank since that date. As of March 31, 2007, the book value of the Bank's investment in HSL was Rs. 20,01 lacs (March 31, 2006: Rs. 20,01 lacs).

In fiscal year 2006-07, the Bank earned Rs. 1,61 lacs (previous year: Rs. 3,38 lacs) from HSL towards services rendered. The Bank paid Rs. 14 lacs (previous year: Rs. 2 lacs) for sales assistance provided by HSL. In the fiscal year 2005-06, the Bank received Rs. 51 lacs as reimbursement of expenses incurred for HSL. An amount of Rs. 1,03 lacs (previous year: Rs. 2,27 lacs) was receivable from HSL as of March 31, 2007.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank had 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 was upto June 30, 2006. The

Rs. 10 lacs = Rs. 1 million

amount of investment outstanding as of March 31, 2007 was Rs. 162,86 lacs (previous year: Rs. 341,66 lacs). In fiscal year 2006-07, the Bank paid Rs. 2 lacs (previous year: Rs. 7 lacs) as professional fees and incurred an expense of 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. 18,69 lacs (previous year: Rs. 23,43 lacs) for distribution of units of mutual funds of HDFC AMC and for other services provided. As on March 31, 2007, commission amounting to Rs. 2,58 lacs (previous year: Rs. 2,28 lacs) is receivable from HDFC AMC.

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

In fiscal year 2006-07, the Bank contributed Rs. 4,95 lacs (previous year: Rs. 2,18 lacs) in respect of gratuity, superannuation and group insurance for the Bank's employees. In the same period, the Bank earned Rs. 112,09 lacs (previous year: Rs. 88,14 lacs) from HDFC Standard Life for sale of insurance policies and other services provided by the bank to its customers. As on March 31, 2007, commission amounting to Rs. 6,14 lacs (previous year: Rs. 2,92 lacs) is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2006-07, the Bank paid Rs. 1,13 lacs (previous year: Rs. 1,06 lacs) towards insurance premium. A deposit of Rs. 1 lac (previous year: Rs. 1 lac) has been kept with HDFC Chubb. The Bank earned commission of Rs. 2,05 lacs (previous year: Rs. 2,03 lacs) for sale of HDFC Chubb's insurance policies to the Bank's customers. As on March 31, 2007, an amount of Rs. 20 lacs (previous year: nil) is receivable from HDFC Chubb. Consequent to the expiry of the corporate agency license in October 2006, the agency with HDFC Chubb has been mutually terminated.

Atlas Documentary Facilitators Company Private Ltd (ADFC)

In fiscal year 2006-07, the Bank incurred a net expense of Rs. 96,49 lacs (previous year: Rs. 56,30 lacs) for back-office processing services provided by ADFC. Deposit of Rs. 4,10 lacs (previous year: Rs. 4,00 lacs) has been kept with ADFC for various services provided. As on March 31, 2007, an amount of Rs 10,41 lacs (previous year: Rs. 7,25 lacs) is payable to ADFC. As of March 31, 2007, the Bank has an equity investment of Rs. 2 lacs (previous year Rs. 2 lacs) in the company.

The Reserve Bank of India issued Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks vide circular DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006. Consequent to these guidelines, the Bank can use the services of ADFC as an outsourcing agent only if it is a subsidiary of the Bank. Recently, the board of directors of the Bank has approved subscribing to additional shares of ADFC to make it a subsidiary of the Bank. The Bank is in the process of seeking approval from the Reserve Bank of India in this regard. ADFC acquired 98.0% stake in HBL Global Private Ltd (HBL Global) on March 28, 2007, thereby making HBL Global a subsidiary of ADFC.

Flexcel International Private Ltd (Flexcel)

As on March 31, 2007, loan outstanding of Flexcel is Rs. 30 lacs (previous year: Rs. 5 lacs). Interest received during fiscal year 2006-2007 on loan outstanding is Rs. 3 lacs (previous year: Rs. 1 lac). As of March 31, 2007, the Bank has an equity investment of Rs. 1,53 lacs (previous year Rs. 1,53 lacs) in the company. During the fiscal year 2006-07, the Bank received Rs. Nil (previous year: Rs. 0.46 lacs) as dividend from Flexcel.

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HBL Global Private Ltd (HBL Global)

In fiscal year 2006-07, the Bank incurred a net expense of Rs. 134,37 lacs (previous year: Rs. 190,53 lacs) in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 9,00 lacs (previous year: Rs. 9,01 lacs) has been kept with HBL Global towards services provided by them. The Bank has received a deposit of Rs. 20 lacs (previous year : nil) to secure properties leased to HBL Global. As at March 31, 2007 an amount of Rs. 1,05 lacs (previous year Rs. 22,31 lacs) is outstanding as temporary advance paid in respect of services to be provided by HBL Global.

Managerial Remuneration

The Bank paid a total amount of Rs. 2,16 lacs (previous year: 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, 2007, the security deposit outstanding with Salisbury Investments was Rs. 3,50 lacs (previous year: Rs. 3,50 lacs). For the year ended March 31, 2007, the Bank paid rent of Rs. 43 lacs (previous year: Rs. 22 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 the capital of CAMS, Rs. 76 lacs (previous year: Rs. 76 lacs) in the capital of SolutionNET and Rs. 2,60 lacs (previous year: Rs. 2,60 lacs) in the capital of Softcell. During the fiscal year 2006-07, the Bank received Rs. 5,02 lacs (previous year: Rs. 57 lacs) as dividend from CAMS, Rs. 0.63 lacs (previous year: Rs. 0.42 lacs) as dividend from SolutionNet and Rs. 20 lacs (previous year: Nil) as dividend from Softcell.

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, 2007, the Bank paid CAMS Rs. 48 lacs (previous year: Rs.41 lacs) for mutual fund back office processing services. It paid Softcell Rs. 1,04 lacs (previous year: Rs. 84 lacs) and SolutionNET Rs. 29 lacs (previous year Rs. 53 lacs) for providing software related services. In the same period the Bank paid Softcell Rs. 9,52 lacs (previous year Rs. 7,44 lacs) and SolutionNET Rs. 1,87 lacs (previous year Rs. 1,35 lacs) towards purchase of fixed assets.

Rs. 10 lacs = Rs. 1 million

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26 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	2006-2007	2005-2006
1.	Segment Revenue		
	a) Retail Banking	7,764,88	5,173,84
	b) Wholesale Banking	5,094,46	2,853,38
	c) Treasury	710,45	773,89
	Total	13,569,79	8,801,11
	Less: Inter Segment Revenue	5,164,54	3,201,79
	Income from Operations	8,405,25	5,599,32
2.	Segment Results		
	a) Retail Banking	875,71	701,67
	b) Wholesale Banking	746,74	537,87
	c) Treasury	16,30	13,97
	Total Profit Before Tax	1,638,75	1,253,51
	Income Tax expense	(497,30)	(382,73)
	Total Result	1,141,45	870,78
3.	Capital Employed		
	Segment assets		
	a) Retail Banking	50,100,34	38,571,09
	b) Wholesale Banking	36,053,47	28,790,53
	c) Treasury	4,478,66	5,733,94
	d) Unallocated	603,14	410,83
	Total Assets	91,235,61	73,506,39
	Segment liabilities		
	a) Retail Banking	47,862,73	38,584,25
	b) Wholesale Banking	33,475,77	26,717,93
	c) Treasury	3,202,39	2,708,22
	d) Unallocated	261,57	196,46
	Total Liabilities	84,802,46	68,206,86

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(Rs. lacs)

Particulars		2006-2007	2005-2006
	Net Segment assets / (liabilities)		
a)	Retail Banking	**2,237,61**	(13,16)
b)	Wholesale Banking	**2,577,70**	2,072,60
c)	Treasury	**1,276,27**	3,025,72
d)	Unallocated	**341,57**	214,37
	Other Information		
4.	Capital Expenditure (including net CWIP)		
a)	Retail Banking	**209,13**	248,74
b)	Wholesale Banking	**64,02**	74,40
c)	Treasury	**40,18**	44,85
	Total	**313,33**	367,99
5.	Depreciation		
a)	Retail Banking	**174,62**	134,87
b)	Wholesale Banking	**32,45**	31,02
c)	Treasury	**12,53**	12,70
	Total	**219,60**	178,59

27 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 also 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.

Policies for hedging risk

All transactions undertaken by the Bank for trading purposes are classified under the trading book.

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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.

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 crystallization 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. lacs)

Sr. No	Particulars	Currency derivatives	Interest rate derivatives
1	Derivatives (notional principal amount)		
	a) Banking (including hedging)	9,632,68	12,922,14
	b) Trading	4,694,95	166,486,90
2	Marked to market positions (net)		
	a) Asset (+)	59,68	73,82
	b) Liability (-)	-	-
3	Credit exposure	634,12	2,595,17
4	Likely change of one percentage change in interest rate (100*PV01)		
	a) Banking (including hedging)	2,27	18,92
	b) Trading	-	16,13
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	2,27	55,79
	b) Trading	-	34,27
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	14	14,91
	b) Trading	-	5,22

Rs. 10 lacs = Rs. 1 million

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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, 2007	March 31, 2006
i.	The notional principal of swap agreements	174,645,68	117,198,80
ii.	Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	2,018,68	910,40
iii.	Concentration of credit risk arising from the swaps (with banks)	89%	86%
iv.	The fair value of the swap book	(25,24)	(64,08)

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

28 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, 2007	March 31, 2006
Opening provision for reward points	8,75	3,24
Provision for reward points made during the year	9,24	6,60
Utilisation/Write back of provision for reward points	(1,86)	(1,09)
Closing provision for reward points	16,13	8,75

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.

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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. The Bank expects the outcome of the appeals to be favorable based on decisions on similar issues in the previous years by the appellate authorities.
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 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.
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. d) Repo borrowings.

**Also refer Schedule 12 – Contingent liabilities*

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29 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 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 shared 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 as at March 31, 2007

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,36,01,700	503.18
Granted during the year	66,33,300	994.85
Exercised during the year	62,47,200	406.61
Forfeited / lapsed during the year	26,66,200	679.11
Options outstanding, end of year	1,13,21,600	803.10
Options Exercisable	16,90,000	-

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Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2006

	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	1,36,01,700	503.18
Options Exercisable	18,98,500	-

Following summarises information about stock options outstanding as of March 31, 2007

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options	Weighted average Exercise Price
Plan A	Rs. 225.43 to Rs.226.96	9,100	-	226.71
Plan B and C	Rs. 358.60 to Rs. 994.85	1,13,12,500	1.40	803.57

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 life of unvested options	Weighted average Exercise Price
Plan A	Rs. 131.33 to Rs.226.96	267,900	-	217.87
Plan B and C	Rs. 358.60 to Rs. 630.60	1,33,33,800	1.19	508.91

Rs. 10 lacs = Rs. 1 million

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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, 2007 are:

	March 31, 2007	March 31, 2006
Dividend yield	0.5%	0.7%
Expected volatility	31.75%	21.25%
Risk—free interest rate	7.8%-7.9%	6.1%-6.6%
Expected life of the option	1-5 yrs	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 and earnings per share would have been as per the proforma amounts indicated below:

(Rs. lacs)

	March 31, 2007	March 31, 2006
Net Profit (as reported)	1,141,45	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)	89,48	84,68
Net Profit: (pro forma)	1,051,97	786,10
	(Rs.)	(Rs.)
Basic earnings per share (as reported)	36.29	27.92
Basic earnings per share (pro forma)	33.44	25.20
Diluted earnings per share (as reported)	36.06	26.33
Diluted earnings per share (pro forma)	33.23	23.79

Rs. 10 lacs = Rs. 1 million

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30 Disclosure for customer complaints / unimplemented awards of Banking Ombudsman

Customer complaints

(a)	No. of complaints pending at the beginning of the year	4,003
(b)	No. of complaints received during the year	3,07,538
(c)	No. of complaints redressed during the year	3,06,809
(d)	No. of complaints pending at the end of the year	4,732

Unimplemented awards of Banking Ombudsmen

(a)	No. of unimplemented awards at the beginning of the year	0
(b)	No. of Awards passed by the Banking Ombudsmen during the year	15
(c)	No. of Awards implemented during the year	15
(d)	No. of unimplemented Awards at the end of the year	0

31 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 and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and conform with statutory provisions under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India from time to time, accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable and current 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

Classification

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

Rs. 10 lacs = Rs. 1 million

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called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Basis of classification:

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

Investments that the Bank intends to hold till maturity are classified under "Held to Maturity" category. 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 under "Available for Sale" category.

An investment is classified under "Held for Trading" category, "Available for Sale" category and "Held to Maturity" category 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.

Acquisition Cost:

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.

Valuation:

Investments classified under Available for Sale category and Held for Trading category are marked to market as per the RBI guidelines. Net depreciation, if any, in any of the six groups, is charged to the Profit and Loss account. The net appreciation, if any, in any of the six groups is not recognised except to the extent of depreciation already provided. The book value of individual securities is not changed after the valuation of investments.

Investments classified under Held for Maturity category 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.

Non-performing investments are identified and depreciation/provision is made thereon based on the Reserve Bank of India guidelines. The depreciation/provision is not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

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Repo and Reverse Repo Transactions:

In a repo transaction, the bank borrows monies against pledge of securities. The book value of the securities pledged is credited to the investment account. Borrowing costs on repo transactions are accounted for as interest expense. In respect of repo transactions outstanding at the balance sheet date, the difference between the sale price and book value, if the latter is lower than the former, is provided in the income statement.

In a reverse repo transaction, the bank lends monies against incoming pledge of securities. The securities purchased are debited to the investment account at the market price on the date of the transaction. Revenues thereon are accounted as interest income.

In respect of repo transactions under Liquidity Adjustment Facility with RBI (LAF), monies borrowed from RBI are credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse repo transactions under LAF, monies paid to RBI are debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

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 classified as secured or unseured pursuant to the Reserve Bank of India quidelines under reference DBOD NO. Dir. BC.33/13.03.00/2006-07 dated October 10, 2006.

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 wholesale and retail advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. The specific provision levels for retail loan non performing assets are also based on the nature of product and delinquency levels.

During the fiscal year 2006-07, the RBI issued guidelines on creation and utilisation of floating provisions vide its circular dated June 22, 2006 under reference no. DBOD.No.BP.BC.89/21.04.048/2005-06. Pursuant to this circular the Bank maintains general provision for standard assets, only at levels stipulated by RBI from time to time. Provisions made in excess of these regulatory levels or provisions which are not made with respect to specific non- performing assets are categorised as floating provisions. Creation of further floating provisions are considered by the Bank upto a level approved by the board of directors of the Bank. Floating provisions are not reversed by credit to Profit and Loss account and can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining Board approval and with prior permission of RBI. Hitherto general provision for standard assets were 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. Provision for standard assets and floating provision are 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 on the Reserve Bank of India guidelines. The sub-standard assets which are 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 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 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 securitised-out, the Bank provides liquidity and 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).

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 amortizes 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 recognized 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 Fixed assets and depreciation

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

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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.

For assets purchased and sold during the year, depreciation is being provided on pro rata basis by the Bank.

5 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 translated at the exchange rates notified by Foreign Exchange Dealers' Association of India at the balance sheet date and the resulting profit or loss is included in the Profit and Loss account.

Income and expenditure denominated in foreign currencies are accounted at the exchange rates prevailing on the dates of the transactions.

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 amortized as expense or income over the life of the contract.

Contingent Liabilities for guarantees, letters of credit, acceptances and endorsements are reported at the rates prevailing on the Balance Sheet date.

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6 Lease accounting

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.

7 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 as at March 31.

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 an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Bank contributes an amount (currently 8.33% of the lower of Rs. 6,500 or employee's basic salary) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. 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 employees.

8 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.

AS AT 31 MARCH, 2007

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.

Profit on sale of investments under Held to Maturity category is first taken to the Profit and Loss account and thereafter is appropriated to "Capital Reserve".

9 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.

10 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.

11 Income tax

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 realization 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.

12 Derivative Financial Instruments

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 recognized 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.

AS AT 31 MARCH, 2007

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.

13 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.

14 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 earned on retail loans, net of commission (net of subvention received) paid to sales agents, interest on card receivables, gains / loans from securitization 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.

AS AT 31 MARCH, 2007

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.

15 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.

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.

AS AT 31 MARCH, 2007

16 Bullion

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The wholesale consignment imports are on a back to back basis and are priced to the customer based on the price quoted by the supplier. The Bank earns a fee on the wholesale bullion transactions. The fee is classified under commission income. On the retail front, the Bank sells the precious metal bars through its branch network after adding a markup on an estimated purchase price. The Bank consolidates the sales and prices the bullion with the supplier. The gain on sale is classified under commission income.

The Bank also borrows and lends gold which is treated as borrowing or as lending respectively with the interest paid/received classified as interest expense/income.

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
Executive Vice President
(Legal) & Company Secretary

Keki M. Mistry
Vineet Jain
Ashim Samanta
Renu Karnad
Arvind Pande
C M Vasudev
Gautam Divan
Dr. Pandit Palande
Directors

Mumbai, 24 April, 2007

Statement pursuant to Section 212 of the Companies Act, 1956, relating to subsidiary company

In terms of the approval u/s 212(8) of the Companies Act, 1956 granted by the Ministry of Company Affairs vide its letter no. 47/346/2006-CL-III dated January 8, 2007.

(As on/for the year ended March 31, 2007)	Rs. lacs
Name of the subsidiary	**HDFC Securities Ltd.**
Capital	15,00
Reserves and Surplus	48,59
Total Assets (Fixed Assets + Investments + Current Assets + Deferred Tax Assets)	109,04
Total Liabilities (Debts + Current Laibilities + Deferred Tax Liability)	45,45
Investments	-
Total Income	67,04
Profit/(Loss) Before Taxation	11,49
Provision for Taxation	4,26
Profit/(Loss) After Taxation	7,23
Proposed Dividend and Tax (including cess) thereon	-

AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF 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 March 31, 2007 as stipulated in Clause 49 of the Listing Agreement of the Bank with the 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 Company 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 above mentioned Listing Agreement.

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

For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Membership No : 30823

Place : Mumbai
Date : May 17, 2007

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 recognised 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 has a strength of 9 Directors as on March 31, 2007. All Directors other than Mr Aditya Puri are non-executive directors. The Bank has four independent directors and five non-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. Jagdish Capoor, Mr. Aditya Puri, Mr. Keki Mistry, Mrs. Renu Karnad and Mr. Vineet Jain are non-independent Directors on the Board.
- Mr. Arvind Pande, Mr. Ashim Samanta, Mr. Gautam Divan and Mr. C. M. Vasudev are independent directors on the Board.
- Mr. Keki Mistry and Mrs. Renu Karnad represent HDFC Limited on the Board of the Bank.
- Mr. Vineet Jain is nominated by the Bennett, Coleman Group on the Board of the Bank.
- 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.

COMPOSITION OF THE BOARD OF DIRECTORS

Composition of the Board of Directors of the Bank as on March 31, 2007 is as under:

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 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 Enterprises Limited. He is chairman of Shareholders' Committee of Bombay Stock Exchange Limited.

Mr. Capoor does not hold equity shares in the Bank as on March 31, 2007.

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. Aditya Puri is a member of SAMEA (South Asia, Middle East and Africa) Board of Master Card International. Mr. Aditya Puri has been the Managing Director of the Bank since September 1994. He has about 33 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 3,37,953 equity shares in the Bank as on March 31, 2007.

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. He is also a Director on the Board of HDFC Developers Limited, HDFC Trustee Company Limited, HDFC Standard Life Insurance Company Limited, HDFC Chubb General Insurance Company Limited, Insfrastructure Leasing & Financial Services Limited, Sun Pharmaceutical Industries Limited, The Great Eastern Shipping Company Limited, NexGen Publishing Limited, Intelenet Global Services Private Limited and India Value Fund Advisors Private Limited.

In Housing Development Finance Corporation Limited, Mr. Mistry is member of Investors Grievance Committee. In HDFC Standard Life Insurance Company Limited, he is member of Audit Committee. In HDFC Chubb General Insurance Company Limited, he is Chairman of Audit Committee. In HDFC Trustee Company Limited, he is member of Audit Committee, Customer Service Committee and Risk Management Committee. In Gruh Finance Limited, he is member of Audit Committee, Remuneration Committee and Investment Committee. In Great Eastern Shipping Company Limited, he is chairman of Audit Committee. In Infrastructure Leasing and Financial Services Limited, he is member of Audit Committee and Share Transfer Committee. In Sun Pharmaceutical Industries Limited, he is chairman of Audit Committee.

Mr. Mistry holds 58,001 equity shares in the Bank as on March 31, 2007.

Mrs. Renu Karnad

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

Mrs. Karnad is Director of Credit Information Bureau (India) Limited, GRUH Finance Limited, HDFC Limited, HDFC Asset Management Company Limited, HDFC Chubb General Insurance Company

Limited, HDFC Property Ventures Limited, HDFC Realty Limited, HDFC Standard Life Insurance Company Limited, HDFC Venture Capital Limited, ICI India Limited, Indraprastha Medical Corporation Limited, Sparsh BPO Services Limited, Home Loan Services India Private Limited, Intelenet Global Services Private Limited, Feedback Ventures Private Limited, Mother Diary Fruits & Vegetables Private Limited, Ascendas Pte. Limited, Singapore, Egyptian Housing Finance Company, SAE.

In Credit Information Bureau (India) Limited, she is chairperson of Audit Committee and member of Remuneration Committee. In GRUH Finance Limited, she is member of Investment Committee, Compensation Committee, Compensation-ESOS Committee and Committee of Directors. In HDFC Asset Management Company Limited, she is member of Customer Service Committee and Risk Management Committee. In ICI (India) Limited, she is chairperson of Remuneration Committee. In Sparsh BPO Services Limited, she is member of Remuneration Committee. In Intelenet Global Services Private Limited, she is member of Audit Committee. In Mother Dairy Fruits & Vegetables Private Limited, she is chairperson of Audit Committee.

Mrs. Karnad is Chairperson of the Audit Committee of ICI India Limited and Credit Information Bureau (India) Limited.

Mrs. Karnad holds 58,924 equity shares in the Bank as on March 31, 2007.

Mr. Arvind Pande

Mr. Arvind Pande holds a Bachelor of Science degree from Allahabad University and a B.A. (Hons.) and M.A. (Economics) degree 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 Limited 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 Sandhar Locking Devices Limited, Visa Steel Limited, Era Construction (India) Limited and Burnpur Cement Limited. He is member of the Audit Committee of Visa Steel Limited.

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

Mr. Pande does not hold equity shares in the Bank as on March 31, 2007.

Mr. Vineet Jain

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

Mr. Jain is Managing Director of Bennett, Coleman & Co. Ltd. and Director in Bennett, Coleman & Co Ltd., Times Infotainment Media Ltd, Entertainment Network (India) Limited, Optimal Media Solutions Limited, The Press Trust of India Ltd, Times Internet Ltd, Times Global Broadcasting Company Limited, Bharat Nidhi Limited, Times Journal India Private Limited, Worldwide Media Pvt. Ltd.(formerly Magz International 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 on the Board of the Bank.

Mr. Jain is the Chairman of Investments and Loans Committee and member of Share Transfer Committee of Bennett, Coleman & Co. Ltd. He is member of the "Committee of Board" of The Press Trust of India Ltd.

Mr. Jain holds 2,60,869 equity shares in the Bank as on March 31, 2007.

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 27 years. He has vast experience in the field of bulk drugs and pharmaceutical formulations. He is a Director of Samanta Organics Private Limited, Nautilus Trading & Leasing Private Limited, Ashish Rang Udyog Private Limited, Samanta Movies Private Limited and Shakti Cine Studios Private Limited. 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 is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Samanta holds 600 equity shares in the Bank as on March 31, 2007.

Mr. C. M. Vasudev

Mr. C. M. Vasudev holds a Masters Degree in Economics and Physics. He joined the Indian Administrative Services in 1966. Mr. Vasudev has worked as Executive Director of World Bank representing India, Bangladesh, Sri Lanka and Bhutan. Mr. Vasudev has extensive experience of working at policy making levels in the financial sector and was responsible for laying down policies and oversight of management. He chaired World Bank's committee on development effectiveness with responsibility of ensuring effectiveness of World Bank's operations. Mr. Vasudev has also worked as Secretary, Ministry of Finance and has undertaken various assignments viz. Secretary, Department of Economic Affairs, Department of Expenditure, Department of Banking and was Additional Secretary Budget with responsibility for framing budget of Government and monitoring its implementation. He has also worked as Joint Secretary of Ministry of Commerce with responsibility for state trading, trade policy including interface with WTO.

Mr. Vasudev is Director on the Board of Directors of Bombay Stock Exchange Limited, Central Depository Services Limited, ICRA Management Consultancy Services Limited, NOIDA Power Company Limited and Noesis Consultancy Services Pvt. Ltd. He is a member of Audit Committee and Remuneration Committee of Bombay Stock Exchange Limited, member of Audit Committee and chairman of Remuneration Committee of ICRA Management Consultancy Services Limited and member of Audit Committee of NOIDA Power Company Limited.

Mr. Vasudev does not hold equity shares in the Bank as on March 31, 2007.

Mr. Gautam Divan

Mr. Gautam Divan holds a Bachelors degree in Commerce and is a Fellow Member of the Institute of Chartered Accountants of India. Mr. Divan is a partner in Rahul Gautam Divan & Associates, Chartered Accountants. Mr. Divan has wide experience in financial and taxation planning of individuals and limited companies and auditing accounts of large public limited companies and nationalized Banks. Mr. Divan enjoys substantial experience in structuring overseas investments to and from India.

Mr. Divan is on the Board of PI Industries Limited, Baltic Consultancy and Services Private Limited, Bell Ceramics Limited, Chandanbhoy and Jassoobhoy Consultants Private Limited, Serendib Investments Private Limited, HDFC Standard Life Insurance Company Limited and Ascent Hotels Private Limited. He is chairman of Audit Committee and member of Remuneration Committee and Shareholders/Investors Grievance Committee of PI Industries Limited. He is chairman of both the Audit Committee and Remuneration Committee of Bell Ceramics Limited. He is the chairman of Audit Committee of HDFC Life Insurance Company Limited.

Mr. Divan does not hold equity shares in the Bank as on March 31, 2007.

RECENT APPOINTMENT

Dr. Pandit Palande

Dr. Pandit Palande has been appointed as additional director on April 24, 2007 pursuant to Section 260 of the Companies Act, 1956.

Dr. Palande has Ph.D. degree in Business Administration and completed an Advanced Course in Management from Oxford University and the Warwick University in UK. Dr. Palande has worked as a director of school of Commerce and Management for 15 years in Yashwantrao Chavan Maharashtra Open University (YCMOU). At present, Dr. Palande is Pro-Vice Chancellor of YCMOU.

Dr. Palande has extensive experience of working in the fields of business administration, management and agriculture. Under the guidance of Dr. Palande, YCMOU has become one of the green universities in India. As a project Director of Indian Space Research Organisation (ISRO) GAP-3 of YCMOU, Dr. Palande has been serving the agriculture community on a large scale through satellite.

Dr. Palande is neither a director on the Board of any other company nor a member and chairman of any committee of the Board of Directors.

Dr. Palande does not hold equity shares in the Bank on March 31, 2007 as well as on the date of his appointment.

BOARD MEETINGS

During the year under review, eight Board Meetings were held on April 17, 2006; May 30, 2006; July 14, 2006; August 29, 2006; October 17, 2006; December 5, 2006; January 11, 2007 and March 29, 2007.

Details of attendance at the Bank's Board Meetings held during the year under review, 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	8	4	4	1
Mr. Aditya Puri	8	Nil	Nil	Nil
Mr. Keki Mistry	7	10	8	3
Mr. Vineet Jain	2	8	Nil	Nil
Mrs. Renu Karnad	7	12	3	2
Mr. Arvind Pande	7	4	1	Nil
Mr. Ashim Samanta	8	Nil	Nil	Nil
Mr. C. M. Vasudev*	4	4	5	1
Mr. Gautam Divan*	4	3	4	3
Mr. Bobby Parikh**	4	N.A.	N.A.	N.A.
Dr. V. R. Gadwal***	7	Nil	Nil	Nil
Dr. Pandit Palande****	0	Nil	Nil	Nil

* *Appointed as Additional Director(s) w.e.f. October 17, 2006.*

** *Resigned w.e.f. October 17, 2006.*

*** *Relinquished Office as Director w.e.f. March 14, 2007.*

**** *Appointed as Additional Director w.e.f. April 24, 2007.*

Note : As per Clause-49, the memberships / chairmanships of directors in Audit Committee and Shareholders' / Investors' Committee have been considered.

ATTENDANCE AT LAST AGM

All Directors of the Bank other than Mr. Keki Mistry and Mr. Vineet Jain attended the last Annual General Meeting held on May 30, 2006.

REMUNERATION OF DIRECTORS

Mr. Aditya Puri has been re-appointed as Managing Director of the Bank for three years with effect from April 1, 2007. The details of the remuneration paid to the Managing Director during the year 2006-07 are as under:

Break up of remuneration	Amount Paid (Rs.)
Basic	90,00,000
Allowances	13,83,247
Performance Bonus (for FY 2005-06)	51,46,020
Provident Fund	10,80,000
Superannuation	13,50,000

The Bank provides for gratuity in the form of lump-sum payment on retirement or 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. 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.

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 for attending meetings of Board or its Committees.

During the year, no stock options have been granted to any of the Directors of the Bank. During the year, Mr. Aditya Puri has exercised entire 150000 stock options, which were granted to him in the year 2003-04.

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.

The criteria for making payment to non-executive directors is the number of Board/Committee meetings attended by the non-executive directors.

Sitting fees for attending each meeting of the Board and its various Committees, is Rs. 20,000/- except for Investor Grievance (Share) Committee. At the Board Meeting held on October 17, 2006, sitting fees for attending each meeting of the Investor Grievance (Share) Committee has been increased from Rs. 5,000/- to Rs. 10,000/-.

During the year under review, stock options were granted to certain confirmed employees of the Bank pursuant to SEBI (Employes Stock Options Scheme and Employees Stock Purchase Scheme) Guidelines, 1999. None of the Directors were granted any stock options.

DETAILS OF REMUNERATION / SITTING FEES PAID TO DIRECTORS

The Bank does not pay any remuneration 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	(Rs.)
Mr. Jagdish Capoor	420000
Mr. Keki Mistry	320000
Mr. Vineet Jain	40000
Mrs. Renu Karnad	300000
Mr. Arvind Pande	500000
Mr. Ashim Samanta	500000
Mr. C. M. Vasudev*	200000
Mr. Gautam Divan*	260000
Mr. Bobby Parikh**	280000
Dr. V. R. Gadwal***	520000

* *Appointed as Additional Director(s) w.e.f. October 17, 2006.*

** *Resigned w.e.f. October 17, 2006.*

*** *Relinquished Office as Director w.e.f. March 14, 2007.*

COMPOSITION OF COMMITTEES OF DIRECTORS AND 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. Various committees of the Baord were reconstituted during the year due to resignation of Mr. Bobby Parikh and induction of additional directors namely; Mr. C. M. Vasudev and Mr. Gautam Divan. The Board's Committees are as follows:

Audit and Compliance Committee

The Audit and Compliance Committee of the Bank is chaired by Mr. Arvind Pande. The other members of the Committee are Mr. Ashim Samanta, Mr. C. M. Vasudev and Mr Gautam Divan. Mr. Bobby Parikh and Dr. V. R. Gadwal ceased to be members of the Committee w. e. f. October 17, 2006 and March 14, 2007 respectively. Mr. C. M. Vasudev and Mr. Gautam Divan were inducted as members of the Committee w.e.f. October 17, 2006. All the members of the Committee are independent directors and Mr. Gautam Divan is a financial expert.

The Committee met 9 (nine) times during the year.

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 interalia 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 statements 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; and

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 United States regulatory standards as the Bank's securities are also listed on New York Stock Exchange.

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. Ashim Samanta and Mr. Gautam Divan are the members of the Committee. Mr. Bobby Parikh and Dr. V. R. Gadwal ceased to be members of the Committee w. e. f. October 17, 2006 and March 14, 2007 respectively. The Committee is chaired by Mr. Jagdish Capoor. All the members of the Committee other than Mr. Capoor are independent directors.

The Committee met 3 (three) times during the year.

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, Mr. Aditya Puri and Mr Gautam Divan. Mr. Gautam Divan was inducted as member of the Committee w.e.f. October 17, 2006.

The Committee is chaired by Mr. Capoor and met 13 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, 2007, 54 instruments of transfer representing 4571 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 206 complaints from shareholders, which have been attended to.

Risk Monitoring Committee

The committee has been formed as per the guidelines of Reserve Bank of India on the Asset Liability Management / Risk Management Systems. The 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 Mrs. Renu Karnad, Mr. Aditya Puri and Mr. C. M. Vasudev and is chaired by Mrs. Renu Karnad. Mr. Bobby Parikh ceased to be member of the Committee w.e.f. October 17, 2006 and Mrs. Renu Karnad was inducted as Chairperson of the Committee on October 17, 2006.

The Committee met 6 (six) 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. Keki Mistry and Mr Gautam Divan. The Committee is chaired by Mr. Capoor.

The Committee met 2 (two) 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 Mr. Aditya Puri, Mr. Ashim Samanta and Mrs. Renu Karnad. Dr. V. R. Gadwal ceased to be member and chairman of the Committee w. e. f. March 14, 2007. The Committee is chaired by Mrs. Renu Karnad.

The Committee met 3 (three) 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 scrutinises 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, 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 and Mr. Ashim Samanta. Dr. V. R. Gadwal ceased to be member of the committee w.e.f. March 14, 2007. All the members of the Committee are independent directors.

The Committee met 3 (three) times 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 and Mr. Arvind Pande. Mr. Bobby Parikh has ceased to be member of the Committee w.e.f. 17th October, 2006.

The Committee is chaired by Mr. Capoor and met 3 (three) times during the year.

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 and Mr. Arvind Pande. Dr. Venkat Rao Gadwal ceased to be member of the Committee w.e.f. March 14, 2007.

The Committee met 4 (four) times during the year.

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

AUDIT & COMPLIANCE COMMITTEE

Total 9 meetings held

Name	No. of Meetings Attended
Mr. Arvind Pande	8
Mr. Ashim Samanta	9
Mr. C. M. Vasudev[1]	4
Mr. Gautam Divan[2]	4
Mr. Bobby Parikh[3]	4
Dr. V. R. Gadwal[4]	8

RISK MONITORING COMMITTEE

Total 6 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	6
Mrs. Renu Karnad	6
Mr. Bobby Parikh[3]	3
Mr. C. M. Vasudev[1]	2

COMPENSATION COMMITTEE

Total 3 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	3
Dr. V. R. Gadwal[4]	3
Mr. Bobby Parikh[3]	1
Mr. Ashim Samanta[5]	2
Mr. Gautam Divan[2]	2

CREDIT APPROVAL COMMITTEE

Total 2 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	2
Mr. Keki Mistry	2
Mr. Bobby Parikh[3]	1
Mr. Aditya Puri	2
Mr. Gautam Divan[2]	0

INVESTOR GRIEVANCE (SHARE) COMMITTEE

Total 13 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	13
Mr. Aditya Puri	13
Mr. Gautam Divan[2]	6

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

PREMISES COMMITTEE

Total 3 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	3
Dr. V. R. Gadwal[4]	2
Mr. Ashim Samanta	3
Mrs. Renu Karnad	2

CUSTOMER SERVICE COMMITTEE

Total 4 meetings held

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

NOMINATION COMMITTEE

Total 3 meetings held

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

FRAUD MONITORING COMMITTEE

Total 3 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	3
Mr. Aditya Puri	3
Mr. Keki Mistry	3
Mr. Arvind Pande	3
Mr. Bobby Parikh[3]	1

NOTE

1. Mr. C. M. Vasudev has been inducted as member w.e.f. October 17, 2006.

2. Mr. Gautam Divan has been inducted as member w.e.f. October 17, 2006.

3. Mr. Bobby Parikh ceased to be director w.e.f. October 17, 2006.

4. Dr. V. R. Gadwal relinquished his office as director w.e.f. March 14, 2007.

5. Mr. Ashim Samanta has been inducted as member w.e.f. October 17, 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 and 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.

The rights mentioned above are prescribed in the Companies Act, 1956 and Banking Regulation Act, 1949, whereever applicable, and should to be followed only after careful reading of the relevant sections. These rights are not necessarily absolute.

PROMOTERS' RIGHTS

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

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 Bank's 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. At present, the two directors so nominated by HDFC Limited are the Chairman and the Managing Director of the Bank.

For detailed provisions, the Memorandum and Articles of Association of the Bank may be referred, which are available on the website of the Bank i.e. www.hdfcbank.com.

GENERAL BODY MEETINGS

(During previous three financial years)

Meeting	Date and Time	Venue	Special Resolutions passed
12th AGM	May 30, 2006 at 3.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	Re-appointment of Mr. Aditya Puri as Managing Director on revised terms and conditions.
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	November 30, 2004 at 11.00 a.m..	Amar Gian Grover Auditorium, Lala 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 and conditions. iii) Delisting of equity shares from the Stock Exchange, Ahmedabad.

No resolution was passed with the use of postal ballots.

KEY SHAREHOLDERS' RIGHTS PURSUANT TO AGREEMENTS

HDFC Limited, Bennett, Coleman & Co. Ltd. and its group companies (the promoters of erstwhile Times Bank Limited) 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, 2007, the Bennett Coleman Group holds 5.15% of the share capital of the Bank and Mr. Vineet Jain represents the group on the Board of the Bank.

DISCLOSURES

- During the year, the Bank has not entered into any materially significant transactions, 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 Note No.25 forming part of 'Notes to Accounts'.
- During the year, the Reserve Bank of India, Securities & Exchange Board of India and National Securities Depository Limited have

levied penalties on the Bank details of which are given in Note No.24 of the Notes to Accounts. Other than this, no penalties or strictures were imposed on the Bank by any of the Stock Exchanges or any statutory authority, on any matter relating to capital markets, during the last three years.

- The Bank follows Accounting Standards issued by the Institute of Chartered Accountants of India and in the preparation of financial statements, the Bank has not adopted a treatment different from that prescribed in any Accounting Standard.
- The Bank has adopted the Whistle Blower Policy. The Audit and Compliance Committee of the Bank reviews the functioning of the Whistle Blower mechanism. None of the personnel has been denied access to the Audit and Complaince Committee.

COMPLIANCE WITH MANDATORY REQUIREMENTS

The Bank has complied with all the mandatory requirements of the Code of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India. The Bank has also complied with the requirements of amended Clause 49 after the amendment came into force.

COMPLIANCE WITH NON-MANDATORY REQUIREMENTS

a) Board of Directors

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 8 (eight) years.

b) 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 majority of independent directors. Mr. Jagdish Capoor is the Chairman of the Committee and is not an independent Director.

c) Shareholder's Rights

The Bank publishes its results on its website at www.hdfcbank.com which is accessible to the public at large. Besides, the same are 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.

d) Audit Qualifications

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

e) Training of Board Members

Bank's Board of Directors consists of professionals with expertise in their respective fields and industry. They endeavor 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 the business environment.

f) 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 Directors being evaluated.

g) 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.

The Audit and Compliance Committee of the Bank has reviewed the functioning of the Whistle Blower mechanism.

CODE OF CONDUCT

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.

SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT MARCH 31, 2007

Sr. No.	Name of the shareholder	No. of shares	% to share capital
1	J P Morgan Chase Bank (Depository for ADS)	60,338,247	18.89
2	Housing Development Finance Corporation Limited	38,860,000	12.17
3	HDFC Investments Limited	30,000,000	9.39
4	DBS Bank Ltd	11,620,886	3.64
5	Crown Capital Limited	8,983,076	2.81
6	Bennett Coleman & Co Ltd	7,336,886	2.30
7	Life Insurance Corporation of India	6,479,162	2.03
8	The Growth Fund of America, Inc.	6,347,000	1.99
9	CLSA Merchant Bankers Limited A/c CLSA (Mauritius) Limited	5,586,971	1.75
10	ICICI Prudential Life Insurance Company Ltd	5,405,800	1.69
11	JP Morgan Asset Management (Europe) S.A.R.L. A/c Flagship Indian Investment Company (Mauritius) Limited	4,743,636	1.49
12	BMF - Bank Bees - Investment A/c	4,478,264	1.40
13	Indocean Financial Holding Limited	3,982,752	1.25
14	Europacific Growth Fund	3,936,258	1.23
15	Smallcap World Fund, Inc.	3,231,000	1.01

DISTRIBUTION OF SHAREHOLDING AS AT MARCH 31, 2007

No. of equity shares	Folios		Shares	
	Numbers	% to Total Holders	Numbers	% to Total Shares
Upto 00500	179020	96.09	20561114	6.44
00501 to 01000	3928	2.11	2973304	0.93
01001 to 02000	1338	0.72	1948020	0.61
02001 to 03000	541	0.29	1373529	0.43
03001 to 04000	265	0.14	955242	0.30
04001 to 05000	207	0.11	942519	0.30
05001 to 10000	390	0.21	2813355	0.88
10001 to 50000	408	0.22	8542107	2.67
50001 and above	216	0.12	279280418	87.44
Total	186313	100.00	319389608	100.00

- *1,26,260 folios comprising of 29,13,74,825 shares forming 91.23% of the share capital are in demat form.*
- *60,053 folios comprising of 2,80,14,783 shares forming 8.77% of the share capital are in physical form.*

CATEGORIES OF SHAREHOLDERS

SHAREHOLDING PATTERN AS AT MARCH 31, 2007

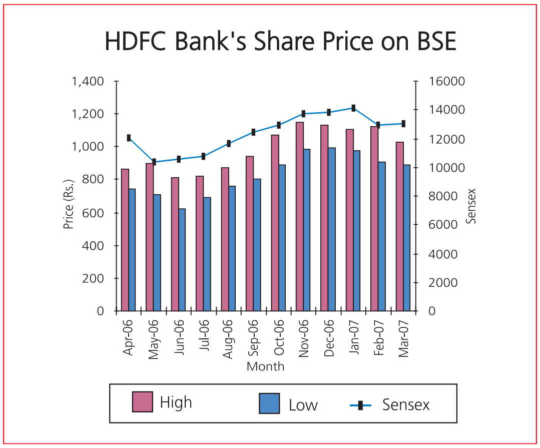
Sr. No.	Category	No. of Shares	Total Shares	% to Capital
A	Promoters			
	i Housing Development Finance Corporation Limited	*38860000*		
	ii HDFC Investments Limited	*30000000*		
	iii HDFC Holdings Limited	*1000*	68861000	21.56
B	Foreign Institutional Investors			
	i DBS Bank Ltd	*11620886*		
	ii Crown Capital Limited	*8983076*		
	iii The Growth Fund of America,Inc	*6347000*		
	iv CLSA Merchant Bankers Ltd. A/c CLSA (Mauritius) Ltd.	*5586971*		
	v JP Morgan Asset Management (Europe) S.A.R.L. A/c Flagship Indian Investment Company (Mauritius) Ltd.	*4743636*		
	vi Europacific Growth Fund	*3936258*		
	vii Smallcap World Fund, Inc	*3231000*		
	viii Others (less then 1%)	*53704123*	98152950	30.73
C	J P Morgan Chase Bank *(as ADS Depository)*		60338247	18.89
D	Bennett Coleman Group			
	i Bennett, Coleman and Co. Limited	*8849929*		
	ii Dharmayug Investments Limited	*2486956*		
	iii Satyam Properties & Finance Ltd	*1739130*		
	iv Vardhaman Publishers Limited	*1739130*		
	v Bharat Nidhi Limited	*573913*		
	vi PNB Finance & Industries Ltd	*431743*		
	vii Samir Jain	*260869*		
	viii Times Publishing House Limited	*75956*		
	ix Rajdhani Printers Ltd	*34782*	16192408	5.07
E	Life Insurance Corporation of India		6479162	2.03
F	Other Bodies Corporate		9369461	2.93
G	Banks, Mutual Funds and Financial Institutions		12519022	3.92
H	Indocean Financial Holding Limited		3982752	1.25
I	GIC & its subsidiaries		1377557	0.43
J	Overseas Corporate Bodies		1255330	0.39
K	Directors *		716347	0.22
L	Non Resident Indians		633576	0.20
M	Others		39511796	12.38
	Total		319389608	100.00

* *Includes 260869 shares (representing 0.08% of the share capital) held by Mr. Vineet Jain, representative of Bennett, Coleman Group on the Board of the Bank.*

SHARE PRICE / CHART

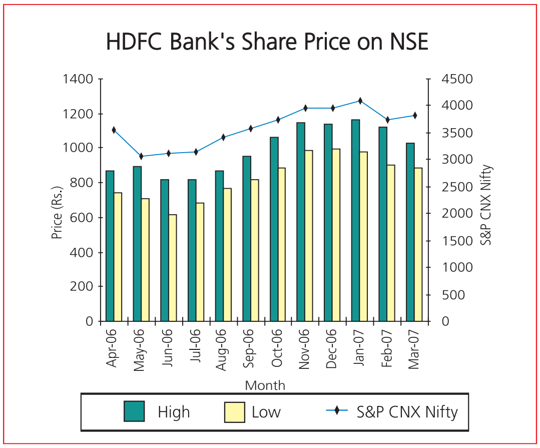
The monthly high and low quotation and the volume of Shares traded on Bombay Stock Exchange Ltd (BSE) during FY 2006-07

Month	High (Rs.)	Low (Rs.)	Sensex (Closing)
Apr-06	865	741	12043
May-06	898	710	10399
Jun-06	811	620	10609
Jul-06	819	693	10744
Aug-06	870	764	11699
Sep-06	945	805	12454
Oct-06	1,075	888	12962
Nov-06	1,150	981	13696
Dec-06	1,135	995	13787
Jan-07	1,105	981	14091
Feb-07	1,124	904	12938
Mar-07	1,030	890	13072



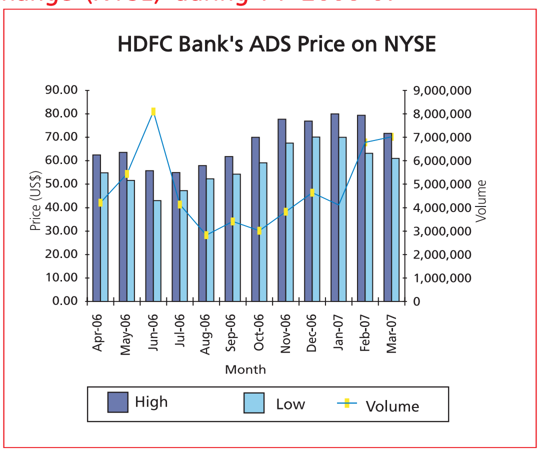
The monthly high and low quotation and the volume of Shares traded on National Stock Exchange of India Ltd (NSE) during FY 2006-07

Month	High (Rs.)	Low (Rs.)	S&P CNX NIFTY (Closing)
Apr-06	865	741	3558
May-06	895	710	3071
Jun-06	815	615	3128
Jul-06	816	680	3143
Aug-06	870	764	3414
Sep-06	955	815	3588
Oct-06	1065	886	3744
Nov-06	1150	985	3955
Dec-06	1135	991	3966
Jan-07	1160	981	4083
Feb-07	1125	900	3745
Mar-07	1032	884	3822



The monthly high and low quotation and the volume of American Depository Shares (ADS) traded on New York Stock Exchange (NYSE) during FY 2006-07

Month	High (US$)	Low (US$)	Monthly Volume
Apr-06	62.47	54.88	4,216,800
May-06	63.60	51.64	5,443,800
Jun-06	55.77	43.04	8,104,500
Jul-06	54.98	47.26	4,130,500
Aug-06	58.00	52.36	2,830,200
Sep-06	61.82	54.30	3,408,400
Oct-06	70.07	59.14	3,020,700
Nov-06	77.70	67.57	3,830,300
Dec-06	76.99	70.10	4,635,700
Jan-07	80.00	70.01	4,116,300
Feb-07	79.44	63.16	6,788,900
Mar-07	71.75	60.99	7,017,600



FINANCIAL CALENDAR

FINANCIAL YEAR *April 1, 2007 to March 31, 2008*

Board Meeting for consideration of accounts and recommendation of dividend	April 24, 2007
Posting of Annual Report	May 21, 2007 to May 22, 2007
Book closure dates	May 19, 2007 to June 12, 2007 (both days inclusive)
Last date of receipt of proxy forms	June 14, 2007 (upto 11.00 a.m.)
Date, Time and Venue of 13th AGM	June 16, 2007 11.00 a.m. at Nehru Centre Auditorium, Discovery of India Building, Worli, Mumbai 400 018
Dividend Declaration Date	June 16, 2007
Probable date of dispatch of warrants	June 18, 2007 onwards
Board meetings for considering unaudited results for first 3 quarters of FY 2007-08	By 20th day of the succeeding quarter.

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 regularly 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.

LISTING

The equity shares of the Bank are listed at the following Stock Exchanges and the annual fees for 2006-07 have been paid:

Sr. No	Name and 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 Limited Exchange Plaza, 5th Floor, Bandra Kurla Complex, Bandra, 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)*

INTERNATIONAL LISTING

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 Depoitory 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 400 051.*

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, Datamatics Financial Services Ltd and approved by the Investors' Grievance (Share) Committee of the Bank or authorised officials of the Bank. The share transfers are processed within a period of 15 days from the date of receipt of the transfer documents by Datamatics Financial Services Ltd.

INVESTOR HELPDESK

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

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

Mr. Ravi Bendre

Datamatics Financial Services Ltd

Unit: HDFC Bank, Plot No. A. 16 & 17,
Part B Crosslane, MIDC, Marol,
Andheri (East), Mumbai 400093

Tel: 66712151-56 (Extn Nos. 207, 264 and 220)
Fax: 28213404; E-mail: hdinvestors@dfssl.com
Counter Timing: 10 A M to 4 P M
(Monday to Friday except public holidays)

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.

Investors Helpdesk Timings 10.30 a.m to 3.30 p m between Mon. to Fri. (except on Bank holidays)
Telephone : 2498 8484 , 2496 1616
Extn: 3463 & 3476 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

Executive Vice President (Legal) & Company Secretary
Telephone: 2498 8484 Extn: 3473

BANKING CUSTOMER HELPDESK

In the event of any queries/grievances, banking customers can directly approach the Branch Manager or can call/write to the Bank using the following contact details.

Call at: 1800 22 40 60 (Toll-free number accessible through BSNL / MTNL landline)
Timings : Mon to Fri - 8.00 a.m. to 8.00 p.m.
Sat. & Sun.- 8.00 a.m. to 4.00 p.m.

Write to:

Grievance Redressal Cell, HDFC Bank Ltd,
Old Bldg; "C" Wing' 3rd floor
26-A Narayan Properties, Chandivali Farm Rd,
Off Saki Vihar Road, Chandivali,
Andheri (East), Mumbai 400 072.

Email : customer_service@hdfcbank.com

For downloading the complaint form, one can visit the domain(s) namely; "Grievance Redressal" and subsequently "Fill up the Complaint Form" available at the following website link:

http://www.hdfcbank.com/common/customer_center.htm

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.

On behalf of the Board of Directors

Jagdish Capoor
Chairman

Mumbai,
May 17, 2007

HDFC BANK
We understand your world

Key Comparative Between U.S. and Indian Regulations

Corporate governance rules for Indian listed companies are set forth in the Clause 49 of the Listing Agreement entered into by the companies with the Indian Stock Exchanges as amended from time to time by the Securities and Exchange Board of India (SEBI). At few instances, the Indian Corporate Governance Rules differ from those applicable to U.S. listed companies under New York Stock Exchange ("NYSE") Corporate Governance Standards, as set forth in the NYSE Listed Company Manual. Following is a summary of the comparison between both the regulations:

NYSE Corporate Governance Standards applicable to NYSE Listed Companies	Corporate Governance Rules as per Listing Agreement with Indian Stock Exchange(s)
Independent Directors	
Companies must have a majority of independent directors. *[NYSE Corporate Governance Standard 303A.01]*	There must be an optimum combination of executive and non-executive directors with not less than 50% of the directors being non-executive directors. 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. The interpretation of the term "independent director" is different from the way it is interpreted under NYSE Corporate Governance Standards.
Controlled Companies	
A controlled company is not required to have a majority-independent board or comply with the new requirements as to nominating / corporate governance committees or compensation committees. To avail these exemptions, the company has to disclose its choice that it is a 'controlled company' in its annual report on Form 10-K filed with Securities and Exchange Commission (SEC). *[NYSE Corporate Governance Standard 303A.01]* A "controlled company" is a company of which more than 50% of the voting power is held by an individual, a group or another company.	There is no such concept or exemption available to the Indian listed companies. Provisions of Clause 49 are applicable to all the listed companies who have entered into Listing Agreement with the Indian Stock Exchange(s).
Executive Sessions	
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.

NYSE Corporate Governance Standards applicable to NYSE Listed Companies	Corporate Governance Rules as per Listing Agreement with Indian Stock Exchange(s)
Nominating/Corporate Governance Committee	
In addition to an Audit Committee, a listed Company 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 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.
Compensation Committee	
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 at least three directors, all of whom should be non-executive directors and an independent chairman in order to avoid conflict of interest. These are non-mandatory requirements.
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. The annual corporate governance report of the companies generally provides details of the remuneration including brief details of its agreed terms of reference.
Audit Committee	
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(a)]* 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(b)]*	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 needs to have all its member as non-executive director with 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 Chairman of the committee shall be an independent director. There is no requirment in Clause 49 of the Listing Agreement of a written charter of the audit committee.

Key Comparative Between U.S. and Indian Regulations

NYSE Corporate Governance Standards applicable to NYSE Listed Companies	Corporate Governance Rules as per Listing Agreement with Indian Stock Exchange(s)
Internal Audit Function	
Each listed company must have an internal audit function to provide the management and audit committee with ongoing assessments of the company's risk management processes and system of internal control. A company may choose to outsource this function to a third party service provider other than its independent auditor. *[NYSE Corporate Governance Standard 303A.07(c)]*	There is no mandatory requirement for having internal audit function, however, it is advisable to have being a necessary tool for internal control. As per Clause 49, the role of audit committee shall inter alia include *"reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit."*
Corporate Governance Guidelines/Code of Ethics	
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. *[NYSE Corporate Governance Standard 303A.10]*	As per clause 49 of Indian Listing Agreement, the company 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.
Certifications as to Compliance	
CEO of each listed company has to certify on an annual basis that he or she is not aware of any violation by the company of the NYSE corporate governance listing standards. This certification, as well as that the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act of 2002, must be disclosed in the company's annual report to shareholders. *[NYSE Corporate Governance Standard 303A.12]* Further, CEO of each listed company must promptly notify the NYSE in writing after any execuive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Section 303A.	In addition to the annual CEO/CFO certification on the true and fair view of financial statement and compliance, Indian listed companies are required to submit a quarterly compliance report to the Indian Stock Exchange(s) where their shares are listed. There shall be a seprate section of corporate governance in the annual report of the company, giving details of adoption of and compliance with the mandatory clauses, and non mandatory clauses (to the extent applicable). The Company has to obtain a certificate issued by the auditors or practising company secretaries regarding compliance of conditions of corporate governance and annex the same with the directors' report to be sent annually to the shareholders of the company and concerned stock exchanges.