Financial Highlights

	1998 -1999	1999 - 2000	2000 - 2001
Interest Income	376,08	679,87	1,255,04
Interest Expense	229,18	374,28	753,75
Net Interest Income	**146,90**	**305,59**	**501,29**
Other Income	67,13	119,54	176,57
Net Revenues	**214,03**	**425,13**	**677,86**
Operating costs	88,79	171,39	309,59
Operating Result	**125,24**	**253,74**	**368,27**
Provisions and Contingencies	8,39	58,89	53,21
Loan Loss Provisions	7,58	53,60	52,96
Others	81	5,29	25
Profit before tax	**116,85**	**194,85**	**315,06**
Provision for taxation	34,45	74,81	104,94
Profit after tax	**82,40**	**120,04**	**210,12**
Funds :			
Deposits	2,915,11	8,427,72	11,658,11
Subordinated debt	135,00	150,00	200,00
Stockholders' Equity	338,93	751,52	913,09
Working Funds	4,349,96	11,731,03	15,617,33
Loans	1,400,56	3,462,34	4,636,66
Investments	1,903,80	5,748,28	7,145,14
Key Ratios :			
Earnings per share (Rs)	4.12	5.93	8.64
Return on Average Networth	26.41%	29.00%	24.53%
Tier 1 Capital Ratio	8.34%	9.56%	8.69%
Total Capital Ratio	11.86%	12.19%	11.09%
Dividend per share (Rs)	1.30	1.60	2.00
Dividend payout ratio	34.71%	29.96%	25.55%
Book value per share as at March 31 (Rs)	16.90	30.90	37.50
Market price per share as at March 31 (Rs)*	69.15	257.20	228.35
Price to Earnings Ratio	16.78	43.37	26.43

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

Rs. Lacs

2001-2002	2002 - 2003	2003 - 2004	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008
1,681,18	1,963,17	2,455,71	2,905,43	4,230,18	6,647,93	10,115,00
1,073,74	1,191,96	1,211,05	1,315,56	1,929,50	3,179,45	4,887,12
607,44	**771,21**	**1,244,66**	**1,589,87**	**2,300,68**	**3,468,48**	**5,227,88**
335,90	465,55	480,03	651,34	1,123,98	1,516,23	2,283,15
943,34	**1,236,76**	**1,724,69**	**2,241,21**	**3,424,66**	**4,984,71**	**7,511,03**
417,95	577,05	810,00	1,085,40	1,691,09	2,420,80	3,745,62
525,39	**659,71**	**914,69**	**1,155,81**	**1,733,57**	**2,563,91**	**3,765,41**
100,01	88,86	195,73	176,87	480,06	925,16	1,484,78
85,77	88,39	178,28	176,22	479,76	861,01	1,216,03
14,24	47	17,45	65	30	64,15	268,75
425,38	**570,85**	**718,96**	**978,94**	**1,253,51**	**1,638,75**	**2,280,63**
128,34	183,25	209,46	313,38	382,73	497,30	690,45
297,04	**387,60**	**509,50**	**665,56**	**870,78**	**1,141,45**	**1,590,18**
17,653,81	22,376,07	30,408,86	36,354,25	55,796,82	68,297,94	100,768,60
200,00	200,00	600,00	500,00	1,702,00	3,282,60	3,249,10
1,942,28	2,244,83	2,691,88	4,519,85	5,299,53	6,433,15	11,497,23
23,787,38	30,424,08	42,306,99	51,429,00	73,506,39	91,235,61	133,176,60
6,813,72	11,754,86	17,744,51	25,566,30	35,061,26	46,944,78	63,426,90
12,004,02	13,388,08	19,256,79	19,349,81	28,393,96	30,564,80	49,393,54
11.01	13.75	17.95	22.92	27.92	36.29	46.22
18.30%	18.10%	20.14%	20.44%	17.47%	19.40%	16.05%
10.81%	9.49%	8.03%	9.60%	8.55%	8.58%	10.30%
13.93%	11.12%	11.66%	12.16%	11.41%	13.08%	13.60%
2.50	3.00	3.50	4.50	5.50	7.00	8.50**
23.68%	24.72%	22.15%	24.00%	22.55%	22.92%	22.17%
69.00	79.60	94.52	145.86	169.24	201.42	324.39
236.60	234.55	378.75	573.64	774.25	954.15	1,331.25
21.50	17.06	21.10	25.03	27.74	26.29	28.80

Board of Directors

Mr. Jagdish Capoor, *Chairman*

Mr. Keki Mistry

Mr. Vineet Jain

Mrs. Renu Karnad

Mr. Arvind Pande

Mr. Ashim Samanta

Mr. C. M. Vasudev

Mr. Gautam Divan

Dr. Pandit Palande

Mr. Aditya Puri, *Managing Director*

Mr. Harish Engineer, *Executive Director*
(w.e.f. 12.10.2007 subject to approval of RBI)

Mr. Paresh Sukthankar, *Executive Director*
(w.e.f. 12.10.2007 subject to approval of RBI)

Senior Management Team

Mr. A Parthasarthy
Mr. A. Rajan
Mr. Abhay Aima
Mr. Bharat Shah
Mr. C. N. Ram
Mr. G. Subramanian
Mr. Kaizad Bharucha
Mrs. Mandeep Maitra
Mr. Pralay Mondal
Mr. Sudhir M. Joshi
Mr. Vinod Yennemadi
Mr. Sashi Jagdishan

Executive Vice President (Legal) & Company Secretary

Mr. Sanjay Dongre

STATUTORY AUDITORS

M/s. Haribhakti & Co.,
Chartered Accountants

Registered Office

HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013.
Tel: *6652 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

14th ANNUAL GENERAL MEETING

Date	:	June 10, 2008
Day	:	Tuesday
Time	:	3.00 p.m.
Place	:	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400020
Record Date for Dividend		April 30, 2008
Book Closure Dates	:	June 07, 2008 to June 10, 2008 (both days inclusive)

Contents

Directors' Report

To the Members,

Your Directors have great pleasure in presenting the Fourteenth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2008.

Financial Performance

(Rs. in crores)

	For the year ended	
	March 31, 2008	March 31, 2007
Deposits and Other Borrowings	105,247.5	71,113.3
Advances	63,426.9	46,944.8
Total Income	12,398.2	8,164.2*
Profit before Depreciation and Tax	2,552.4	1,858.4
Net Profit	1,590.2	1,141.5
Profit brought forward	1,932.0	1,455.0
Total Profit available for Appropriation	3,522.2	2,596.5
Appropriations		
Transfer to Statutory Reserve	397.5	285.4
Transfer to General Reserve	159.0	114.1
Transfer to Investment Reserve Account (net)	38.5	3.0
Proposed Dividend	301.3	223.6
Tax including Surcharge and Education Cess on Dividend	51.2	38.0
Dividend paid for Prior Years	0.1	0.4
Balance carried over to Balance Sheet	2,574.6	1,932.0

** Change pursuant to reclassification*

The Bank posted total income and net profit of Rs. 12,398.2 crores and Rs. 1,590.2 crores respectively for the financial year 2007-08 as against Rs. 8,164.2 crores and Rs. 1,141.5 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 consistent dividend policy of balancing the twin objectives of appropriately rewarding shareholders and retaining capital to maintain a healthy capital adequacy ratio to support future growth. It has had a consistent track record

Directors' Report

of moderate but steady increases in dividend declarations over the last so many years with the dividend payout ratio ranging between 20% and 25%. In line with this, and in recognition of the robust performance during 2007-08, your directors are pleased to recommend a dividend of 85% for the year ended March 31, 2008, as against 70% for the year ended March 31, 2007. This dividend shall be subject to tax on dividend to be paid by the Bank.

Awards

As in the past years, awards and recognition have been conferred on your Bank by leading domestic and international organizations during the fiscal 2007-08. Some of them are:

- For the fifth consecutive year, your Bank has bagged the Business Today's Best Bank Award.
- Outlook Money and NDTV Profit's Best Bank in the private sector category.
- Bombay Stock Exchange and Nasscom Foundation's Business for Social Responsibility Award.
- '*Dun & Bradstreet – American Express Corporate Best Bank Award 2007.*' There were 26 categories in all, including FMCG, Telecom and Software & IT.
- The Financial Express-Ernst & Young Best Bank award in the Private Sector category - Your bank shared the top slot with another bank
- The Asia Pacific HRM Congress in Mumbai - Your Bank bagged as many as ten awards including "Organisation with innovative HR Practices".
- Business Today Survey conducted by the Monitor Group Innovation Study – Your Bank is one of India's most innovative 28 companies across ten major business sectors
- The 'Asian Banker Excellence in Retail Financial Service Awards' - The Best Retail Bank in 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

In June 2007, the Bank allotted 1,35,82,000 equity shares of Rs. 10/- each at a premium of Rs. 1,013.49 per share on a preferential basis to Housing Development Finance Corporation Ltd. (HDFC) aggregating to Rs. 1,390 crores. In July 2007, the Bank made a public offering of 6,594,504 American Depositary Shares (ADS), each ADS representing three equity shares, at a price of $ 92.10 per ADS aggregating to of Rs. 2,394 crores (net of underwriting discounts and commissions).

During the year under review, 16.78 lacs shares were allotted to the employees of your Bank pursuant to the exercise of options under the Employee Stock Option Scheme of the Bank.

Directors' Report

Employee Stock Options

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

Capital Adequacy Ratio

Your Bank's total Capital Adequacy Ratio (CAR) stood at a healthy 13.6%, well above the regulatory minimum of 9.0%. Of this, Tier I CAR was 10.3%.

Amalgamation of Centurion Bank of Punjab Limited with the Bank

On March 27, 2008, the shareholders of the Bank accorded their consent to a scheme of amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited. The shareholders of the Bank approved the issuance of one equity share of Rs. 10/- each of HDFC Bank Limited for every twenty nine equity shares of Re. 1/- each held in Centurion Bank of Punjab Limited. This is subject to receipt of approvals from the Reserve Bank of India, stock exchanges and other requisite statutory and regulatory authorities. The shareholders also accorded their consent to issue equity shares and/ or warrants convertible into equity shares at the rate of Rs. 1,530.13 each to HDFC and/or other promoter group companies on preferential basis, subject to final regulatory approvals in this regard. The Shareholders of the Bank have also approved an increase in the authorized capital from Rs. 450 crores to Rs. 550 crores.

SUBSIDIARY COMPANIES

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 subsidiaries namely, HDFC Securities Limited (HSL) and HDB Financial Services Limited (HDBFSL). Accordingly, a copy of the balance sheet, profit and loss account, report of the Board of Directors and Report of the Auditors of HSL and HDBFSL have not been attached to the accounts of the Bank for the year ended March 31, 2008.

Investors who wish to have a copy of the annual accounts and detailed information on HSL and HDBFSL may write to the Bank for the same. Further, the said documents shall also be available for inspection by the investors at the registered offices of the Bank, HSL and HDBFSL.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Macro-economic and Industry Developments

In the 25 years till 2007, the country's real GDP grew on an average at 6.2% per annum. In the last four years, however, GDP growth has been faster at 8.8% per annum. The real GDP growth for 2007-08 is expected to have been between 8.7-8.9%. Investment expenditure, so crucial to economic growth, increased from 22.8% of GDP in FY02 to 35.9% in FY07. The domestic savings rate increased from 23.5% in FY02 to 34.8% in FY07.

The services sector with a share of nearly 60% in India's GDP and accounting for almost three-fourth in its overall growth, continues to be the key driver. The manufacturing sector has shown good growth too on the back of domestic and export-led demand. The country's merchandise exports have grown by a healthy 21.6% in the April 07-January 08 period as compared to 23.7% in the corresponding period of previous year.

For most part of the year, liquidity in the banking system was volatile but largely in surplus due to strong capital flows and softening credit demand. The Reserve Bank of India (RBI) followed a tight monetary policy to check inflationary pressures arising to a large extent, out of hardening global energy and commodity prices. The RBI increased reserve requirements to suck out excess liquidity from the banking system directly and raised the Cash Reserve Ratio (CRR) by 150 basis points during the financial year ended March 31 2008.

Deposit rates remained flat (7.50% to 9.00% p.a.) for most of the first half of the year, but rose by about 0.5% p.a. across tenors in September 2007, primarily due to the onset of the 'busy' credit season and tightening of monetary policy. Longer tenor yields, however fell by roughly 0.5% on the back of falling credit demand. The short tenor deposit rates, however, moved up by 0.25% in December 2007 but did not see the sharp spike that had been experienced in the March 2007 quarter.

Directors' Report

The yield on the one-year government security (G-sec), which largely reflects the liquidity in the economy, fell by 15 basis points to 7.52% in first half of the financial year. The 10-year G-sec yield dropped by about 40 basis points to 7.6% during the same period. However, high inflation numbers in March 2008, and market apprehensions of large debt issuance by the government pushed the yields up in the second fortnight of March 2008.

Some signs of moderation in growth became apparent in 2007-08. Retail consumer borrowing and spending slowed down in the second half of 2006-07 in the wake of the monetary tightening. This has impacted sectors like automobiles and consumer durables where consumer credit has played a key role in driving demand. Rise in interest rates has also taken its toll on demand for housing and the growth of the real estate sector. Non-food credit clocked a 22% growth in the last fortnight of February 2008 as against 28.9% in the last week of March 2007. However, downward revisions (of 50 basis points on an average) in lending rates in the March 2008 by a number of banks could reverse this trend at least partially.

On the foreign trade side, though overall exports showed an accelerated growth during the last year, a number of sectors such as textiles, handicrafts, and leather products saw growth moderating. The rupee appreciated sharply over the last year (by as much as 11%), which was largely responsible for the deceleration in exports. The prospect of a slowdown in the global economy has increased the risk of a prolonged slowdown in exports.

Imports however remained robust in 2007-08, growing almost 30% in the first three quarters of the year (as against 22% for the corresponding period last year) on the back of higher global prices of oil and food. This widened the trade deficit to USD 67 billion in April-January FY08 from USD 45 billion in the corresponding period of previous year. Despite the increase in the trade deficit, overall, balance of payments was comfortable due to large capital inflows (comprising mainly foreign direct investment, portfolio inflows and external borrowings). Foreign exchange reserves grew by $107 billion during the year.

Indian equity markets gained sharply in the first nine-months of 2007-08. However, as the global financial crisis deepened, benchmark indices fell sharply in the last quarter. Markets are likely to track the global financial markets and remain volatile in 2008-09 although the Indian economic fundamentals still remain strong and attractive in absolute terms. Diminished risk appetite among investors could adversely impact capital inflows into emerging markets like India.

(Sources: Ministry of Finance, RBI, CSO)

Industry structure and development

Indian banks faced a new set of challenges brought about by changes in both the international and domestic environment. International credit markets tightened considerably on the back of rising defaults and foreclosures in the US mortgage market and the resultant risk aversion. Its impact was first felt in the mortgage-linked securities and the inter-bank money markets. A number of large US and European banks reported large loan losses and write-downs. The contagion effects subsequently spread to other asset classes including emerging markets bonds and equities. The expectation is that the turmoil in the financial sector will spill over to the real estate sector. Growth in the G-7 economies, particularly the US is expected to be lower in 2008 and this is likely to impinge on growth in other economies, including India.

The Indian economy appeared to have entered a phase of moderation in 2007-08. The Central Statistical Organisation (CSO) has estimated a decline in the growth rate of India's Gross Domestic Product (GDP) to 8.7% in 2007-08 from 9.6% in 2006-07. The growth in credit off-take from scheduled commercial banks (measured year on year) has fallen to 21.9% in the last fortnight of February 2008 from 28.2% in the first half of April 2007.

Risks and concerns

While Indian banks have limited direct exposure to the international markets for mortgage linked securities, they are unlikely to be completely insulated from the turmoil in the global financial markets. Reduced availability of global finance through external commercial borrowings on the back of rising risk aversion in the global markets could affect domestic growth, particularly investments in capacity expansion. This in turn could have some impact on demand

Directors' Report

for domestic credit.

Lower capital inflows could also impact domestic liquidity, which has largely been a function of external capital inflows for most of 2007-08 with the ratio of net foreign exchange assets to reserve money consistently exceeding 100%.

The initial moderation in bank credit growth rates in 2007-08 seems to have been largely confined to the retail segment (housing, consumer durables and auto loans). It is possible that the moderation in growth in 2008-09 could be more broad-based, affecting both retail and certain wholesale segments, due to trends in consumption and capital formation. This has obvious implications for the credit portfolio of the banking system. A low 2.1% growth in the 'capital goods' component of the index of industrial production (IIP) for January 2008 seems to indicate a further decline in investment demand going forward which could affect overall credit growth for the banking system, particularly in term loans and project finance.

Rising global commodity prices created inflationary pressures for most of 2007-08. A benign 'base-effect' and the suppression in the petroleum product prices kept headline wholesale price inflation in a comfort zone for the first three quarters of the year. However, given the focus on managing underlying price pressures rather than headline inflation, monetary policy showed no signs of easing in 2007-08. Thus banks operated in an environment where the central bank did not allow any surplus liquidity in the system, resulting in interest rates remaining firm.

Despite the prospect of a slowdown in the global economy, commodity price pressures, particularly those in food and mineral oils, show little sign of abating. As the base-effect wears off, headline inflation is likely to ramp up to well over 7%. So, inflation concerns are likely to influence monetary policy stance going forward and the prospect of an economic slowdown need not entail immediate monetary easing. Thus, the operating environment of banks in 2008-09 could be a combination of slower credit growth and some upward bias in interest rates.

Opportunities

The financial system in India has witnessed considerably less turmoil and volatility than that in advanced economies. Given this scenario, domestic corporates are more likely to turn to local sources of funding. Cyclical slowdown is unlikely to impact segments of the economy such as agriculture where a structural shift is under way. The rural economy has been the greater focus of government policy in recent years, and significant opportunities lie for banks here where the penetration of credit and financial products is still relatively low.

The central and state governments appear to be driving an ambitious programme in the infrastructure sectors. The eleventh five year plan (2007-2012) envisages an investment of USD 500 billion, with approximately USD 80 billion envisaged for 2008-09 alone. This presents a major opportunity for banks and financial institutions to finance these investments.

Although growth in retail credit has moderated in the last year, the low penetration levels of retail credit (estimated at less than 12% of GDP), the shift in demographics towards a higher proportion of younger working population, the changing attitudes towards borrowings, higher income levels amongst the growing middle class, and the large pent-up demand for housing, cars etc., all augur well for the long-term, sustainable growth of retail lending in the Indian market.

Outlook

The Indian economy seems likely to see some moderation in growth rates in 2008-09 relative to 2007-08. It is still likely to experience healthy growth in absolute terms and will probably remain one of the fastest growing economies in the world. Nonetheless, with a lower GDP growth coupled with tighter liquidity conditions (as RBI tackles concerns on inflation) and stable or slightly higher interest rates, system credit growth is likely to be lower than in 2007-08. Downward pressures on economic growth may not immediately translate into an expansionary monetary policy, given the continued risks of inflation from global energy and commodity prices. Thus, slightly slower credit growth could coexist with firm, if not rising, interest rates. Given India's strong macro-economic fundamentals, however, structural drivers will continue to support growth which is a positive for banks as well.

Directors' Report

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 2007-08 remained healthy with total net revenues (net interest income plus other income) increasing by 50.7% to Rs. 7,511.0 crores from Rs.4,984.7 crores in 2006-07. The revenue growth was driven principally by an increase in net interest income. Net interest income grew by 50.7% primarily due to increase in the average balance sheet size by 39.8% and an increase in net interest margin from 4.0% to around 4.4%. The key driver in volumes was growth in advances. Margin expansion was contributed by increase in yields across all products partially offset by increase in time deposit costs.

The other income (non-interest revenue) increased by 50.6% to Rs. 2,283.2 crores primarily due to fees and commissions, profit/(loss) on revaluation / sale of investment and income from foreign exchange and derivatives income. In 2007-08, commission income increased by 32.7% to Rs. 1,714.5 crores with the main drivers being commission from distribution of third party mutual funds and insurance, fees on debit/credit cards, transactional charges/fees on deposit accounts, processing fees of retail assets and cards, and fees from trade products. The Bank earned a profit on sale / revaluation of investments of Rs. 241.8 crores during the year. Foreign exchange and derivatives revenues grew from Rs. 280.3 crores to Rs. 319.8 crores which largely related to customer transactions. Of this, 80% of the revenues came from plain vanilla foreign exchange transactions.

Operating (non-interest) expenses increased from Rs. 2,420.8 crores in 2006-07 to Rs. 3,745.6 crores in 2007-08, due to higher infrastructure and staffing expenses in relation to the expansion in the branch network, (including branches which were in the process of being set up and would be commissioned in the June 2008 quarter) and growth in the retail loan and credit card businesses. Operating cost to net revenues increased to 49.9%, from 48.6% in the corresponding year. Staff expenses accounted for 34.7% of non-interest expenses in 2007-08 as against 32.1% in 2006-07, due to an increase in staff strength and increase in average salary levels. A large portion of the increase has been in the direct sales infrastructure which stepped the pace of liability and card account acquisitions substantially during the year. Loan loss provisions and provision for standard assets increased from Rs. 861.0 crores to Rs. 1,216.0 crores in 2007-08 which was broadly in line with the increase in retail loans and the product mix across various loan products. The Bank also provided Rs. 264.4 -crores as contingent provisions for tax, legal and other contingencies.

Directors' Report

Net profit increased by 39.3% from Rs. 1,141.5 crores in 2006-07 to Rs.1,590.2 crores in 2007-08. Return on average net worth was lower at 16.1% as against the previous year of 19.4% due to expansion of networth as a result of infusion of over Rs. 3,800 crores of capital during the year. The Bank's basic earning per share increased from Rs.36.3 to Rs.46.2 per equity share.

During 2007-08, the Bank's total balance sheet size increased by 46.0% to Rs. 133,177 crores. Total Deposits increased from Rs. 68,298 crores (as of March 31, 2007) to Rs. 100,769 crores (as of March 31, 2008). With Savings account deposits at Rs. 26,154 crores and current account deposits at Rs. 28,760 crores, demand (CASA) deposits were around 54.5% of total deposits as of March 31, 2008. During 2007-08, gross advances grew by 35.8 % to Rs. 67,582 crores. This was driven by a growth of 38.8% in retail advances to Rs. 39,316 crores, and an increase of 31.8% in wholesale advances to Rs.28,266 crores.

Business Segment Update:

As in the past, this year too 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, and of its disciplined approach to risk – reward management.

The retail banking business continued its growth in 2007-08. In this business, your Bank has positioned itself as a one-stop shop financial services provider, catering primarily to the middle class, mass affluent and high networth customers. Your Bank's range of retail financial products and services is fairly exhaustive and includes deposit products of virtually all types, loans, credit cards, debit cards, depository (custody services), investment advisory, bill payments and several transactional services. Apart from its own products, your Bank sells third party financial products like mutual funds and insurance too. 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 83% of customer initiated transactions are serviced through the non-branch channels. Your Bank's data warehouse and Customer Relationship Management (CRM) solutions have helped it target existing and potential customers more effectively and cost effectively and offer them products appropriate to their profile and needs. Reduced costs of acquisition apart, this has also led to deepening of customer relationships and lower credit losses.

Your Bank's total customer base increased to over 11.6 million. On the distribution side, your Bank added 77 new branches during the year to take the total to 761 branches (across 327 cities) as of March 2008 from 684 branches (in 316 cities) in March 2007. 372 new ATMs were also added during 2007-08 taking the size of the ATM network from 1605 to 1977. Your Bank's focus on semi-urban and under-banked markets continued, with 58% of the Bank's branches now outside the top nine Indian cities. Savings account deposits, which reflect the strength of the retail liability franchise, grew by 33.5% to Rs 26,154 crores in 2007-08. The retail gross loan portfolio grew 38.8% to Rs 39,316 crores during the year.

In credit cards, your Bank continued with its strategy of focusing on quality customer acquisitions and improving processes to reduce cycle times and bringing in cost efficiencies. Your Bank had 3.8 million cards in force as at March 2008. It has a significant presence in the "merchant acquiring" business also with the total number of point-of-sale (POS) terminals installed at over 61,000. On housing loans, your Bank continued originating home loans under its arrangement with Housing Development Finance Corporation with monthly home loan origination crossing Rs.550 crores (sanctions) by March 2008. During the year, the Bank did not exercise its option to take any part of the 70% of its HDFC home loan origination that it has the right to take back on its books as "AAA" mortgage backed securities.

The wholesale banking business too registered a robust growth in 2007-08. 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 emerging corporate segments and other small and medium enterprises (SMEs). The Bank now has four business groups catering to various SME customers with a wide range of banking services covering their working capital and term finance, trade services, cash management, foreign exchange and electronic banking requirements.

During financial year 2007-08, growth in the wholesale banking business continued to be driven by new customer acquisition and higher cross-sell with a focus on optimizing yields and increasing product penetration. Your Bank's cash management and vendor & distributor finance products continued to be an important contributor to growth in the corporate banking business. Your 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 to over Rs. 24 trillion an increase of more than 80% over the volumes in FY 2006-07. Your Bank also strengthened its market leadership in cash settlement services for major stock exchanges and commodity exchanges in the country. Yet again, your Bank met the overall priority sector lending requirement of 40% of net bank credit and improved its performance in certain sub-limits where it fell short of the requirements.

Your 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 the Bank is well positioned to meet its customers' requirements across the entire agriculture financing cycle.

Your Bank's experience with its hub and spoke model for rural markets has been positive so far. Through this route, your 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 crop loans, tractor loans and warehouse receipt loans. The Bank has also rolled out special rural fixed deposit and savings account products. The specially designed rural savings account includes features such as mobile banking, net banking, instant alerts and payable-at-par cheque books. The Bank also has specialised Agri Desks at certain branches across the country which works as a single point contact for farmers.

The Bank has relationships with 110 micro finance institutions and has extended credit facilities, whereby 1.61 million households have been beneficiaries of financial inclusion. In addition, the Bank under the direct SHG linkage programme, has credit-linked and financed over 32,000 Self-Help Groups with roughly half a million households benefiting from this.

The treasury group manages the Bank's balance sheet and is responsible for compliance with reserve requirements and management of liquidity and interest rate risk. On the foreign exchange and derivatives front, revenues are driven primarily by spreads on customer transactions based on trade flows and customers' hedging needs. During 2007-08, revenues from foreign exchange and derivative transactions grew by 14.1% to Rs. 319.8 crores where the revenues were distributed across large corporate, emerging corporate, business banking and retail customer segments for plain vanilla forex products and across primarily large corporate and emerging corporate segments for derivatives. The Bank offers Indian rupee and foreign exchange derivative products to its customers, who use them to hedge their market risks. The Bank enters into forex and derivative deals with counterparties after it has set up appropriate counterparty credit limits based on its evaluation of the ability of the counterparty to meet its obligations in the event of crystallization of the exposure. Appropriate credit covenants may be stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk. In the event of any customer default, the Bank, at the minimum, conforms to the Reserve Bank of India guidelines with regard to provisioning requirements for non-performing assets. On a conservative basis, the Bank may make incremental provisions based on its assessment of impairment of the credit. Where the Bank enters into foreign currency derivative contracts with its customers it lays them off in the inter-bank market on a matched basis. For such foreign currency derivatives, the Bank does not have any open positions or assume any market risks but carries only the counterparty credit risk (where the customer has crystallized or mark-to-market losses). The Bank also deals in Indian rupee derivatives on its own account including for the purpose of its own balance sheet risk management. The Bank recognizes changes in the market value of all rupee derivative instruments (other than those designated as hedges) in the profit and loss account in the period of change. Rupee derivative contracts classified as hedge are recorded on an accrual basis.

Given the regulatory requirement of holding government securities to meet the statutory liquidity ratio (SLR) requirement, your Bank has to necessarily maintain a large portfolio of government securities. While a significant portion of these SLR securities are held in the “Held-to-Maturity’ (HTM) category, to the extent some of these are held in the “Available for Sale” (AFS) category, this enables the Bank to realise gains in a declining interest rate environment and exposes the Bank to losses or depreciation in value of investments when yields rise.

Service Quality Initiatives

Your Bank continued to seek and drive process improvement in all spheres of business through structured Quality Projects using Lean Sigma Project Management Methodology. Over 1,000 projects were executed during the year that resulted in substantial Cost and Turn Around Times reduction, and productivity and process efficiency improvement.

Service Quality initiatives were refined to capture and improve upon real customer experiences at various touch-points. New elements were added and renewed improvement schemes installed to provide customer delight. Your Bank launched a Service Quality improvement drive for some of the key support departments as well. Customer feedback was taken into account to introduce new services using technology to ensure customer convenience, secured transactions and, reduced cost of transactions.

Your Bank plans to use this platform to drive systemic changes and process re-engineering using technology, Lean Six Sigma tool-kit, 5 S and other business excellence initiatives to further enhance customer experience and value to business.

Risk Management & Portfolio Quality

Taking on various types of risk is integral to the banking business. Sound risk management and balancing risk-reward trade-offs are therefore critical to a bank’s success. Business and revenue growth have therefore to be weighed in the context of the risks implicit in the Bank’s business strategy. Of the various types of risks the Bank is exposed to, the most important are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The identification, measurement, monitoring and management of risks remain a key focus area for the Bank. For credit risk, distinct policies and processes are in place for the retail and wholesale businesses. In retail loan businesses, the credit cycle is managed through appropriate front-end credit, operational and collection processes. For each product, programs defining customer segments, underwriting standards, security structure 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. For wholesale credit exposures, management of credit risk is done through target market definition, appropriate credit approval processes, ongoing post-disbursement monitoring and remedial management procedures. Overall portfolio diversification and reviews also facilitate mitigation and management.

The Risk Monitoring Committee of the Board monitors the Bank’s risk management policies and procedures, vets treasury risk limits before they are considered by the Board, and reviews portfolio composition and impaired credits. From an industry concentration perspective, as of March 31, 2008, the following table gives industry wise classification of the loans and investments outstanding (excluding SLR investments, equity shares, Bank certificate of deposits and mutual fund units).

Directors' Report

	(Rs.Crores) Funded exposure	% to total exposure
Automobiles and Auto Ancillaries	5,203	7.0%
Transportation	5,144	6.9%
Trade	4,111	5.5%
Banks and Financial Institutions	3,152	4.2%
Other Financial Intermediaries	2,644	3.6%
Food Processing	1,695	2.3%
Metals and Metal Products	1,560	2.1%
Engineering	1,487	2.0%
Other industries < 2 % each of loans and investments outstanding (43 industries)	16,235	21.8%
Retail-Except where otherwise classified	33,130	44.6%
Total	74,361	100.0%

Note: Classification of exposure to real estate sector under Exposures in Sensitive Sectors (as disclosed in Notes to the Financial Statements) is as per the RBI guidelines. This includes not only exposure to borrowers in the real estate industry but also exposures to borrowers in other industries, where the exposures are primarily secured by real estate and investment in home finance institutions and securitisation.

As of March 31, 2008, the Bank's ratio of gross nonperforming assets (NPAs) to total customer assets was 1.29%. Net non-performing assets (gross non-performing assets less specific loan loss provisions, interest in suspense and ECGC claims received) were 0.42% of customer assets as of March 31, 2008. The specific loan loss provisions that the Bank has made for its non-performing assets continue to be more conservative than the regulatory requirement. The 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 final guidelines in April 2007. In terms of these guidelines, Indian banks having operational presence outside India are required 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 is in preparedness to adopt the above approaches as per the final guidelines issued in April 2007. Meanwhile, Reserve Bank of India has published its amendments to the final guidelines in March 2008. The Bank has examined these amendments and is in the process of reconfiguring its systems and processes to account for these changes. While the Bank, to begin with, will migrate to the above approaches defined in the Reserve Bank of India guidelines, the initiatives undertaken are geared towards enabling the

Directors' Report

Bank comply with the standards set out for the more advanced capital approaches under Basel II. These initiatives include augmentation of the 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. The Bank has been investing appropriately in augmenting its risk management systems and capabilities. The implementation of the Basel II framework is in harmony with the Bank's objective of adopting international best practices in risk management.

INTERNAL AUDIT & COMPLIANCE

The Bank has Internal Audit & Compliance functions which are 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 audit function also pro-actively recommends improvements in operational processes and service quality. To ensure independence, the Audit 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 functions and reviews the effectiveness of controls and compliance with regulatory guidelines.

SOCIAL INITIATIVES

In keeping with the HDFC Group philosophy, your Bank has always believed in making a difference to society at large. As a responsible corporate citizen, it has been your Bank's vision to empower the community through socio-economic development of underprivileged and weaker sections of society. During 2007-08 your Bank further intensified its efforts in this direction. Most of the Bank's social activities revolve around educational initiatives (including school adoption projects, educational sponsorships of girl children, primary education to first generation learners etc.) and initiatives in the field of livelihood training and support. In the latter area, the Bank has been working with NGOs in providing non-formal vocational and technical education programs as well as skill up gradation courses to enable sustainable employment and income generation for economically weaker sections. To further integrate some of its Corporate Social Responsibility (CSR) initiatives with its banking operations, the Bank has started outsourcing some non-core back office operations to certain small semi-urban locations. This creates jobs for the local educated youth in those towns with obvious gains for the families (as the youth is gainfully employed without having to relocate to distant cities) and also gives a boost to the local economy in those locations.

Where relevant, the Bank coordinates its CSR activities with its microfinance and self – help group (SHG) financing. The Bank has relationships with 110 micro finance institutions and has extended credit facilities, whereby 1.61 million households have been beneficiaries of financial inclusion. In this regard, your Bank has also appointed around 150 NGOs across the country as business correspondents (BCs) to provide SHG – Bank linkage to help tribals, physically challenged, beggars, etc. to earn a livelihood and join the mainstream. The Bank under the direct SHG linkage programme, has credit linked over 32,000 SHGs and thereby roughly another half a million households have been brought under Financial Inclusion.

Employees are a key part of your Bank's social initiatives and are encouraged to participate in these activities, contributing their time and skills. The Bank also administers a payroll-giving programme whereby employees offer deductions from their salary to donate for specified charities or social causes of their choice and the Bank contributes an equivalent amount.

HUMAN RESOURCES

The Bank's staffing-needs continued to increase during the year particularly in the retail banking and SME businesses in line with the business growth. Total number of employees increased from 21,477 as of March 31, 2007 to 37,836 as of March 31, 2008. The Bank

Directors' Report

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 6,535 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 37,836 employees as on March 31, 2008. Three hundred twenty six employees employed throughout the year were in receipt of remuneration of more than Rs. 24.0 lacs per annum and fifty 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, 2008 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 frauds and other irregularities;

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

DIRECTORS

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

The Board at its meeting held on October 12, 2007, appointed Mr. Harish Engineer and Mr. Paresh Sukthankar as Additional Directors as well as Executive Directors of the Bank subject to the approval of the shareholders and the Reserve Bank of India. The Bank sought the approval of shareholders by way of postal ballot for the appointment of Mr. Engineer and Mr. Sukthankar as Executive Directors of the Bank. As per the scrutinizer's report, both the ordinary resolutions were approved by the shareholders with the requisite majority effective December 10, 2007.

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, April 24, 2008

Directors' Report

Annexure to Directors' Report for the year ended March 31, 2008

EMPLOYEES' STOCK OPTIONS

Details of the stock options granted, vested, exercised and forfeited & expired during the year under review are as under:

Scheme(s)	Exercise Price (Rs.)	Options Granted	Options Vested	Options Exercised & Shares Allotted*	Options Forfeited & Expired	Total Options in Force As on March 31,2008
ESOS I	131.33	-	-	-	-	-
ESOS II	225.43	-	-	1500	-	-
ESOS III	226.96	-	-	4600	3000	-
ESOS IV	358.60	-	-	155800	-	257800
ESOS V	366.30	-	-	71300	-	123100
ESOS VI	362.90	-	-	97400	-	108200
ESOS VII	630.60	-	1474300	1095200	221500	3209400
ESOS VIII	994.85	-	841900	148700	273000	2731900
ESOS IX	994.85	-	787000	103300	265500	2450400
ESOS X	1098.70	672000	-	-	17000	655000
ESOS XI	1098.70	1418500	-	-	83000	1335500
ESOS XII	1098.70	6215000	-	-	148500	6066500
Total		8305500	3103200	1677800	1011500	16937800

** 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. 1,67,78,000 towards share capital and Rs. 1,04,32,73,011/- towards share premium (net of Fringe Benefit Tax) on account of 16,77,800 stock options exercised and allotted during the year under review.
Pricing Formula for ESOS X, ESOS XI & ESOS XII	Closing market price on the stock exchange where there is highest trading volume on the immediately preceding working day of the date of grant.

Directors' Report

Details of options granted to:

		Name	Options Granted
i.	Directors & Senior managerial personnel	Mr. Adiyta Puri	100000
		Mr. Harish Engineer	34000
		Mr. Paresh Sukthankar	34000
		Mr. A Parthasarthy	34000
		Mr. A. Rajan	27000
		Mr. Abhay Aima	34000
		Mr. Kaizad Bharucha	34000
		Mr. C N Ram	34000
		Mrs. Mandeep Maitra	34000
		Mr. Pralay Mondal	34000
		Mr. Sashi Jagdishan	29000
ii.	Other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	None	
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	None	

Variation of terms of Options	Shareholders of the Bank vide Special Resolution dated 16th June 2007 have modified the terms of the existing stock option schemes incorporating the provision to recover from the relevant eligible employees, the fringe benefit tax in respect of options which are granted, vested or exercised by the eligible employee on or after the April 1, 2007 pursuant to the Income Tax Act, 1961.
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. 45.59.
Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed.	Had the Bank followed fair value method for accounting the stock options, compensation expense would have been higher by Rs. 244.14 crores. Consequently profit after tax would have been lower by Rs. 161.16 crores and the basic EPS of the Bank would have been Rs. 41.54 per share (lower by Rs. 4.68 per share) and the Diluted EPS would

Directors' Report

The impact of this difference on profits and on EPS of the company shall also be disclosed.	have been Rs. 40.97 per share (lower by Rs. 4.62 per share)
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. 631.81 and the weighted average fair value is Rs. 971.93.
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 7.7% to 7.9%.
ii. Expected life,	1-4 years.
iii. Expected volatility,	It will be around 25.20%.
iv. Expected dividends, and	Around Rs. 7per 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. 1098.70 at the time of grant of options under ESOS X, ESOS XI and ESOS XII.

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 31 March 2008 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 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 misstatement(s). 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 the Bank;

6. We further report that:

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

   (ii) 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.

   (iii) On the basis of the written representation received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as at 31 March, 2008 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:

   (i) in the case of Balance Sheet, of the state of affairs of the Bank as at 31 March 2008;

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

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

For **Haribhakti & Co.,**
Chartered Accountants

Manoj Daga
Partner
Membership No. 48523

Place: Mumbai
Date: 24 April 2008

Balance Sheet

As at March 31, 2008

Rs. Lacs

	Schedule	As at 31-Mar-08	As at 31-Mar-07
CAPITAL AND LIABILITIES			
Capital	1	**354,43**	319,39
Reserves and Surplus	2	**11,142,80**	6,113,76
Deposits	3	**100,768,60**	68,297,94
Borrowings	4	**4,478,86**	2,815,39
Other Liabilities and Provisions	5	**16,431,91**	13,689,13
	Total	**133,176,60**	91,235,61
ASSETS			
Cash and balances with Reserve Bank of India	6	**12,553,18**	5,075,25
Balances with Banks and Money at Call and Short notice	7	**2,225,16**	3,971,40
Investments	8	**49,393,54**	30,564,80
Advances	9	**63,426,90**	46,944,78
Fixed Assets	10	**1,175,13**	966,67
Other Assets	11	**4,402,69**	3,712,71
	Total	**133,176,60**	91,235,61
Contingent Liabilities	12	**593,008,08**	328,148,24
Bills for Collection		**6,920,71**	4,606,83
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

Manoj Daga
Partner

Mumbai, 24 April, 2008

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

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

Profit and Loss Account

For the year ended March 31, 2008

Rs. Lacs

	Schedule	Year Ended 31-Mar-08	Year Ended 31-Mar-07
I. INCOME			
Interest earned	13	**10,115,00**	6,647,93
Other income	14	**2,283,15**	1,516,23
	Total	**12,398,15**	8,164,16
II. EXPENDITURE			
Interest expended	15	**4,887,12**	3,179,45
Operating expenses	16	**3,745,62**	2,420,80
Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 690,45 lacs (previous year : Rs. 497,30 lacs)]	17	**2,175,23**	1,422,46
	Total	**10,807,97**	7,022,71
III. PROFIT			
Net Profit for the year		**1,590,18**	1,141,45
Profit brought forward		**1,932,03**	1,455,02
	Total	**3,522,21**	2,596,47
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		**397,55**	285,36
Proposed dividend		**301,27**	223,57
Tax (including cess) on dividend		**51,20**	38,00
Dividend (including tax/cess thereon) pertaining to previous year paid during the year		**6**	35
Transfer to General Reserve		**159,02**	114,14
Transfer to Capital Reserve		**-**	4
Transfer to Investment Reserve Account		**38,50**	2,98
Balance carried over to Balance Sheet		**2,574,61**	1,932,03
	Total	**3,522,21**	2,596,47
V. EARNINGS PER EQUITY SHARE (Face value Rs. 10 per share)	18	**Rs.**	Rs.
Basic		**46.22**	36.29
Diluted		**45.59**	36.06
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

Manoj Daga
Partner

Mumbai, 24 April, 2008

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

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

Rs. 10 lacs = Rs. 1 million

Cash Flow Statement

For the Year ended March 31, 2008

Rs. Lacs

Particulars	2007-2008	2006-2007
Cash flows from operating activities		
Net profit before income tax	**2,280,63**	**1,638,75**
Adjustments for:		
Depreciation	271,72	219,60
(Profit) on Revaluation of Investments	(77,77)	(5,99)
Amortisation of premia on Investments	288,38	241,09
Loan Loss provisions	1,026,37	691,15
Provision against standard assets	189,66	169,86
Provision for wealth tax	45	40
Contingency provision	268,30	63,75
(Profit)/loss on sale of fixed assets	(70)	1,05
	4,247,04	**3,019,66**
Adjustments for:		
(Increase) in Investments	(19,027,78)	(2,420,94)
(Increase) in Advances	(17,508,49)	(12,574,67)
Increase / (Decrease) in Borrowings	1,663,47	(43,09)
Increase in Deposits	32,470,66	12,501,12
(Increase) in Other assets	(376,69)	(1,535,78)
Increase in Other liabilities and provisions	2,123,55	2,246,80
(Increase) / Decrease in Deposit Placements	860,26	(241,77)
	4,452,02	**951,33**
Direct taxes paid (net of refunds)	(868,59)	(377,00)
Net cash flow from/(used in) operating activities	**3,583,43**	**574,33**

Cash Flow Statement

For the Year ended March 31, 2008

Rs. Lacs

Particulars	2007-2008	2006-2007
Cash flows from investing activities		
Purchase of fixed assets	(629,41)	(313,33)
Proceeds from sale of fixed assets	9,59	1,93
Net cash used in investing activities	**(619,82)**	**(311,40)**
Cash flows from financing activities		
Money received on exercise of stock options by employees	106,01	254,02
Proceeds from ADR issue net of underwriting commission	2,393,86	-
Proceeds from issue of preferential allotment of equity share capital	1,390,10	-
Proceeds from issue of Upper Tier II capital, Lower Tier II capital and Innovative Perpetual Debt Instruments	-	1,680,60
Redemption of subordinated debt	-	(100,00)
Dividend during the year	(223,63)	(172,58)
Tax on Dividend	(38,00)	(24,16)
Net cash generated from financing activities	**3,628,34**	**1,637,88**
Net increase in cash and cash equivalents	**6,591,95**	**1,900,81**
Cash and cash equivalents as at 1 April, 2007	**8,074,54**	**6,173,73**
Cash and cash equivalents as at 31 March, 2008	**14,666,49**	**8,074,54**

In terms of our report of even date attached.

For Haribhakti & Co.
Chartered Accountants

Manoj Daga
Partner

Mumbai, 24 April, 2008

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

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

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 1 - CAPITAL			
Authorised Capital		**550,00**	450,00
55,00,00,000 (31 March, 2007 : 45,00,00,000) Equity Shares of Rs. 10/- each			
Issued, Subscribed and Paid-up Capital		**354,43**	319,39
35,44,32,920 (31 March, 2007 : 31,93,89,608) Equity Shares of Rs. 10/- each			
	Total	**354,43**	319,39
SCHEDULE 2 - RESERVES AND SURPLUS			
I. Statutory Reserve			
Opening Balance		**1,121,82**	836,46
Additions during the year		**397,55**	285,36
	Total	**1,519,37**	1,121,82
II. General Reserve			
Opening Balance		**416,08**	301,94
Additions during the year		**159,02**	114,14
Deductions during the year*		**(63,54)**	-
	Total	**511,56**	416,08
III. Balance in Profit and Loss Account		**2,574,61**	1,932,03
IV. Share Premium Account			
Opening Balance		**2,624,55**	2,376,71
Additions during the year		**3,854,93**	247,84
	Total	**6,479,48**	2,624,55
V. Amalgamation Reserve			
Opening Balance		**14,52**	14,52
	Total	**14,52**	14,52
VI. Capital Reserve			
Opening Balance		**1,78**	1,74
Additions during the year		**-**	4
	Total	**1,78**	1,78

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
VII.	**Investment Reserve Account**			
	Opening Balance		**2,98**	-
	Additions during the year		**41,78**	2,98
	Deductions during the year		**(3,28)**	-
		Total	**41,48**	2,98
		Total	**11,142,80**	6,113,76

**Represents transition adjustment on account of first time adoption of Accounting Standard 15 (Revised) on "Employee benefits" issued by The Institute of Chartered Accountants of India.*

SCHEDULE 3 - DEPOSITS

			As at 31-Mar-08	As at 31-Mar-07
I.	**Demand Deposits**			
	(i) From Banks		**844,71**	695,35
	(ii) From Others		**27,914,99**	19,116,49
		Total	**28,759,70**	19,811,84
II	**Savings Bank Deposits**		**26,153,94**	19,584,82
III	**Term Deposits**			
	(i) From Banks		**1,519,59**	1,505,29
	(ii) From Others		**44,335,37**	27,395,99
		Total	**45,854,96**	28,901,28
		Total	**100,768,60**	68,297,94

SCHEDULE 4 - BORROWINGS

			As at 31-Mar-08	As at 31-Mar-07
I.	**Borrowings in India**			
	(i) Reserve Bank of India		**-**	-
	(ii) Other Banks		**886,78**	925,63
	(iii) Other Institutions and agencies		**22**	155,66
		Total	**887,00**	1,081,29
II.	**Borrowings outside India**		**3,591,86**	1,734,10
		Total	**4,478,86**	2,815,39

Secured borrowings included in I & II above: Rs. 22 lacs (previous year: Rs. 155,66 lacs)

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS				
I.	Bills Payable		**3,157,21**	3,678,14
II.	Interest Accrued		**1,674,75**	1,703,81
III.	Others (including provisions)		**7,464,80**	4,419,09
IV.	Upper and Lower Tier II capital and Innovative Perpetual Debt*		**3,249,10**	3,282,60
V.	Contingent Provisions against standard assets		**533,58**	343,92
VI.	Proposed Dividend (including tax on dividend)		**352,47**	261,57
	**Issued during the year : Innovative Perpetual Debt: Nil (previous year: Rs. 200,00 lacs), Upper Tier II Debt: Nil (previous year: Rs. 635,90 lacs and USD 100 million) and Lower Tier II Debt: Nil (previous year : Rs. 410,00 lacs)*	**Total**	**16,431,91**	13,689,13
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA				
I.	Cash in hand (including foreign currency notes)		**940,09**	639,28
II.	Balances with Reserve Bank of India			
	(a) In current accounts		**11,513,09**	4,335,97
	(b) In other accounts		**100,00**	100,00
		Total	**11,613,09**	4,435,97
		Total	**12,553,18**	5,075,25
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE				
I.	In India			
	(i) Balances with Banks:			
	(a) In current accounts		**287,92**	429,74
	(b) In other deposit accounts		**706,99**	1,223,54
		Total	**994,91**	1,653,28
	(ii) Money at call and short notice:			
	(a) With banks		**-**	100,00
	(b) With other institutions		**-**	90,00
		Total	**-**	190,00
		Total	**994,91**	1,843,28
II.	Outside India			
	(i) In current accounts		**173,67**	420,66
	(ii) In deposit accounts		**3,73**	12,13
	(iii) Money at call and short notice		**1,052,85**	1,695,33
		Total	**1,230,25**	2,128,12
		Total	**2,225,16**	3,971,40

Schedules to the Accounts
As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 8 - INVESTMENTS			
A. Investments in India in			
(i) Government securities		**31,665,58**	22,544,22
(ii) Other approved securities		**58**	68
(iii) Shares		**34,46**	58,31
(iv) Debentures and Bonds		**6,251,72**	7,389,85
(v) Subsidiaries / Joint Ventures		**123,78**	21,56
(vi) Units, Certificate of Deposits and Others		**11,317,20**	549,96
	Total	**49,393,32**	30,564,58
B. Investments outside India		**22**	22
	Total	**49,393,54**	30,564,80
(i) Gross Value of Investments			
(a) In India		**49,400,77**	30,658,83
(b) Outside India		**22**	22
	Total	**49,400,99**	30,659,05
(ii) Provision for Depreciation			
(a) In India		**7,45**	94,25
(b) Outside India		**-**	-
	Total	**7,45**	94,25
(iii) Net Value of Investments			
(a) In India		**49,393,32**	30,564,58
(b) Outside India		**22**	22
	Total	**49,393,54**	30,564,80
SCHEDULE 9 - ADVANCES			
A (i) Bills purchased and discounted		**1,637,38**	804,76
(ii) Cash Credits, Overdrafts and Loans repayable on demand		**15,437,69**	10,344,53
(iii) Term loans		**46,351,83**	35,795,49
	Total	**63,426,90**	46,944,78
B (i) Secured by tangible assets*		**42,662,92**	32,845,44
(ii) Covered by Bank/Government Guarantees		**1,752,48**	522,36
(iii) Unsecured		**19,011,50**	13,576,98
	Total	**63,426,90**	46,944,78

* Including advances against Book Debts

Schedules to the Accounts
As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
C	Advances in India			
	(i) Priority Sector		**17,426,29**	17,683,07
	(ii) Public Sector		**477,20**	205,15
	(iii) Banks		**8,75**	38,32
	(iv) Others		**45,514,66**	29,018,24
	(Advances are net of specific loan loss provisions)	**Total**	**63,426,90**	46,944,78

SCHEDULE 10 - FIXED ASSETS

			As at 31-Mar-08	As at 31-Mar-07
A.	Premises (including Land)			
	Gross Block			
	At cost on 31 March of the preceding year		**367,71**	314,50
	Additions during the year		**160,88**	53,21
	Deductions during the year		**(4,19)**	-
		Total	**524,40**	367,71
	Depreciation			
	As at 31 March of the preceding year		**65,29**	51,24
	Charge for the year		**16,27**	14,05
	On deductions during the year		**(7)**	-
		Total	**81,49**	65,29
	Net Block		**442,91**	302,42
B.	Other Fixed Assets (including furniture and fixtures)			
	Gross Block			
	At cost on 31 March of the preceding year		**1,506,02**	1,231,14
	Additions during the year		**328,19**	283,18
	Deductions during the year		**(15,45)**	(8,30)
		Total	**1,818,76**	1,506,02
	Depreciation			
	As at 31 March of the preceding year		**841,77**	639,32
	Charge for the year		**255,44**	205,55
	On deductions during the year		**(10,67)**	(3,10)
		Total	**1,086,54**	841,77
	Net Block		**732,22**	664,25

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
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	**1,175,13**	966,67

SCHEDULE 11 - OTHER ASSETS

			As at 31-Mar-08	As at 31-Mar-07
I.	Interest accrued		**1,190,49**	1,592,54
II.	Advance tax (net of provision)		**407,14**	445,23
III.	Stationery and stamps		**28,23**	16,87
IV.	Bond and share application money pending allotment		**3,43**	15,00
V.	Security deposit for commercial and residential property		**194,17**	129,20
VI.	Cheques in course of collection		**-**	6,59
VII.	Other assets*		**2,579,23**	1,507,28
	**Inlcudes deferred tax asset (net) of Rs. 383,21 lacs (previous year: Rs. 157,91 lacs)*	**Total**	**4,402,69**	3,712,71

SCHEDULE 12 - CONTINGENT LIABILITIES

			As at 31-Mar-08	As at 31-Mar-07
I.	Claims against the bank not acknowledged as debts - Taxation		**233,52**	389,17
II.	Claims against the bank not acknowledged as debts - Others		**12,08**	13,10
III.	Liability on account of outstanding forward exchange contracts		**192,995,55**	123,416,46
IV.	Liability on account of outstanding derivative contracts		**374,441,83**	193,736,67
V.	Guarantees given on behalf of constituents - in India		**5,662,16**	4,054,22
VI.	Acceptances, endorsements and other obligations		**10,172,14**	2,605,05
VII.	Other items for which the Bank is contingently liable		**9,490,80**	3,933,57
		Total	**593,008,08**	328,148,24

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

			Year Ended 31-Mar-08	Year Ended 31-Mar-07
SCHEDULE 13 - INTEREST EARNED				
I.	Interest/discount on advances/bills		**6,966,73**	4,334,15
II.	Income from investments		**2,872,04**	2,057,53
III.	Interest on balance with RBI and other inter-bank funds		**272,39**	252,94
IV	Others		**3,84**	3,31
		Total	**10,115,00**	6,647,93
SCHEDULE 14 - OTHER INCOME				
I.	Commission, exchange and brokerage		**1,714,50**	1,292,38
II.	Profit/(Loss) on sale of investments		**164,01**	(74,40)
III.	Profit on revaluation of investments		**77,77**	5,99
IV.	Profit / (Loss) on sale of building and other assets (net)		**70**	(1,05)
V.	Profit on exchange transactions (net)		**283,13**	190,35
VI.	Miscellaneous income		**43,04**	102,96
		Total	**2,283,15**	1,516,23
SCHEDULE 15 - INTEREST EXPENDED				
I.	Interest on Deposits		**4,382,73**	2,695,32
II.	Interest on RBI/Inter-bank borrowings		**242,43**	274,05
III.	Other interest*		**261,96**	210,08
	**Principally includes interest on subordinated debt.*	**Total**	**4,887,12**	3,179,45
SCHEDULE 16 - OPERATING EXPENSES				
I.	Payments to and provisions for employees		**1,301,35**	776,86
II.	Rent, taxes and lighting		**258,61**	193,97
III.	Printing and stationery		**130,98**	85,30

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

			Year Ended 31-Mar-08	Year Ended 31-Mar-07
IV.	Advertisement and publicity		**114,73**	74,88
V.	Depreciation on bank's property		**271,72**	219,60
VI.	Directors' fees, allowances and expenses		**39**	46
VII	Auditors' fees and expenses		**82**	57
VIII.	Law charges		**10,50**	5,55
IX.	Postage, telegram, telephone etc.		**349,88**	185,05
X.	Repairs and maintenance		**179,33**	125,74
XI.	Insurance		**90,16**	71,66
XII.	Other Expenditure*		**1,037,15**	681,16
		Total	**3,745,62**	2,420,80

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

SCHEDULE 17 - PROVISIONS AND CONTINGENCIES

			Year Ended 31-Mar-08	Year Ended 31-Mar-07
I.	Income tax		**690,45**	497,30
II.	Wealth tax		**45**	40
III.	Loan loss provision		**1,026,37**	691,15
IV.	Provision against standard assets		**189,66**	169,86
V.	Others*		**268,30**	63,75
		Total	**2,175,23**	1,422,46

**Includes: Contingent provisions for tax, legal & other contingencies: Rs. 264,39 lacs (previous year: Rs. 54,71 lacs); Provisions for securitised-out assets: Rs. 3,91 lacs (previous year: Rs. 11,95 lacs) and write back of provision of country risk: Rs. Nil (previous year: Rs. 2,91 lacs)*

Schedules to the Accounts

As at March 31, 2008

SCHEDULE 18 – EARNINGS PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net profit after taxation of Rs. 1,590,18 lacs (previous year: Rs. 1,141,45 lacs) and the weighted average number of equity shares outstanding during the year amounting to 34,40,20,927 (previous year: 31,45,63,347).

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

(Rupees)

	For the year	
Particulars	**2007-2008**	**2006-2007**
Nominal value per share	10.00	10.00
Basic earnings per share	46.22	36.29
Effect of potential equity shares for stock options (per share)	(0.63)	(0.23)
Diluted earnings per share	45.59	36.06

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	
Particulars	**2007-2008**	**2006-2007**
Earnings used in basic earnings per share	1,590,18	1,141,45
Impact of dilution on profits	-	-
Earnings used in diluted earnings per share	1,590,18	1,141,45

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	
Particulars	**2007-2008**	**2006-2007**
Weighted average number of equity shares used in computing basic earnings per equity share	34,40,20,927	31,45,63,347
Effect of potential equity shares for stock options outstanding	47,97,548	19,69,537
Weighted average number of equity shares used in computing diluted earnings per equity share	34,88,18,475	31,65,32,884

Schedules to the Accounts

As at March 31, 2008

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008.

1. Capital Adequacy Ratio

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

Rs. Lacs

For the year

Particulars		2007-2008	2006-2007
CAPITAL STRUCTURE			
Tier I capital			
Subscribed and paid-up capital		354,43	319,39
Innovative perpetual debt		200,00	200,00
Statutory reserve		1,519,37	1,121,82
Balance in profit and loss account		2,574,61	1,932,03
Share premium account		6,479,48	2,624,55
Amalgamation reserve		14,52	14,52
General reserve		511,56	416,08
Capital reserve		1,78	1,78
Less: Deferred tax asset		(383,21)	(157,91)
Less: Credit enhancement on securitisation (50%)		(85,82)	(99,54)
Less: Investment in subsidiary		(123,76)	(20,01)
	Total	**11,062,96**	**6,352,71**
Tier II capital			
Upper Tier II capital		1,037,10	1,070,60
Lower Tier II capital		2,012,00	2,012,00
Provision for Standard assets		533,58	343,92
Floating Provision		10,03	10,03
Investment Reserve Account		41,48	2,98
Less: Credit enhancement on securitization		(85,82)	(99,54)
	Total	**3,548,37**	**3,339,99**
	Total capital funds	**14,611,33**	**9,692,70**
Risk weighted assets and contingents			
Credit risk		89,811,92	65,624,80
Market risk (including specific risk)		17,636,07	8,457,12
	Total	**107,447,99**	**74,081,92**
Capital Adequacy Ratios			
Tier 1		10.30%	8.57%
Tier 2		3.30%	4.51%
	Total	**13.60%**	**13.08%**

Schedules to the Accounts

As at March 31, 2008

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 Key Events

The shareholders of the Bank, in its extra-ordinary general meeting held on March 27, 2008, accorded their consent to a scheme of amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited. The shareholders of the Bank approved the issuance of one equity share of Rs. 10/- each of HDFC Bank Limited for every 29 equity shares of Re. 1/- each held in Centurion Bank of Punjab Limited. This is subject to receipt of approvals from the Reserve Bank of India, stock exchanges and other requisite statutory and regulatory authorities.

The shareholders also accorded their consent to issue equity shares and/or warrants convertible into equity shares at the rate of Rs. 1,530.13 per share (which is the minimum price calculated in accordance with the guidelines for preferential allotment issued by SEBI) to HDFC Limited and/or other promoter group companies on preferential basis, subject to regulatory approvals. The terms and conditions of the aforesaid warrants require 10% of the price of the equity shares to be paid at the time of allotment of the warrants. Each warrant carries a right/option to one equity share of the Bank. The options attached to the warrants may be exercised at any time within a period of 18 months from the date of issue of the warrant on balance payment of 90% of the issue price of equity shares.

The shareholders of the Bank have also approved increase in authorized capital from Rs. 450,00 lacs to Rs. 550,00 lacs.

3 Capital Infusion

- Preferential allotment of equity shares:

  During the year ended March 31, 2008 approvals from the Board and shareholders were sought to allot 1,35,82,000 equity shares of Rs. 10/- each at a premium of Rs. 1013.49 per share on a preferential basis to HDFC Ltd. aggregating to Rs. 1,390,10 lacs. The said allotment was done on June 29, 2007.

Schedules to the Accounts

As at March 31, 2008

- Public Offering of American Depository Shares (ADS):

  During the year ended March 31, 2008, the Bank made a public offering of 6,594,504 American Depositary Shares (ADS), each ADS representing three equity shares, at a price of $ 92.10 per ADS. An amount of Rs. 2,393,87 lacs was received net of underwriting discounts and commissions.

4 Reserves and surplus

- **General reserve**

  The Bank has made an appropriation of Rs. 159,02 lacs (previous year: Rs 114,14 lacs) out of profits for the year ended March 31, 2008 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

- **Investment Reserve Account**

  During the year, the Bank has transferred Rs. 38,50 lacs (previous year: Rs. 2,98 lacs) from the Profit and Loss Account [net of transfer from Investment Reserve Account: Rs. 3,28 lacs (previous year: Nil)] to Investment Reserve Account pursuant to the Reserve Bank of India guidelines.

5 Accounting for Employee Share based Payments

The shareholders of the Bank approved Plan “A” in January 2000, Plan “B” in June 2003, Plan “C” in June 2005 and Plan “D” in June 2007. 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.

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.

Plans B, C and D 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. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plan C and Plan D the price is that quoted on an Indian stock exchange with the highest trading volume as of the preceding working day of the date of grant of options.

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.

Schedules to the Accounts

As at March 31, 2008

Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2008

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,13,21,600	803.10
Granted during the year	83,05,500	1098.70
Exercised during the year	16,77,800	631.81
Forfeited / lapsed during the year	10,11,500	938.32
Options outstanding, end of year	1,69,37,800	956.94
Options Exercisable	3,288,900	740.34

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	498.89

Following summarises the information about stock options outstanding as at March 31, 2008

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average Exercise Price (Rs.)
Plan A*	Rs. 225.43 to Rs. 226.96	-	-	-
Plans B, C and D	Rs. 358.60 to Rs. 1,098.70	16,937,800	0.8	956.94

* No stock options under Plan A were outstanding as at March 31, 2008.

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

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average Exercise Price (Rs.)
Plan A	Rs. 225.43 to Rs. 226.96	9,100	-	226.71
Plans B and C	Rs. 358.60 to Rs. 994.85	1,13,12,500	1.4	803.57

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 38

Schedules to the Accounts

As at March 31, 2008

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, 2008 are:

Particulars	**March 31, 2008**	**March 31, 2007**
Dividend yield	0.6%	0.5%
Expected volatility	25.20%	31.75%
Risk - free interest rate	7.7% - 7.9%	7.8% - 7.9%
Expected life of the option	1-4 years	1-5 years

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 pro forma amounts indicated below:

Rs. Lacs

Particulars	**March 31, 2008**	**March 31, 2007**
Net Profit (as reported)	1,590,18	1,141,45
Add: Stock-based employee compensation expense included in net income	-	-
Less: Stock based compensation expense determined under fair value based method: (pro forma)	161,16	89,48
Net Profit: (pro forma)	**1,429,02**	**1,051,97**
	(Rs.)	(Rs.)
Basic earnings per share (as reported)	46.22	36.29
Basic earnings per share (pro forma)	41.54	33.44
Diluted earnings per share (as reported)	45.59	36.06
Diluted earnings per share (pro forma)	40.97	33.23

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

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

Schedules to the Accounts

As at March 31, 2008

7 Other liabilities

- Others (including provisions) under other liabilities includes floating provision of Rs. 10,03 lacs (previous year: Rs. 10,03 lacs).

  Movement in floating provision is given here below:

(Rs. lacs)

Particulars	2007-2008	2006-2007
Opening Balance*	10,03	10,03
Provisions made during the year	-	-
Draw down made during the year	-	-
Closing Balance	10,03	10,03

* Consequent to 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.

- 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, 2008 are Rs. 2,012,00 lacs (previous year: Rs 2,012,00 lacs), Rs. 1,037,10 lacs (previous year: Rs. 1,070,60 lacs) and Rs. 200,00 lacs (previous year: Rs. 200,00 lacs) respectively.

  No fresh issue of subordinated debt (lower tier II capital), upper tier II capital or innovative perpetual debt was made during the year ended March 31, 2008.

  During the year ended March 31, 2007, the Bank raised Rs. 635,90 lacs as upper tier II capital at an annualized coupon ranging between 8.80% to 9.20%. During the previous fiscal the Bank had also raised a 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. During the year ended March 31, 2007 the Bank had raised Rs. 410,00 lacs as lower tier II capital at an annualized coupon ranging between 8.45% to 9.10%. The Bank had also raised 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 during the said fiscal.

  Based on the balance term to maturity as at March 31, 2008, 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.

- Other liabilities includes contingent provisions towards standard assets of Rs. 533,58 lacs (previous year: Rs. 343,92 lacs).

Schedules to the Accounts

As at March 31, 2008

8 Investments

- Details of investments Rs. Lacs

Particulars	March 31, 2008	March 31, 2007
Value of investments		
Gross value of investment		
In India	49,400,77	30,658,83
Outside India	22	22
Provisions for Depreciation		
In India	7,45	94,25
Outside India	-	-
Net Value of Investments		
In India	49,393,32	30,564,58
Outside India	22	22

- Movement of provisions held towards depreciation on investments Rs. Lacs

Particulars	2007 - 2008	2006 - 2007
Opening balance as at April 1	94,25	100,23
Add: Provisions made during the year *	7,12	5
Less: Write-off, write back of excess provision during the year	93,92	6,03
Closing balance as at March 31	7,45	94,25

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

- Current year figure includes transfer of provision from an existing non-performing loan, which has been restructured as an investment.

- Repo Transactions

  ✔ Details of repo / reverse repo deals done during the year ended March 31, 2008 Rs. Lacs

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As at March 31, 2008
Securities sold under repos	-	6,161,90	432,49	4,851,18
Securities purchased under reverse repos	-	21,000,00	393,43	237,08

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

Schedules to the Accounts

As at March 31, 2008

✔ Details of Repo / Reverse Repo deals done during the year ended March 31, 2007 Rs. Lacs

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As at 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.

- Non-SLR Investment Portfolio

✔ Issuer composition of Non-SLR Investments as at March 31, 2008 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	3,310,66	2,286,87	-	484,58	1,174,17
2	Financial institutions	95,75	40,94	-	-	30,00
3	Banks	1,600,59	1,598,73	-	-	-
4	Private corporate	457,32	253,19	-	5,51	5,51
5	Subsidiaries / Joint ventures	123,78	123,78	-	-	123,78
6	Others	12,142,91	11,442,79	-	-	2,909,03
7	Provision held towards depreciation	(3,63)				
	Total	**17,727,38**	**15,746,30**	**-**	**490,09**	**4,242,49**

* Excludes investments in equity shares and units

✔ Issuer composition of Non-SLR Investments as at 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 shares and units

Schedules to the Accounts

As at March 31, 2008

✔ Non performing Non-SLR investments Rs. Lacs

Particulars	2007-2008	2006-2007
Opening balance	9,69	9,69
Additions during the year since 1st April*	51	-
Reductions during the above period	9,54	-
Closing balance	**66**	**9,69**
Total provisions held	**66**	**9,69**

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

- Details of investments category-wise

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

Particulars	As at March 31, 2008				As at March 31, 2007			
	Held for Trading	Available for Sale	Held to Maturity	Total	Held for Trading	Available for Sale	Held to Maturity	Total
Government securities	1,253,57	4,763,98	25,648,03	31,665,58	163,79	3,268,52	19,111,91	22,544,22
Other approved securities	-	58	-	58	-	68	-	68
Shares	8,82	20,86	5,00	34,68	8,19	33,34	17,00	58,53
Bonds and debentures	480,70	5,537,72	233,30	6,251,72	-	7,046,53	3,43,32	7,389,85
Subsidiary / joint ventures	-	-	123,78	123,78	-	-	21,56	21,56
Others	9,232,88	2,084,32	-	11,317,20	256,23	293,73	-	549,96
Total	**10,975,97**	**12,407,46**	**26,010,11**	**49,393,54**	**428,21**	**10,642,80**	**19,493,79**	**30,564,80**

- Investments include securities aggregating Rs. 203,86 lacs (previous year: Rs. 89,40 lacs) which are kept as margin for clearing of securities and Rs. 6,080,39 lacs (previous year: Rs. 3,841,08 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.

- Investments amounting to Rs. 16,139,31 lacs (previous year: Rs. 8,467,73 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).

- Other investments include certificate of deposits amounting to Rs. 1,563,81 lacs (previous year: nil), commercial paper amounting to Rs. 34,92 lacs (previous year: Rs 9,89 lacs), investments in debt mutual fund units amounting to Rs. 9,232,89 lacs (previous year: Rs 256,23 lacs), investments in equity mutual fund units amounting to Rs. 100 lacs (previous year: Rs 100 lacs) and deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 484,58 lacs (previous year: Rs. 282,84 lacs).

Schedules to the Accounts

As at March 31, 2008

- 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.
- During the year ended March 31, 2008 the Bank purchased 599,839 equity shares of Rs. 10 each of HDFC Securities Ltd. at a price of Rs. 62.5 per share aggregating to Rs. 375 lacs. Consequent to the said purchase, the stake holding of the Bank in HDFC Securities Ltd. increased from 55.0% to 59.0%.
- The Bank also invested in 10 crore equity shares of HDB Financial Services Limited of Rs. 10 each at par aggregating to Rs. 100 crores. HDB Financial Services Limited is a non-banking financial company and a subsidiary of the Bank. It is yet to commence full-fledged operations. As at March 31, 2008, the stake holding of the Bank in the company was 95.3%.

9 Derivatives

- Forward Rate Agreements/Interest Rate Swaps (Rupee) Rs. Lacs

Sr. No.	Particulars	March 31, 2008	March 31, 2007
i)	The notional principal of swap agreements	350,090,00	174,645,68
ii)	Losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	1,887,16	2,018,68
iii)	Concentration of credit risk arising from swaps (with banks)	90%	89%
iv)	The fair value of the swap book	(45,63)	(25,24)

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

- Exchange Traded Interest Rate Derivatives Rs. Lacs

Sr. No.	Particulars	March 31, 2008	March 31, 2007
i)	The notional principal amount of exchange traded interest rate derivatives undertaken during the year, instrument-wise	Nil	Nil
ii)	The notional principal amount of exchange traded interest rate derivatives outstanding as of March 31, instrument-wise	Nil	Nil
iii)	The notional principal amount of exchange traded interest rate derivatives outstanding and not 'highly effective', as of March 31, instrument-wise	Nil	Nil
iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not 'highly effective', as of March 31,instrument-wise	Nil	Nil

- Disclosures on risk exposure in 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.

Schedules to the Accounts

As at March 31, 2008

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. The Bank has a Customer Suitability & Appropriateness Policy in place for customers.

✔ Policies for hedging risk

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

✔ 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 upon evaluating 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.

✔ Quantitative 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)	7,144,02	13,918,51
	b) Trading	10,104,60	343,274,70
2	Marked to market positions (net)		
	a) Asset (+)	109,43	-
	b) Liability (-)	-	(34,00)
3	Credit exposure	2,184,97	2,786,13
4	Likely change of one percentage change in interest rate (100*PV01)		
	a) Banking (including hedging)	3,36	43,14
	b) Trading	-	38,92
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	6,09	55,26
	b) Trading	-	68,74
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	62	17,77
	b) Trading	-	8,26

Schedules to the Accounts

As at March 31, 2008

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

The above disclosure includes Rupee Option details as part of currency derivatives. Mark to market positions include accruals.

10 Asset Quality

- Movements in NPAs (funded) Rs. Lacs

Particulars	2007-2008	2006-2007
(i) Net NPAs to Net Advances (%)	0.47%	0.43%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	657,76	508,89
(b) Additions during the year	1,202,76	778,60
(c) Reductions during the year	953,55	629,73
(d) Closing balance	906,97	657,76
(iii) Movement of Net NPAs		
(a) Opening balance	202,89	155,18
(b) Additions during the year	98,10	54,68
(c) Reductions during the year	2,47	6,97
(d) Closing balance	298,52	202,89
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	454,87	353,71
(b) Additions during the year	1,104,66	723,92
(c) Write-off/ write-back of excess provisions	951,08	622,76
(d) Closing balance	608,45	454,87

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

- Category-wise NPAs (funded) Rs. Lacs

Non Performing Asset Category	March 31, 2008	March 31, 2007
Gross NPAs		
Sub-standard	608,40	375,94
Doubtful	75,03	105,75
Loss	223,54	176,07
As at March 31	**906,97**	**657,76**
Provisions		
Sub-standard	311,04	173,72
Doubtful	73,87	105,08
Loss	223,54	176,07
As at March 31	**608,45**	**454,87**
Net NPA	**298,52**	**202,89**

Schedules to the Accounts

As at March 31, 2008

- Details of loan assets subjected to restructuring

Rs. Lacs

Item	2007-2008	2006-2007
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation	2,74	9,42
Of which under CDR	2,74	9,42
(ii) Total amount of Standard assets subjected to restructuring, rescheduling, renegotiation	2,74	9,42
Of which under CDR	2,74	9,42
(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	-	-
Of which under CDR	-	-

- Details of financial assets sold to securitization/reconstruction companies for asset reconstruction

  During the years ended March 31, 2008 and March 31, 2007, there were no financial assets that were sold by the Bank to securitization/reconstruction companies for asset reconstruction.

- Details of non-performing financial assets purchased/sold

  During the years ended March 31, 2008 and March 31, 2007, there were no non-performing financial assets that were either purchased or sold by the Bank.

11 Details of exposures in sensitive sectors, risk category-wise country exposures and single/group borrower exposures

- Details of exposure to real estate sector

Rs. Lacs

Category	March 31, 2008	March 31, 2007
a) Direct exposure:	**9,796,90**	**6,841,36**
(i) Residential mortgages	2,739,34	1,803,11
(ii) Commercial real estate	5,902,01	3,552,72
(iii) Investments in mortgage backed securities (MBS) and other securitised exposures:		
a. Residential	1,155,55	1,485,53
b. Commercial real estate	-	-
b) Indirect exposure:	**360,14**	**478,76**
Fund based and non-fund based exposures on National Housing Bank (NHB) and housing finance companies (HFCs)	360,14	478,76
Total real estate exposure	**10,157,04**	**7,320,12**

Schedules to the Accounts

As at March 31, 2008

- Details of capital market exposure

Rs. Lacs

Sr.No.	Particulars	March 31, 2008	March 31, 2007
(i)	Investments made in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt	20,42	39,03
(ii)	Advances against shares, bonds, debentures or other securities or on clean basis to individuals for investment in equity shares (including IPO's/ESOPS), convertible bonds or convertible debentures, units of equity oriented mutual funds	179,66	109,83
(iii)	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security	1,082,12	-
(iv)	Advances for any other purposes to the extent secured by collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances	136,01	-
(v)	Secured & unsecured advances to stockbrokers & guarantees issued on behalf of stockbrokers and market makers	3,065,71	1,415,62
(vi)	Loans sanctioned to corporates against the security of shares/bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources	-	-
(vii)	Bridge loans to companies against expected equity flows/issues	-	-
(viii)	Underwriting commitments taken up in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds	-	-
(ix)	Financing to stockbrokers for margin trading	-	-
(x)	All exposures to venture capital funds (both registered & unregistered) deemed to be on par with equity and hence reckoned for capital market exposure	-	-
	Total Exposure to Capital Market	**4,483,92**	**1,564,48**

Exposure is higher of limits sanctioned or the amount outstanding.

Schedules to the Accounts

As at March 31, 2008

- Details of Risk Category wise Country Exposure

Rs. Lacs

Risk Category	Exposure (Net) as at March 31, 2008	Provision held as at March 31, 2008	Exposure (Net) as at March 31, 2007	Provision held as at March 31, 2007
Insignificant	2,010,67	-	1,874,86	-
Low	626,81	-	435,47	-
Moderate	72,56	-	24,25	-
High	-	-	20	-
Very high	16	-	424	-
Restricted	-	-	-	-
Off-credit	-	-	-	-
Total	**2,710,20**	**-**	**2,339,02**	-

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

  During the year, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in the case of Indian Oil Corporation and NABARD, where the single borrower limits were exceeded. The Board of Directors of the Bank approved the said excess in respect of these exposures, which were within the ceiling of 20% of capital funds.

12 Other Fixed Assets (including furniture and fixtures)

It includes amount capitalized on software having useful life of four years. Details regarding the same are tabulated below:

Rs. Lacs

Particulars	2007-2008	2006-2007
Cost as at March 31 of the previous year	263,10	204,95
Additions during the year	78,11	58,15
Accumulated depreciation as at March 31	(216,77)	(166,75)
Net value as at March 31 of the current year	**124,44**	**96,35**

13 Other assets

Other assets include deferred tax asset (net) of Rs. 383,21 lacs (previous year: Rs. 157,91 lacs).

The break up of the same is as follows:

Rs. Lacs

Particulars	March 31, 2008	March 31, 2007
Deferred tax asset arising out of:		
Loan loss provisions	298,23	204,29
Others	159,39	37,30
Total	**457,62**	**241,59**
Deferred tax liability arising out of:		
Depreciation	(74,41)	(83,68)
Total	**(74,41)**	**(83,68)**
Deferred tax asset (net)	**383,21**	**157,91**

Management believes that the Bank will have profits against which the temporary differences will be utilized.

Schedules to the Accounts

As at March 31, 2008

14 Maturity pattern of key assets and liabilities

Assets & liabilities are classified in the maturity buckets as per the guidelines issued by the Reserve Bank of India.

Rs. Lacs

As at March 31, 2008	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	6,028,49	(555,55)	3,672,08	5,094,76	11,447,86	31,469,80	3,941,13	2,328,33	63,426,90
Investments	15,607,88	1,213,83	3,047,48	3,381,96	4,292,61	16,497,83	2,077,69	3,274,26	49,393,54
Deposits	9,158,58	3,333,89	6,672,95	8,482,20	7,796,26	56,624,85	5,768,24	2,931,63	100,768,60
Borrowings	1,709,97	105,69	1,626,74	795,43	221,05	19,98	-	-	4,478,86
FCY assets	2,729,71	199,62	439,21	371,45	135,53	51,96	147,73	1,24	4,076,45
FCY liabilities	1,351,78	144,48	1,759,18	985,63	630,54	476,01	36,70	401,20	5,785,52

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 off from advances.

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 off from advances.

15 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

Particulars	March 31, 2008	March 31, 2007
Opening provision for reward points	16,13	8,75
Provision for reward points made during the year	14,96	9,24
Utilisation/Write back of provision for reward points	(31)	(1,86)
Effect of change in cost of reward points	4,20	-
Closing provision for reward points	**34,98**	**16,13**

Schedules to the Accounts

As at March 31, 2008

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

b) Description of contingent liabilities

Sr. No.	Contingent liability*	Brief description
1.	Claims against the 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 of financial instruments of such foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. The aggregate contractual or notional amount of

Cont.......

Schedules to the Accounts

As at March 31, 2008

Sr. No.	Contingent liability*	Brief description
		derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.
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

16 Business ratios/information

	For the year	
Particulars	**2007-2008**	**2006-2007**
Interest income as a percentage of working funds[1]	8.42%	7.73%
Net interest income as a percentage of working funds	4.35%	4.03%
Non-interest income as a percentage of working funds	1.90%	1.76%
Operating profit[2] as a percentage of working funds	3.13%	2.98%
Return on assets (average)	1.32%	1.33%
Business[3] per employee (Rs. lacs)	506	607
Profit per employee[4] (Rs. lacs)	4.97	6.13
Percentage of net non performing assets[5] to customer assets[6]	0.42%	0.38%
Percentage of net non performing assets to net advances[7]	0.47%	0.43%
Gross non performing assets to gross advances	1.34%	1.32%

Schedules to the Accounts

As at March 31, 2008

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.
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.

17 Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2008 on units, equity and preference shares amounting to Rs. 267,60 lacs (previous year: Rs. 141,83 lacs).

18 Earnings from Securitised-out Assets

Rs. Lacs except numbers

Particulars	2007 - 2008	2006 - 2007
Book value of loans securitized	290,06	641,76
Total no. of contracts securitised (nos.)	5,244	83,430
Sale consideration received	291,39	653,58
Profit/(Loss) on sell off**	1,25	5,40

** 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.

<u>Form and quantum of services and liquidity provided by way of credit enhancement</u>

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 at March 31, 2008 was Rs. 465,81 lacs (previous year: Rs. 462,84 lacs)

19 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.

Schedules to the Accounts

As at March 31, 2008

20 Miscellaneous income

Miscellaneous income includes Rs. 36,71 lacs (previous year: Rs. 89,91 lacs) pertaining to derivative transactions.

21 Other expenditure

Other expenditure includes sales and marketing expense amounting to Rs. 192,83 lacs (previous year: Rs. 113,08 lacs), expenses on collections and recoveries amounting to Rs. 158,73 lacs (previous year: Rs. 113,59 lacs) and outsourcing fees amounting to Rs. 316,02 lacs (previous year: Rs. 197,29 lacs) exceeding 1% of the total income of the Bank.

22 Income Taxes

The income tax expense comprises the following: Rs. Lacs

Particulars	2007-2008	2006-2007
Current income tax expense	866,25	581,88
Deferred income tax (benefit) / expense	(192,58)	(96,58)
	673,67	**485,30**
Fringe benefit tax (FBT)	16,78	12,00
Income tax expense	**690,45**	**497,30**
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	2,280,63	1,638,75
Effective statutory income tax rate	33.99%	33.66%
Expected income tax expense	775,19	551,60
Adjustments to reconcile expected income tax to actual tax expense:		
Permanent differences:		
Income exempt from taxes	(106,76)	(64,88)
Other (including adjustments for prior years) – net	5,24	11
Effect of change in statutory tax rates – net	-	(153)
	673,67	**485,30**
Fringe benefit tax (FBT)	16,78	12,00
Income tax expense	**690,45**	**497,30**

Schedules to the Accounts

As at March 31, 2008

23 Employee Benefits

Rs. Lacs

Gratuity

Particulars	2007-2008
• Reconciliation of opening and closing balance of the present value of the defined benefit obligation	
Present value of obligation as at April 1, 2007	27,77
Interest cost	2,20
Current service cost	4,66
Benefits paid	(1,83)
Actuarial (gain) / loss on obligation	5,29
Present value of obligation as at March 31, 2008	38,09
• Reconciliation of opening and closing balance of the fair value of the plan assets	
Fair value of plan assets as at April 1, 2007	15,71
Expected return on plan assets	1,56
Contributions	8,00
Benefits paid	(1,83)
Actuarial gain / (loss) on plan assets	(1,07)
Fair value of plan assets as at March 31, 2008	22,37
• Amount recognised in balance sheet	
Fair value of plan assets as at March 31, 2008	22,37
Present value of obligation as at March 31, 2008	(38,09)
Asset / (Liability) as at March 31, 2008	(15,72)
• Expense recognised in the profit/loss account	
Interest Cost	2,20
Current Service Cost	4,66
Expected return on plan assets	(1,56)
Net actuarial (gain) / loss recognised in the year	6,36
Net cost	11,66
Actual return on plan assets	4,89
Estimated contribution for the next year	9,20

Assumptions:

Discount rate	8.2% per annum
Expected return on plan assets	8.2% per annum
Salary escalation rate	10.0% per annum

Schedules to the Accounts

As at March 31, 2008

Compensated Absences

The actuarial liability of compensated absences of un-encashable accumulated privileged and sick leaves of the employees of the Bank as of March 31, 2008 is given below:

Particulars	2007-2008
Privileged leave	97,30
Sick leave	15,70
Total actuarial liability	113,00

Assumptions	
Discount rate	8.2% per annum
Salary escalation rate	10.0% per annum

Of the above, Rs. 63,54 lacs (net of tax) has been charged out of opening reserves pursuant to the transitional provisions laid out in (AS) 15 (Revised) Employee Benefits.

Expected rate of return on investments is determined based on the assessment made by the Bank at the beginning of the year with regard to its existing portfolio. The Bank's investments have been made in insurance funds.

The Bank does not have any unfunded defined benefit plan.

The Bank contributed Rs. 43,93 lacs to the provident fund and Rs. 12,88 lacs to the superannuation plan respectively.

24 Segment reporting

Summary of the operating segments of the Bank is given below: Rs. Lacs

Particulars	2007-2008	2006-2007
1. Segment Revenue		
a) Treasury	1,651,67	473,39
b) Retail Banking	9,096,49	7,764,88
c) Wholesale Banking	6,737,31	5,090,43
d) Other Banking Operations	1,279,42	-
e) Unallocated	-	-
Total	**18,764,89**	**13,328,70**
Less: Inter Segment Revenue	6,366,74	5,164,54
Income from Operations	**12,398,15**	**8,164,16**
2. Segment Results		
a) Treasury	488,32	18,37
b) Retail Banking	540,15	917,15
c) Wholesale Banking	1,197,96	755,03
d) Other Banking Operations	309,87	
e) Unallocated	(255,67)	(51,80)
Total Profit Before Tax	**2,280,63**	**1,638,75**
Income Tax expense	(690,45)	(497,30)
Net Profit	**1,590,18**	**1,141,45**

Schedules to the Accounts

As at March 31, 2008

Rs. Lacs

Particulars	2007-2008	2006-2007
3 Capital Employed		
Segment assets		
a) Treasury	54,351,34	44,78,66
b) Retail Banking	42,487,36	50,100,34
c) Wholesale Banking	28,156,95	36,053,47
d) Other Banking Operations	3,254,01	
e) Unallocated	4,926,94	603,14
Total Assets	**133,176,60**	**91,235,61**
Segment liabilities		
a) Treasury	3,790,41	3,202,39
b) Retail Banking	61,524,33	47,862,73
c) Wholesale Banking	49,256,10	33,475,77
d) Other Banking Operations	-	
e) Unallocated	18,605,76	261,57
Total Liabilities	**133,176,60**	**84,802,46**
Net Segment assets / (liabilities)		
a) Treasury	50,560,93	1,276,27
b) Retail Banking	(19,036,97)	2,237,61
c) Wholesale Banking	(21,099,15)	2,577,70
d) Other Banking Operations	3,254,01	
e) Unallocated	(13,678,82)	341,57
4. Capital Expenditure (including net CWIP)		
a) Treasury	106,58	40,18
b) Retail Banking	342,70	209,13
c) Wholesale Banking	150,64	64,02
d) Other Banking Operations	29,49	
e) Unallocated	-	-
Total	**629,41**	**313,33**
5. Depreciation		
a) Treasury	22,93	12,53
b) Retail Banking	186,20	174,62
c) Wholesale Banking	45,34	32,45
d) Other Banking Operations	17,25	
e) Unallocated	-	-
Total	**271,72**	**219,60**

The classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Due to the said change, figures for the year ended March 31, 2007 are not reclassified and hence not comparable.

Schedules to the Accounts

As at March 31, 2008

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.

Subsidiaries

HDFC Securities Limited

HDB Financial Services Limited (with effect from August 31, 2007)

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 Ergo General Insurance Company Ltd. (formerly HDFC Chubb General Insurance Company Ltd.)

HDFC Venture Capital Ltd.

HDFC Ventures Trustee Company Ltd.

HDFC Sales Pvt. Ltd. (formerly Home Loan Services India Pvt. Ltd.)

HDFC Property Ventures Ltd.

Associates

Computer Age Management Services Private Ltd. (ceased to be an associate from October 12, 2007)

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Flexcel International Private Ltd. (ceased to be an associate from March 31, 2008)

Atlas Documentary Facilitators Company Private Ltd.

HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Harish Engineer, Executive Director

Paresh Sukthankar, Executive Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

Schedules to the Accounts

As at March 31, 2008

The Bank's related party balances and transactions for the year ended March 31, 2008 are summarized as follows:

Rs. Lacs

Items / Related Party	Enterprises under Common Control of the Promoter	Subsidiaries	Associates / Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposit	132,41	137,22	30,79	3,91	1,09	305,42
Placement of Deposits	18	1	19,50	-	3,50	23,19
Advances	-	-	20	-	-	20
Purchase of fixed assets	-	-	21,20	-	-	21,20
Interest received	-	21	3	-	-	24
Rendering of Services	260,83	13,75	-	-	-	274,58
Receiving of Services	14,25	1,96	360,51	-	54	377,26
Equity Investment	-	123,76	3,71	-	-	127,47
Dividend on equity investment	-	-	1,38	-	-	1,38
Accounts Receivable	10,03	10,31	-	-	-	20,34
Accounts Payable	-	-	25,90	-	-	25,90
Management Contracts	-	-	-	6,61	-	6,61

The Bank's related party balances and transactions for the year ended March 31, 2007 are summarized as follows:

Rs. Lacs

Items / Related Party	Enterprises under Common Control of the Promoter	Subsidiaries	Associates / Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposit	103,98	33,69	12,50	1,27	42	151,86
Placement of Deposits	18	-	13,10	-	3,50	16,78
Advances	-	-	30	-	-	30
Purchase of fixed assets	-	-	11,39	-	-	11,39
Interest received	-	-	3	-	-	3
Rendering of Services	132,83	1,61	-	-	-	134,44
Receiving of Services	6,43	14	232,67	-	43	239,67
Equity Investment	-	20,01	5,52	-	-	25,53
Dividend on equity investment	-	-	5,23	-	-	5,23
Accounts Receivable	8,92	1,03	1,05	-	-	11,00
Accounts Payable	-	-	10,61	-	-	10,61
Management Contracts	-	-	-	2,16	-	2,16

Schedules to the Accounts

As at March 31, 2008

Since there is only one entity in the parent/promoter category details of transactions therewith have not been disclosed.

26 Leases

The details of maturity profile of future operating lease payments are given below: Rs. Lacs

Period	March 31, 2008	March 31, 2007
Not later than one year	181,61	169,36
Later than one year and not later than five years	616,57	667,95
Later than five years	213,21	343,45
Total	**1,011,39**	**1,180,76**
The total of minimum lease payments recognized in the profit and loss account for the year	177,26	133,87

Operating leases primarily comprise office premises and staff residences, which are renewable at the option of the Bank.

27 Penalties levied by the Reserve Bank of India

No penalties were levied by the Reserve Bank of India during the financial years ended March 31, 2008 and March 31, 2007.

28 Disclosure for customer complaints / unimplemented awards of Banking Ombudsman

Customer complaints

Particulars	2007-2008
(a) No. of complaints pending at the beginning of the year	7,401
(b) No. of complaints received during the year	5,13,722
(c) No. of complaints redressed during the year	5,19,576
(d) No. of complaints pending at the end of the year	1,547

Unimplemented awards of Banking Ombudsmen

Particulars	2007-08
(a) No. of unimplemented awards at the beginning of the year	-
(b) No. of Awards passed by the Banking Ombudsmen during the year	9
(c) No. of Awards implemented during the year	5
(d) No. of unimplemented Awards at the end of the year	4

Schedules to the Accounts

As at March 31, 2008

29 Changes in Accounting Policies

- Premium amortisation

  During the year ended March 31, 2008, the Bank changed its accounting policy on amortization of premia on investments in the held to maturity (HTM) category. The Bank amortizes the said premia prospectively on yield to maturity basis. Hitherto, the Bank amortized premia on investments in the HTM category on a straight-line basis. This change in policy has resulted in the profit after tax for the year ended March 31, 2008 being higher by Rs. 18,58 lacs. As per RBI clarification dated July 11, 2007, premium amortised on investments in the HTM category is deducted from interest income.

- Employee Benefits

  The Bank adopted AS 15 (revised 2005) Employee Benefits with effect from April 1, 2007. As per the transition provisions of the standard, the difference between the transitional liability and that as per the pre-revised AS 15 (net of related tax expense) amounting to Rs. 63,54 lacs has been adjusted against the opening balance of revenue reserves and surplus. This change in policy has resulted in the profit after tax being lower by Rs. 11,04 lacs for the year ended March 31, 2008.

30. Comparative figures

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

The Reserve Bank of India (RBI) issued a general clarification dated July 11, 2007 requiring banks to reflect amortization of premia on investments in the Held to Maturity (HTM) category under interest income from investments. In accordance with the said clarification the Bank has reclassified the amount of amortization of premia (for investments held in the Held to Maturity category) under 'Interest Earned'. This was hitherto classified under 'Provisions and Contingencies'. On account of the said reclassification, net interest income and provisions and contingencies are now lower by Rs. 288,38 lacs for the year ended March 31, 2008 (previous year: Rs. 241,09 lacs).

In respect of segment reporting, the classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Due to the said change, figures for the year ended March 31, 2007 are not reclassified and hence not comparable.

Schedules to the Accounts

As at March 31, 2008

PRINCIPAL ACCOUNTING POLICIES

A OVERVIEW

HDFC Bank Limited, incorporated in Mumbai, India is a banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. HDFC Bank is a banking company governed by the Banking Regulation Act, 1949.

B 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.

C 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 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.

Securities which are not 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.

Schedules to the Accounts

As at March 31, 2008

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.

Premium amortised on investment in held to maturity category is deducted from interest income as per the RBI guidelines.

Profit on sale of investments under Held to Maturity category is taken to the Profit and Loss account. The above profit, net of taxes and transfers to statutory reserve is appropriated to "Capital Reserve".

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 constant yield to maturity 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.

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 former is lower than the latter, is provided as a loss 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.

Schedules to the Accounts

As at March 31, 2008

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 unsecured pursuant to the Reserve Bank of India guidelines 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.

The Bank maintains general provision for standard assets 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 up to 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. 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.

In addition to the provisions required according to the asset classification status, provisioning is done for individual country exposures (other than for home country exposure). Countries are categorised into seven risk categories namely insignificant, low, moderate, high, very high, restricted and off-credit and provisioning is done in respect of that country where the net funded exposure is one percent or more of the Bank's total assets.

3 Securitisation Transactions

The Bank securitises out its receivables to Special Purpose Vehicles (SPVs) 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.

Schedules to the Accounts

As at March 31, 2008

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.

The RBI issued guidelines on securitization 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.

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 remaining 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
- Point of sale terminals at 20% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items (excluding staff assets) 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.

Schedules to the Accounts

As at March 31, 2008

5 Impairment of Assets

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment loss, if any, is provided in the profit and loss account to the extent the carrying amount of assets exceeds their estimated recoverable amount.

6 Transactions involving foreign exchange

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

Foreign currency monetary items are 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 closing rates of exchange notified by FEDAI at the Balance Sheet date.

7 Lease accounting

Lease payments for assets taken on operating lease are recognized in the profit and loss account over the lease term in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8 Employee Benefits

Employee Stock Option Scheme ("ESOS")

The Employees Stock Option Scheme ("the scheme") provides for the grant of equity shares of the Bank to its employees. The Scheme provides that employees are granted an option to acquire equity shares of the Bank that vests in a graded manner. The options may be exercised within a specified period. The Bank follows the intrinsic value method to account for its stock-based employees compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price on the grant date. Normally, the exercise prices of the Bank's stock options are equal to fair market price on the grant date and there is no compensation cost under the intrinsic value method.

Schedules to the Accounts

As at March 31, 2008

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, 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 defined gratuity benefit plans are valued by an independent external actuary as at the balance sheet date using the projected unit credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognized in the profit/loss account.

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 insurance companies, which administer 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 (employee's basic salary upto a maximum level of Rs 6,500 per month) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Bank has no liability for future provident fund benefits other than its annual contribution. The balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. The Bank recognizes such contributions as an expense in the year incurred. Interest payable to the members of the trust shall not be lower than the statutory rate of interest declared by the Central government under the Employees Provident Funds and Miscellaneous Provisions Act 1952 and shortfall, if any, shall be made good by the Bank. The guidance note on implementing (AS) 15 (revised 2005) Employee Benefits states that benefits involving employer established provident funds, which requires interest shortfalls to be provided, are to be considered as defined benefit plans. Pending the issuance of the guidance note from the Actuary Society of India, the Bank's actuary has expressed an inability to reliably measure provident fund liabilities. Accordingly the Bank is unable to ascertain the related information.

Leave Encashment/Compensated Absences

The Bank does not have a policy of encashing unavailed leave for its employees. The Bank provides for compensated absences in accordance with (AS) 15 (revised 2005) Employee Benefits. The provision is based on an independent external actuarial valuation at the balance sheet date, which includes assumptions about demographics, early retirement, salary increases, and interest rates.

Schedules to the Accounts

As at March 31, 2008

9 Interest Income

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets where it is recognized upon realization as per RBI norms.

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

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

Amortization expense of premia on investments in the Held to Maturity (HTM) category is deducted from interest income.

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

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

10 Fees and commission income

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

11 Credit cards reward points

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

12 Income tax

Income tax comprises the current tax provision, 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 substantially 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 substantial enactment of the change.

13 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.

Schedules to the Accounts

As at March 31, 2008

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 on rupee options is recorded in profit and loss account at the expiry of the option.

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

14 Earnings per share

The Bank reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net profit for the year 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 except where the results are anti dilutive.

15 Segment Information – Basis of preparation

The classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Business 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 organization structure, the internal business reporting system and the guidelines prescribed by RBI. The Bank operates in the following segments:

(a) Treasury

The treasury services segment primarily consists of net interest earnings on investments portfolio of the bank and gains or losses on investment operations.

(b) Retail Banking

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 other services to such customers. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

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, 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.

Schedules to the Accounts

As at March 31, 2008

(c) Wholesale Banking

The wholesale banking segment provides loans and transaction services to large corporate, emerging corporate, supply chain 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, interest earned on the cash float arising from transaction services, fees from such transaction services and also earnings from foreign exchange and derivatives transactions on behalf of corporate customers. 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.

(d) Other Banking Operations

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, and primary dealership business and the associated costs.

(e) Unallocated

All items of which cannot be allocated to any of the above are classified under this segment. This includes capital and reserves, debt classifying as tier I or tier II capital and other unallocable assets and liabilities.

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.

Geographic Segments

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

16 Accounting for Provisions, Contingent Liabilities and Contingent Assets

In accordance with (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Bank recognises provisions 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.

Provisions are determined based on management estimate required to settle the obligation at the balance sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information

Schedules to the Accounts

As at March 31, 2008

indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

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

17 Bullion

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The import consignment for wholesale customers are typically 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. To the extent of the bars sold to retail customers, the Bank consolidates such sales and fixes the purchase price of the bullion / bars with the supplier. The gain on sale is classified under commission income.

The Bank also borrows and lends gold, which is treated as borrowing/lending as the case may be with the interest paid/received classified as interest expense/income.

18 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

Harish Engineer
Executive Director

Aditya Puri
Managing Director

Paresh Sukthankar
Executive Director

Sanjay Dongre
Executive Vice President (Legal) &
Company Secretary

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

Mumbai, 24 April, 2008

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

(In terms of the approval u/s 212(8) of the Companies Act, 1956 granted by the Ministry of Corporate Affairs vide its letter under reference number 47/58/2008-CL-III dated February 20, 2008.

(As on/for the year ended March 31, 2008) Rs. lacs

Name of the subsidiary	HDFC Securities Ltd.	HDB Financial Services Ltd.
Capital	15,00	104,94
Reserves and Surplus	64,02	(3,60)
Total Assets	173,89	103,81
Total Liabilities (excluding capital and reserves)	94,85	2,46
Investments	-	-
Turnover (total income)	130,21	48
Profit/(Loss) Before Taxation	27,12	(3,60)
Provision for Taxation	11,52	-
Profit/(Loss) After Taxation	15,60	(3,60)
Proposed Dividend	-	-

Key Comparative Between U.S. and Indian Corporate Governance 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).

Companies listed on the New York Stock Exchange (NYSE) need to comply with certain standards of corporate governance as mentioned in Section 303A of the NYSE's Listed Company Manual. Listed companies that are foreign private issuers (as the term is defined in Rule 3b-4 under the Exchange Act) are permitted to follow home country practices in lieu of the provisions of this Section 303A, except that such companies are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c). As per these requirements, a company (i.e. foreign private issuer) need to :

1. Establish an independent audit committee that has specified responsibilities;
2. Provide prompt certification by its chief executive officer of any material non-compliance with any corporate governance rules;
3. Provide periodic written affirmations to the NYSE with respect to its corporate governance practices; and
4. Provide a brief description of significant differences between its corporate governance practices and those followed by U.S. companies.

At few instances, the Indian corporate governance under Clause 49 differ from those stated under NYSE's 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)
Board of Directors ("Board")	
Companies need to have a majority of independent directors. *[NYSE Corporate Governance Standard 303A.01]* Certain heightened standards apply to "independent" directors. *[NYSE Corporate Governance Standard 303A.02]*	The Board of a Company need to have 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 a non-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 of independent directors. The interpretation of the term "independent director" is different from the way it is interpreted under NYSE Corporate Governance Standards.

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 73

Key Comparative Between U.S. and Indian Corporate Governance Regulations

Executive Sessions	
Non-management directors need to meet at regularly scheduled executive sessions without management *[NYSE Corporate Governance Standard 303A.03]*	There is no requirement for such sessions.
Nomination Committee	
In addition to an Audit Committee, a listed Company needs to have a nomination 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 nomination committee needs to 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 need to have a compensation committee composed entirely of independent directors. *[NYSE Corporate Governance Standard 303A.05]*	It is a non mandatory requirement under Clause 49 that the Board may constitute a compensation / remuneration committee to determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment. To avoid conflict of interest, the compensation committee should consist of at least three non-executive directors. The chairman of compensation committee should be an independent director.
The compensation committee needs to 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 to have a charter. However, the non-mandatory requirements contained in Clause 49 provide that the Board may specify the agreed terms of reference to the compensation committee. The annual corporate governance report of the companies generally provides details of the remuneration including brief details of its agreed terms of reference.

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 74

Key Comparative Between U.S. and Indian Corporate Governance Regulations

Audit Committee	
Companies need to have an audit committee that satisfies the independent requirements of Rule 10A-3 under the Exchange Act and the requirements of NYSE Corporate Governance Standard 303A.02.The audit committee must have a minimum of three members, all being independent. *[NYSE Corporate Governance Standards 303A.06 and 303A.07]* The audit committee needs to 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]*	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 two-third 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 requirement in Clause 49 of the Listing Agreement of a written charter of the audit committee. However, Clause 49D contains the roles of the audit committee which is required to be inter alia performed by the audit committee of a listed company.
Internal Audit Function	
Each listed company needs to 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]*	Though Clause 49 do not provide for mandatory internal audit, one of the role of audit committee is *"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."*. Therefore, it is advisable that the listed company should have internal audit and a department to conduct the said function.
Corporate Governance Guidelines/Code of Ethics	
Companies need to adopt and disclose corporate governance guidelines. *[NYSE Corporate Governance Standard 303A.09]* Companies need to 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

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 75

Key Comparative Between U.S. and Indian Corporate Governance Regulations

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 the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act of 2002, should be disclosed in the company's annual report to shareholders. *[NYSE Corporate Governance Standard 303A.12]* Further, CEO of each listed company needs to promptly notify the NYSE in writing after any executive 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 separate 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.

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, 2008 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 Bank for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the 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

Manoj Daga
Partner
Membership No : 48523

Place : Mumbai
Date : April 24, 2008

Corporate Governance

[Report on Corporate Governance pursuant to Clause 49 of the Listing Agreement 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 12 Directors as on March 31, 2008. All Directors other than Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar are non-executive directors. The Bank has five independent directors and seven 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. Keki Mistry, Mrs. Renu Karnad, Mr. Vineet Jain, Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar are non-independent Directors on the Board.
- Mr. Arvind Pande, Mr. Ashim Samanta, Mr. Gautam Divan, Mr. C. M. Vasudev and Dr. Pandit Palande 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 represents 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, 2008 is as under:

Mr. Jagdish Capoor

Mr. Jagdish Capoor holds a Masters degree in Commerce and is a Fellow of Indian Institute of Banking and Finance. 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

Corporate Governance

was the Chairman of the Deposit Insurance and Credit Guarantee Corporation of India and Bharatiya Reserve Bank Note Mudran Limited. He also served 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, LIC Pension Fund Limited, Assets Care Enterprise Limited and Quantum Trustee Co. Pvt. Ltd. He is a member of the Board of Governors of the Indian Institute of Management, Indore.

Mr. Capoor is a member of the Audit Committee of Indian Hotels Company Limited, GHCL Limited and Quantum Trustee Co. Pvt. Ltd. He is chairman of Share Allotment and Shareholders' Grievance Committee of Bombay Stock Exchange Limited.

Mr. Capoor holds 300 equity shares in the Bank as on March 31, 2008.

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 has been the Managing Director of the Bank since September 1994. He has about 35 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, 2008.

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 Vice Chairman & Managing Director of Housing Development Finance Corporation Limited and Chairman of GRUH Finance Limited. He is also a Director on the Board of HDFC Developers Limited, HDFC Standard Life Insurance Co. Ltd, HDFC General Insurance Company Limited, Infrastructure Leasing & Financial Services Limited, Sun Pharmaceutical Industries Limited, The Great Eastern Shipping Company Limited, NextGen Publishing Limited, India Value Fund Advisors Private Limited, HDFC Asset Management Company Limited, Greatship (India) Limited, Griha Investments-Mauritius and Association of Leasing & Financial Services Companies.

Mr. Mistry is the Chairman of the Audit Committee of HDFC General Insurance Company Limited, Sun Pharmaceutical Industries Limited and The Great Eastern Shipping Company Limited. He is member of Audit Committee of HDFC Standard Life Insurance Company Limited, Gruh Finance Limited, Infrastructure Leasing & Financial Services Limited and HDFC Asset Management Company Limited. He is also a member of Investors Grievance Committee of Housing Development Finance Corporation Limited, Remuneration Committee and Investment Committee of Gruh Finance Limited and Share Transfer Committee of Infrastructure Leasing & Financial Services Limited.

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

Mr. Mistry holds 58,001 equity shares in the Bank as on March 31, 2008.

Mrs. Renu Karnad

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

Mrs. Karnad is a Joint Managing Director of Housing Development Finance Corporation Limited and Chairperson of HDFC Venture Capital Limited, HDFC Property Ventures Limited and Home Loan Services India Private Limited. She is a Director of HDFC Asset Management Company Limited, GRUH Finance Limited, HDFC Realty Limited, Credit Information Bureau (India) Limited, HDFC General Insurance Company Limited, ICI India Limited, Indraprastha Medical Corporation Limited, HDFC Standard Life Insurance Company Limited, Sparsh BPO Services

Limited, Mother Dairy Fruits & Vegetables Private Limited, Feedback Ventures Private Limited, Motor Industries Co. Limited, Egyptian Housing Finance Company and Ascendas Pte. Limited, Singapore. Mrs. Karnad is a member of the Managing Committee of Indian Cancer Society and Vice Chairperson of the Governing Council of Indraprastha Cancer Society & Research Centre.

Mrs. Karnad is Chairperson of the Audit Committee of ICI India Limited, Credit Information Bureau (India) Limited, Motor Industries Co. Limited and Mother Dairy Fruits & Vegetables Private Limited. She is a member of the Audit Committee of HDFC General Insurance Company Limited. She is the Chairperson of the Remuneration Committee of ICI India Limited. She is also the member of Investment Committee, Compensation Committee, Compensation-ESOS Committee and Committee of Directors of Gruh Finance Limited; Customer Service Committee and Risk Management Committee of HDFC Asset Management Company Limited; Remuneration Committee of Credit Information Bureau (India) Limited and Sparsh BPO Services Limited; and Shareholders/ Investors Grievance Committee, Investment Committee and Property Sub-Committee of Motor Industries Company Limited.

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

Mrs. Karnad holds 58,924 equity shares in the Bank as on March 31, 2008.

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. Mr. Pande has been as a Director, Department of Economic Affairs, Ministry of Finance, Government of India and has dealt with World Bank aided projects. Mr. Pande has also served on the Board of Steel Authority of India Limited as its Chairman and Chief Executive Officer (CEO).

Mr. Pande is a Director of Coal India Limited, Bengal Aerotropolis projects Limited, Burnpur Cements Limited, Visa Steel Limited, Era Infra Engineering Limited and Sandhar Technologies Limited. He is member of the Audit Committee of Coal India Limited and Visa Steel Limited.

Mr. Pande does not hold equity shares in the Bank as on March 31, 2008.

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. Limited and Director in Times Infotainment Media Limited, Entertainment Network (India) Limited, Optimal Media Solutions Limited, The Press Trust of India Limited, Times Internet Limited, Times Global Broadcasting Company Limited, Bharat Nidhi Limited, Times Journal India Private Limited, Worldwide Media Private Limited, Zoom Entertainment Network Private Limited (formerly, Bhavani Shares & Stock Private Limited), Times Centre for Media Studies and S P Jain Foundation. He is a Trustee of Shahu Jain Charitable Society, The Shahu Jain Trust and The Times Research Foundation. He is a member of the Managing Committee of Times Foundation and Chairman of the Managing Committee of The Times of India Relief Fund. Mr. Jain is the Chairman of Investments and Loans Committee and member of Share Transfer Committee of Bennett, Coleman & Co. Limited. He is member of the Committee of Board of The Press Trust of India 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.

Corporate Governance

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

Mr. Jain holds 2,60,869 equity shares in the Bank as on March 31, 2008.

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 29 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. Mr. Samanta has also been engaged in setting up and running of film editing and dubbing studio.

Mr. Samanta holds 600 equity shares in the Bank as on March 31, 2008.

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 ICRA Management Consultancy Services Limited, NOIDA Power Company Limited and Noesis Consultancy Services Private Limited. He is a member of Audit Committee and the 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, 2008.

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 HDFC Standard Life Insurance Company Limited, Baltic Consultancy & Services Private Limited, Brady & Morris Engineering

Company Limited, Chandabhoy and Jassoobhoy Consultants Private Limited, Serendib Investments Private Limited and Ascent Hotels Private Limited. He is the Chairman of Audit Committee of HDFC Standard Life Insurance Company Limited. He is a partner of M/s Rahul Gautam Divan & Associates.

Mr. Divan does not hold equity shares in the Bank as on March 31, 2008.

Dr. Pandit Palande

Dr. Pandit 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

Corporate Governance

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

Dr. Palande does not hold equity shares in the Bank on March 31, 2008.

RECENT APPOINTMENTS

Mr. Harish Engineer

Mr. Harish Engineer was appointed as additional director on October 12, 2007 pursuant to Section 260 of the Companies Act, 1956, subject to the approval of the Reserve Bank of India (RBI). He was also appointed as Executive Director for a period of three years with effect from 12th October 2007 subject to approvals of the shareholders and RBI. Effective December 10, 2007, the shareholders have given their consent in this regard by passing resolution through postal ballot while approval from RBI is awaited.

Mr. Engineer holds a Diploma in Business Management from Hazarimal Somani College, Mumbai. Mr. Engineer has been associated with the Bank since 1994 in various capacities and is responsible for Wholesale Banking at present. Mr. Engineer has over 38 years of experience in the fields of finance and banking. Prior to joining the Bank, Mr. Engineer worked with Bank of America for 26 years in various areas including operations and corporate credit management.

Mr. Engineer is neither a director on the Board of any other company nor a member and chairman of any committee of the Board of Directors. He is member of the Board of Boston Analytics, Boston (USA).

Mr. Engineer holds 64,000 equity shares in the Bank as on March 31, 2008.

Mr. Paresh Sukthankar

Mr. Paresh Sukthankar was appointed as additional director on October 12, 2007 pursuant to Section 260 of the Companies Act, 1956, subject to the approval of the Reserve Bank of India (RBI). He was also appointed as Executive Director for a period of three years with effect from 12th October 2007 subject to approvals of the shareholders and RBI. Effective December 10, 2007, the shareholders have given their consent in this regard by passing resolution through postal ballot while approval from RBI is awaited.

Mr. Sukthankar has done Masters in Management Studies from Jamnalal Bajaj Institute of Management Studies, Mumbai. Mr. Sukthankar has been associated with the Bank since 1994 in various senior capacities and has direct or supervisory responsibilities for the Credit & Market Risk and Human Resources functions and for various strategic initiatives of the bank. Mr. Sukthankar has over 22 years of experience in the fields of finance and banking. Prior to joining the Bank, Mr. Sukthankar worked with Citibank for 9 years in various areas including corporate banking, risk management, financial control and credit administration.

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

Mr. Sukthankar holds 1,59,656 equity shares in the Bank as on March 31, 2008.

BOARD MEETINGS

During the year under review, ten Board Meetings were held on April 24, 2007; May 17, 2007; June 16, 2007; July 10, 2007; October 12, 2007; January 21, 2008; February 23, 2008; February 25, 2008; February 28, 2008 and March 27, 2008.

Details of attendance at the Bank's Board Meetings held during the year under review, directorship, membership

Corporate Governance

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	10	5	3	1
Mr. Aditya Puri	10	Nil	Nil	Nil
Mr. Keki Mistry	10	11	9	3
Mr. Vineet Jain	1	9	Nil	Nil
Mrs. Renu Karnad	9	13	5	3
Mr. Arvind Pande	9	5	1	Nil
Mr. Ashim Samanta	10	Nil	Nil	Nil
Mr. C. M. Vasudev	9	2	2	Nill
Mr. Gautam Divan	7	3	4	2
Dr. Pandit Palande	10	Nil	Nil	Nil
Mr. Harish Engineer*	6	Nil	Nil	Nil
Mr. Paresh Sukthankar**	6	Nil	Nil	Nil

* *Appointed as Additional Director and Executive Director w.e.f. October 12, 2007.*

** *Appointed as Additional Director and Executive Director w.e.f. October 12, 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. Vineet Jain and Mr. Gautam Divan attended the last Annual General Meeting held on June 16, 2007.

REMUNERATION OF DIRECTORS

Mr. Jagdish Capoor, Chairman

During the year, Mr. Jagdish Capoor was paid remuneration of Rs. 12,00,000/-. 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 Chairman has been approved by the RBI and the Shareholders.

Mr. Aditya Puri, Managing Director

The details of the remuneration paid to Mr. Aditya Puri, Managing Director during the year 2007-08 are as under:

Break up of remuneration	*Amount Paid (Rs.)*
Basic	99,00,000
Allowances	22,73,570
Performance Bonus (for FY2006-07)	89,41,256
Provident Fund	11,88,000
Superannuation	14,85,000

The remuneration of the Managing Director has been approved by the RBI and the Shareholders.

During the year, Mr. Puri was granted 1,00,000 stock options under Employee Stock Option Scheme (ESOS) XII of the Bank. The said stock options have not been vested in him during the year.

Mr. Harish Engineer, Executive Director

The details of the remuneration paid to Mr. Harish Engineer, Executive Director from the date of his appointment i.e. October 12, 2007 till March 31, 2008 are as under:

Rs. 10 lacs = Rs. 1 million

Corporate Governance

Break up of remuneration	*Amount Paid (Rs.)*
Basic	15,87,730
Allowances	6,24,185
Provident Fund	1,90,528
Superannuation	2,06,405

Appointment and remuneration of Mr. Engineer as Executive Director of the Bank have been approved by the shareholders subject to the approval of the RBI.

During the year, Mr. Engineer was granted 34,000 stock options under Employee Stock Option Scheme (ESOS) X of the Bank.The said stock options have not been vested in him during the year.

Mr. Paresh Sukthankar, Executive Director

The details of the remuneration paid to Mr. Paresh Sukthankar, Executive Director from the date of his appointment i.e. October 12, 2007 till March 31, 2008 are as under:

Break up of remuneration	*Amount Paid (Rs.)*
Basic	10,61,177
Allowances	11,87,206
Provident Fund	1,27,341
Superannuation	1,37,953

Appointment and remuneration of Mr. Engineer as Executive Director of the Bank have been approved by the shareholders subject to the approval of the RBI.

During the year, Mr. Sukthankar was granted 34,000 stock options under Employee Stock Option Scheme (ESOS) X of the Bank. The said stock options have not been vested in him during the year.

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, Mr. Engineer and Mr. Sukthankar for attending meetings of Board and/or its Committees.

DETAILS OF REMUNERATION / SITTING FEES PAID TO DIRECTORS

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 for which sitting fees is

Rs. 10 lacs = Rs. 1 million | 84

Corporate Governance

Rs. 10,000/- for each meeting.

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 directors during the year are as under :

Name of the Director	Sitting Fees (Rs.)
Mr. Jagdish Capoor	4,90,000
Mr. Aditya Puri	Nil
Mr. Keki Mistry	4,00,000
Mr. Vineet Jain	40,000
Mrs. Renu Karnad	3,80,000
Mr. Arvind Pande	5,40,000
Mr. Ashim Samanta	5,00,000
Mr. C. M. Vasudev	4,40,000
Mr. Gautam Divan	4,30,000
Dr. Pandit Palande	4,40,000
Mr. Harish Engineer*	Nil
Mr. Paresh Sukthankar**	Nil

* *Appointed as Additional Director and Executive Director w.e.f. October 12, 2007.*

** *Appointed as Additional Director and Executive Director w.e.f. October 12, 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 Board were reconstituted during the year due to induction of additional director namely; Mr. Pandit Palande. 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, Mr. Gautam Divan and Dr. Pandit Palande. Dr. Pandit Palande was inducted as member of the Committee w.e.f. May 17, 2007. All the members of the Committee are independent directors and Mr. Gautam Divan is a financial expert.

The Committee met 7 (seven) 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 *inter alia* includes the following:

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

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

c) Reviewing with management 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.

Rs. 10 lacs = Rs. 1 million | 85

Corporate Governance

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-à-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, Mr. Gautam Divan and Dr. Pandit Palande are the members of the Committee. Dr. Pandit Palande was inducted as member of the Committee w.e.f. May 17, 2007. 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. The Committee is chaired by Mr. Capoor. The Committee 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, 2008, 43 instruments of transfer representing 3871 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 142 complaints from shareholders, which have been attended to.

The Committee met 11 (eleven) times during the year.

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.

The Committee met 5 (five) times during the year.

Credit Approval Committee

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

The Committee consists of Mr. Jagdish Capoor, Mr. Aditya Puri, Mr. Keki Mistry and Mr. Gautam Divan. The Committee is chaired by Mr. Capoor.

The Committee met 2 (two) times during the year.

Corporate Governance

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, Mrs. Renu Karnad and Dr. Pandit Palande. Dr. Pandit Palande was inducted as member of the Committee w.e.f. May 17, 2007. The Committee is chaired by Mrs. Renu Karnad.

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

Nomination Committee

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

- Academic qualifications, previous experience, 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, Mr. Ashim Samanta and Dr. Pandit Palande. Dr. Pandit Palande was inducted as member of the Committee w.e.f. May 17, 2007. The Committee is chaired by Mr. Arvind Pande. All the members of the Committee are independent directors.

The Committee met 2 (two) 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. The Committee is chaired by Mr. Jagdish Capoor.

Corporate Governance

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

Audit & Compliance Committee

Total 7 meetings held

Name	No. of Meetings Attended
Mr. Arvind Pande	7
Mr. Ashim Samanta	6
Mr. C. M. Vasudev	7
Mr. Gautam Divan	6
Dr. Pandit Palande[1]	4

Risk Monitoring Committee

Total 5 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	5
Mrs. Renu Karnad	5
Mr. C. M. Vasudev	5

Compensation Committee

Total 3 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	3
Mr. Ashim Samanta	3
Mr. Gautam Divan	1
Dr. Pandit Palande[1]	1

Credit Approval Committee

Total 2 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	2
Mr. Keki Mistry	2
Mr. Aditya Puri	2
Mr. Gautam Divan	2

Investor Grievance (Share) Committee

Total 11 meetings held

Name	No. of Meetings Attended
Mr. Jagdish Capoor	11
Mr. Aditya Puri	7
Mr. Gautam Divan	11

Premises Committee

Total 4 meetings held

Name	No. of Meetings Attended
Mr. Aditya Puri	4
Mr. Ashim Samanta	4
Mrs. Renu Karnad	4
Dr. Pandit Palande[1]	3

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

Customer Service Committee

Total 4 meetings held

Name	No. of Meetings Attended
Mr. Arvind Pande	4
Mr. Keki Mistry	4
Dr. Pandit Palande[1]	3

Nomination Committee

Total 2 meetings held

Name	No. of Meetings Attended
Mr. Arvind Pande	2
Mr. Ashim Samanta	2
Dr. Pandit Palande[1]	1

FRAUD MONITORING COMMITTEE

Total 4 meetings held

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

Note

1. *Dr. Pandit Palande was inducted as member of the Committee w.e.f. May 17, 2007.*

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.

Corporate Governance

- 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.

Corporate Governance

GENERAL BODY MEETINGS

(During previous three financial years)

Meeting	***Date and Time***	***Venue***	***Special Resolutions passed***
Extra-Ordinary General Meeting	March 27, 2008 at 2.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	i) Amalgamation of Centurion Bank of Punjab Limited with HDFC Bank. ii) Increase in Authorised Share Capital of the Bank. iii) Preferential offer of equity shares and/or warrants to promoters.
13th AGM	June 16, 2007 at 11:00 a.m.	Nehru Centre Auditorium, Discovery of India Building, Worli,Mumbai 400 018.	i) Re-appointment of Mr. Jagdish Capoor as Chairman on part-time basis on revised terms and conditions. ii) Further issue of shares under Employee Stock Option Scheme (ESOS). iii) Authority to Board to modify certain terms of the existing ESOP schemes regarding fringe benefit tax. iv) Raising of share capital through private placements in domestic and/or international markets through ADRs/ GDRs or any other methods. v) Preferential offer of equity shares to promoters. vi) Appointment of Datamatics Financial Services Ltd as Bank's new Registrar and Share Transfer Agent (RTA) and shifting of Bank's registers and returns at new RTA's office.
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).

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 91

POSTAL BALLOT

No special resolution was passed through postal ballot. During the year, two ordinary resolutions were passed by the shareholders through postal ballot. The postal ballot notice dated October 12, 2007 was mailed to all shareholders alongwith postage prepaid envelopes. Mr. V. V. Chakradeo, Practicing Company Secretary, was appointed as scrutinizer for the postal ballots, who submitted his report to the Chairman, Mr. Jagdish Capoor. Based on the Scrutinizer's report, the result of postal ballot was declared on December 10, 2007, as follows:

Resolution No. 1

Appointment of Mr. Harish Engineer as Executive Director

Number of valid postal ballot forms received	7979
Votes in favour of the Resolution	140025780
Votes against the Resolution	73282
Percentage of votes in favour of the Resolution	99.95%

Resolution No. 2

Appointment of Mr. Paresh Sukthankar as Executive Director

Number of valid postal ballot forms received	7944
Votes in favour of the Resolution	140019612
Votes against the Resolution	75079
Percentage of votes in favour of the Resolution	99.95%

Both the ordinary resolutions were passed with requisite majority. The said appointments are however subject to the approval from the Reserve Bank of India.

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, 2008, the Bennett Coleman Group holds 4.57% of the share capital of the Bank and Mr. Vineet Jain represents the group on the Board of the Bank.

DISCLOSURES

1. 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'.
2. Penalties or strictures imposed on the Bank by any of the Stock Exchanges or any statutory authority, for any non-compliance on any matter relating to capital markets, during the last three years are detailed below:
   - During the year 2007-08, no penalties were levied by the Reserve Bank of India (RBI). Central Depository Services Limited imposed a penalty of Rs. 15,100 on account of omissions during opening of accounts for certain depository clients which after providing relevant evidence was reduced to Rs. 4,000.
   - During the year 2006-07, the following penalties / strictures were imposed on the Bank, details of which were given in Note 24 of the Notes to Accounts for the 2006-07:

     i. In the course of investigations, SEBI had observed that several DPs including HDFC Bank Limited 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, and passed an order whereby HDFC Bank Limited was required to disgorge an amount of Rs. 1.64 crores.

     ii. 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. After providing the necessary explanation / evidence, NSDL has agreed to keep the aforesaid penalty amount in abeyance

Corporate Governance

provided that the Bank does not enter any invalid PAN in the DPM system during the period 1st January 2008 to June 30, 2008.

- During the year 2005-06, the RBI had imposed penalties on the Bank aggregating to Rs. 30 lacs 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, details of which were given in Note 22 of the Notes to Accounts for the 2005-06.
- 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 3 years.

3. 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.
4. 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 Compliance 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.

Corporate Governance

SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT MARCH 31, 2008

Sr. No.	Name of the Shareholder	No. of Shares	% to Share Capital
1	JP Morgan Chase Bank (Depository for ADS)	76595508	21.61
2	Housing Development Finance Corporation Limited	52442000	14.80
3	HDFC Investments Limited	30000000	8.46
4	DBS Bank Ltd	11620886	3.28
5	Life Insurance Corporation of India	9109511	2.57
6	Bennett, Coleman & Co Ltd	8849929	2.50
7	The Growth Fund of America, Inc	6633200	1.87
8	Euro Pacific Growth Fund	5921258	1.67
9	JP Morgan Asset Management (Europe) SARL a/c Flagship Indian Investment Company (Mauritius) Limited	5056447	1.43
10	J P Morgan Advisors (Indocean FinAutancial Holding Limited)	3982752	1.12

DISTRIBUTION OF SHAREHOLDING AS AT MARCH 31, 2008

No. of Equity Shares	Folios		Shares	
	Numbers Holders	% to Total	Numbers Shares	% to Total
Upto 500	195455	96.24	20229410	5.71
00501 to 01000	4117	2.03	3086943	0.87
01001 to 02000	1394	0.69	2008563	0.57
02001 to 03000	547	0.27	1382909	0.39
03001 to 04000	258	0.13	917988	0.26
04001 to 05000	187	0.09	849528	0.24
05001 to 10000	439	0.21	3166026	0.89
10001 and above	694	0.34	322791553	91.07
Total	203091	100.00	354432920	100.00

- *1,50,066 folios comprising of 34,73,84,217 shares forming 98.01% of the share capital are in demat form.*
- *53,025 folios comprising of 70,48,703 equity shares forming 1.99% of the share capital are in physical form.*

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 94

Corporate Governance

CATEGORIES OF SHAREHOLDERS SHAREHOLDING PATTERN AS AT MARCH 31, 2008				
Sr. No.	Category Shares	No. of Shares	Total Capital	% to Share
A	**Promoters**			
	i Housing Development Finance Corporation Limited	*52442000*		
	ii HDFC Investments Limited	*30000000*		
	iii HDFC Holdings Limited	*1000*	**82443000**	**23.26**
B	**Foreign Institutional Investors**			
	i DBS Bank Ltd	*11620886*		
	ii The Growth Fund of America,Inc	*6633200*		
	iii Europacific Growth Fund	*5921258*		
	iv JP Morgan Asset Management (Europe) S.A.R.L. A/c Flagship Indian Investment Company (Mauritius) Ltd.	*5056447*		
	v Others (less then 1 %)	*62534277*	**91766068**	**25.89**
C	**ADS Depository (J P Morgan Chase Bank)**		**76595508**	**21.61**
D	**Bennett Coleman Group**			
	i Bennett, Coleman & Company 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**	**4.57**
E	**Life Insurance Corporation of India**		**9109511**	**2.57**
F	**Other Bodies Corporate**		**15457596**	**4.36**
G	**Banks , Mutual Funds and Financial Institutions**		**16178812**	**4.57**
H	**Indocean Financial Holding Limited**		**3982752**	**1.12**
I	**GIC & its subsidiaries**		**1300557**	**0.37**
J	**Overseas Corporate Bodies and Non Residents**		**1063993**	**0.30**
K	**Directors and relatives**		**1400917**	**0.40**
L	**Jarrington Pvt Limited**		**1255330**	**0.35**
M	**Others**		**37686468**	**10.63**
Total			**354432920**	**100.00**

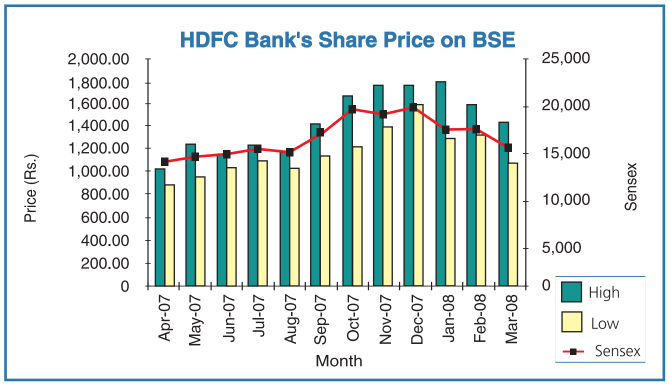
HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 95

Corporate Governance

SHARE PRICE / CHART

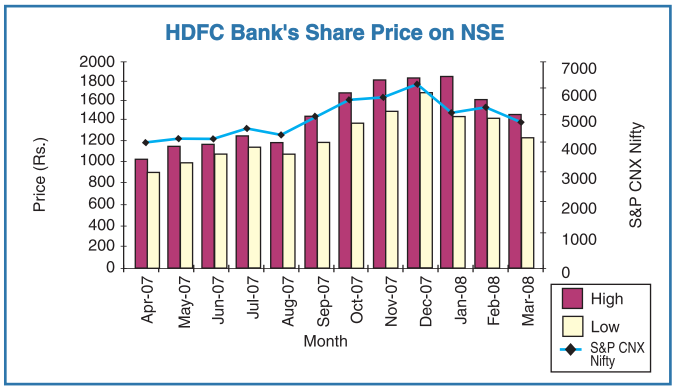
The monthly high and low quotation and the volume of Shares traded on Bombay Stock Exchange Ltd (BSE) during FY 2007-08

Month	High (Rs.)	Low (Rs.)	Sensex (Closing)
Apr-07	1,045.00	895	13,872
May-07	1,274.00	980.3	14,544
Jun-07	1,181.00	1,050.35	14,651
Jul-07	1,257.00	1,120.00	15,551
Aug-07	1,197.00	1,050.30	15,319
Sep-07	1,459.00	1,156.25	17,291
Oct-07	1,698.00	1,250.30	19,838
Nov-07	1,799.00	1,425.00	19,363
Dec-07	1,798.00	1,615.55	20,287
Jan-08	1,825.00	1,325.05	17,649
Feb-08	1,615.00	1,358.00	17,579
Mar-08	1,470.00	1,100.00	15,644



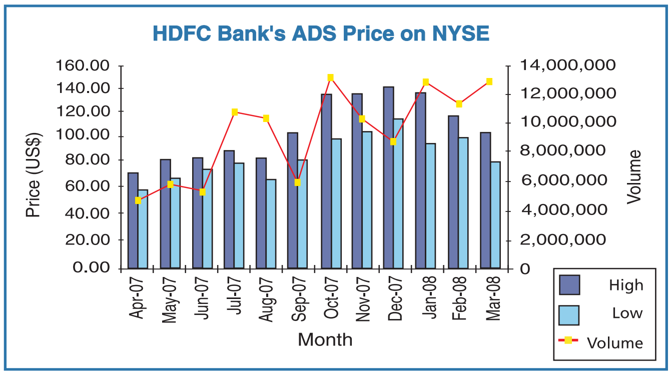
The monthly high and low quotation and the volume of Shares traded on National Stock Exchange of India Ltd (NSE) during FY 2007-08

Month	High (Rs.)	Low (Rs.)	S&P CNX NIFTY (Closing)
Apr-07	1034	901	4177.85
May-07	1148	991	4295.80
Jun-07	1168	1083	4282.00
Jul-07	1249	1129	4619.80
Aug-07	1181	1068	4412.30
Sep-07	1436	1172	5000.55
Oct-07	1653	1366	5568.95
Nov-07	1771	1477	5634.60
Dec-07	1784	1643	6081.50
Jan-08	1789	1426	5137.45
Feb-08	1572	1408	5285.10
Mar-08	1439	1226	4830.25



The monthly high and low quotation and the volume of American Depository Shares (ADS) traded on New York Stock Exchange (NYSE) during FY 2007-08

Month	High (US$)	Low (US$)	Monthly Volume
Apr-07	75.89	63.47	4,755,000
May-07	86.57	71.88	5,820,300
Jun-07	88.40	79.46	5,356,200
Jul-07	93.80	83.71	10,894,700
Aug-07	88.85	70.92	10,506,500
Sep-07	107.79	85.75	6,010,200
Oct-07	139.00	103.33	13,332,800
Nov-07	139.37	109.00	10,492,500
Dec-07	145.44	120.16	8,864,400
Jan-08	140.67	100.00	13,017,300
Feb-08	121.97	105.22	11,586,600
Mar-08	108.00	85.26	13,017,300



HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 96

Corporate Governance

FINANCIAL CALENDAR

FINANCIAL YEAR *(April 1, 2008 to March 31, 2009)*

Board Meeting for consideration of accounts and recommendation of dividend	April 24, 2008
Posting of Annual Report	May 13, 2008 to May 15, 2008
Record Date for Dividend for 2007-08	April 30, 2008
Book closure for 14th Annual General Meeting	June 7, 2008 to June 10, 2008 (both days inclusive)
Last date of receipt of proxy forms	June 08, 2008 (upto 3:00 p.m.)
Date, Time and Venue of 14th AGM	June 10, 2008; 3:00 p. m. Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020.
Dividend Declaration Date	June 10, 2008
Probable date of dispatch of warrants	From June 11, 2008 onwards
Board meetings for considering unaudited results for first 3 quarters of FY 2008-09	By 26th day of the succeeding quarter.

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.

LISTING

Indian Listing

The equity shares of the Bank are listed at the following Stock Exchanges and the annual fees for 2007-08 have been paid:

SN	Name and Address of the Stock Exchanges	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 - INE040A01018):**

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

International Listing

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

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

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

- *J P Morgan Chase Bank, N.A.*

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

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

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

Rs. 10 lacs = Rs. 1 million

Corporate Governance

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 Retrieval 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.

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 400 093
Tel: 66712151 - 56 (Extn Nos. 207, 264 and 220)
Fax: 28213404; E-mail: hdinvestors@dfssl.com
Counter Timing: 10:00 a. m. to 4:00 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 400013.

Investors Helpdesk Timings 10:30 a.m.to 3.30 p.m. between Monday to Friday (except on Bank holidays)
Telephone : 2498 8484, 2496 1616 Extn: 3463 & 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
Tel: 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
Mumbai, April 24, 2008
Chairman

I confirm that for the year under review, all directors and senior management have affirmed their adherence to the provisions of the Code of Conduct.

JAGDISH CAPOOR
Chairman

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To The Board of Directors, HDFC Bank Limited

We have examined the attached Consolidated Balance Sheet of **HDFC Bank Limited** ("the Bank") and its subsidiaries (the Bank and its subsidiaries constitute "the Group") as at 31 March 2008 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These consolidated financial statements include investments in associates accounted for using the equity method in accordance with Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements. These consolidated financial statements are the responsibility of the Bank's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not audit the financial statements of one of the subsidiaries, whose financial statements reflect total assets of Rs.173,89 Lakhs as at 31st March 2008, total revenue of Rs.130,21 Lakhs and net cash outflows amounting to Rs.6,36 Lakhs for the year then ended. These financial statements and other financial information have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of the other auditor.

We have also relied on the unaudited financial statements of certain associates provided by the management and included in the consolidated financial statements. These unaudited financial statements reflect the Group's share of net profit of Rs.9,56 Lakhs for the year then ended.

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

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

(i) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31 March 2008;

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

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

For **Haribhakti & Co.,**
Chartered Accountants

Manoj Daga
Partner
Membership No. 48523

Place: Mumbai
Date: 5 May, 2008

Consolidated Balance Sheet

As at March 31, 2008

Rs. Lacs

	Schedule	As at 31-Mar-08	As at 31-Mar-07
CAPITAL AND LIABILITIES			
Capital	1	**354,43**	319,39
Reserves and Surplus	2	**11,180,72**	6,150,98
Minority Interest	2A	**36,92**	28,61
Deposits	3	**100,631,38**	68,264,27
Borrowings	4	**4,478,86**	2,815,39
Other Liabilities and Provisions	5	**16,510,76**	13,729,61
	Total	**133,193,07**	91,308,25
ASSETS			
Cash and balances with Reserve Bank of India	6	**12,553,18**	5,075,25
Balances with Banks and Money at Call and Short notice	7	**2,274,80**	3,998,18
Investments	8	**49,288,01**	30,567,04
Advances	9	**63,426,90**	46,944,78
Fixed Assets	10	**1,196,29**	987,53
Other Assets	11	**4,453,89**	3,735,47
	Total	**133,193,07**	91,308,25
Contingent Liabilities	12	**593,112,33**	328,196,07
Bills for Collection		**6,920,71**	4,606,83
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

Manoj Daga
Partner

Mumbai, 5 May, 2008

For and on behalf of the Board

Aditya Puri
Managing Director

Paresh Sukthankar
Executive Director

Harish Engineer
Executive Director

Consolidated Profit and Loss Account

For the year ended March 31, 2008

Rs. Lacs

	Schedule	Year Ended 31-Mar-08	Year Ended 31-Mar-07
I. INCOME			
Interest earned	13	**10,117,03**	6,646,15
Other income	14	**2,375,77**	1,577,28
	Total	**12,492,80**	8,223,43
II. EXPENDITURE			
Interest expended	15	**4,887,37**	3,179,30
Operating expenses	16	**3,826,36**	2,473,97
Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 701,97 lacs (previous year: Rs. 501,56 lacs)]	17	**2,186,86**	1,426,70
	Total	**10,900,59**	7,079,97
III. PROFIT			
Net Profit for the year		**1,592,21**	1,143,46
Less: Minority Interest		**6,70**	3,25
Add: Share in profits of Associates		**9,56**	10,75
Consolidated profit for the year attributable to the Group		**1,595,07**	1,150,96
Balance of profit brought forward		**1,961,36**	1,474,84
	Total	**3,556,43**	2,625,80
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		**397,55**	285,36
Proposed dividend		**301,27**	223,57
Tax (including cess) on dividend		**51,20**	38,00
Dividend (including tax/cess thereon) pertaining to previous year paid during the year		**6**	35
Transfer to General Reserve		**159,02**	114,14
Transfer to Capital Reserve		**-**	4
Transfer to Investment Reserve Account		**38,50**	2,98
Balance carried over to Balance Sheet		**2,608,83**	1,961,36
	Total	**3,556,43**	2,625,80
V. EARNINGS PER EQUITY SHARE			
(Face value Rs. 10/- per share)	18	**Rs.**	Rs.
Basic		**46.37**	36.59
Diluted		**45.74**	36.36
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

Manoj Daga
Partner

Mumbai, 5 May, 2008

For and on behalf of the Board

Aditya Puri
Managing Director

Paresh Sukthankar
Executive Director

Harish Engineer
Executive Director

Consolidated Cash Flow Statement

For the Year ended March 31, 2008

Rs. Lacs

Particulars	Year ended 31-Mar-08	Year ended 31-Mar-07
Cash flows from operating activities		
Net profit before income tax	**2,297,04**	**1,652,52**
Adjustment for:		
Depreciation	280,14	226,49
(Profit)/Loss on Revaluation of Investments	(77,77)	(5,99)
Amortisation of premia on investments	288,38	241,09
Loan Loss provisions	1,026,37	691,13
Provision against standard assets	189,66	169,86
Provision for wealth tax	45	40
Contingency provision	268,41	63,75
(Profit)/Loss on sale of fixed assets	(72)	1,06
	4,271,96	**3,040,31**
Adjustments for:		
(Increase) in Investments	(18,920,01)	(2,426,47)
(Increase) in Advances	(17,508,49)	(12,573,61)
Increase/(Decrease) in Borrowings	1,663,47	(43,09)
Increase in Deposits	32,367,11	12,517,13
(Increase) in Other assets	(406,35)	(1,505,71)
Increase/(Decrease) in Other liabilities and provisions	2,161,64	2,195,74
(Increase)/Decrease in Deposit Placements	824,13	(268,40)
	4,453,46	**935,90**
Direct taxes paid (net of refunds)	(878,82)	(377,00)
Net cash flow from operating activities	**3,574,64**	**558,90**

Consolidated Cash Flow Statement
For the Year ended March 31, 2008

Rs. Lacs

Particulars	Year ended 31-Mar-08	Year ended 31-Mar-07
Cash flows from investing activities		
Purchase of fixed assets	(638,36)	(324,51)
Proceeds from sale of fixed assets	9,77	2,07
Net cash used in investing activities	**(628,59)**	**(322,44)**
Cash flows from financing activities		
Effect of consolidation of new subsidiary on cash and cash equivalents	(4,02)	-
Increase in Minority Interest	8,31	3,25
Money received on exercise of stock options by employees	106,01	254,02
Proceeds from ADR issue net of underwriting commission	2,393,86	-
Proceeds from preferential allotment of equity shares	1,390,10	-
Proceeds from issue of subordinated debt	-	1,680,60
Redemption of subordinated debt	-	(100,00)
Dividend provided last year paid during the year	(223,63)	(172,58)
Tax on Dividend	(38,00)	(24,16)
Net cash generated from financing activities	**3,632,63**	**1,641,13**
Net increase in cash and cash equivalents	**6,578,68**	**1,877,59**
Cash and cash equivalents as at April 1	8,074,69	6,197,10
Cash and cash equivalents as at March 31	14,653,37	8,074,69

In terms of our report of even date attached.

For Haribhakti & Co.
Chartered Accountants

Manoj Daga
Partner

Mumbai, 5 May, 2008

For and on behalf of the Board

Aditya Puri
Managing Director

Paresh Sukthankar
Executive Director

Harish Engineer
Executive Director

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 1 - CAPITAL			
Authorised Capital		**550,00**	450,00
55,00,00,000 (31 March 2007: 45,00,00,000) Equity Shares of Rs. 10/- each			
Issued, Subscribed and Paid-up Capital		**354,43**	319,39
35,44,32,920 (31 March 2007: 31,93,89,608) Equity Shares of Rs. 10/- each			
	Total	**354,43**	319,39
SCHEDULE 2 - RESERVES AND SURPLUS			
I. Statutory Reserve			
Opening Balance		**1,121,82**	836,46
Additions during the year		**397,55**	285,36
	Total	**1,519,37**	1,121,82
II. General Reserve			
Opening Balance		**416,08**	301,94
Additions during the year		**159,02**	114,14
Deductions during the year*		**(63,54)**	-
	Total	**511,56**	416,08
III. Balance in Profit and Loss Account		**2,608,83**	1,961,36
Deductions during the year*		**(17)**	-
	Total	**2,608,66**	1,961,36
IV. Share Premium Account			
Opening Balance		**2,624,55**	2,376,71
Additions during the year		**3,854,93**	247,84
	Total	**6,479,48**	2,624,55

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
V.	**Amalgamation Reserve**			
	Opening Balance		**14,52**	14,52
		Total	**14,52**	14,52
VI.	**Capital Reserve**			
	Opening Balance		**1,78**	1,74
	Additions during the year		**-**	4
		Total	**1,78**	1,78
VII.	**Investment Reserve Account**			
	Opening Balance		**2,98**	-
	Additions during the year		**41,78**	2,98
	Deductions during the year		**(3,28)**	-
		Total	**41,48**	2,98
VIII.	**Capital Reserve on Consolidation (net of goodwill, if any)**		**3,87**	7,89
		Total	**11,180,72**	6,150,98

*Represents transition adjustment on account of first time adoption of Accounting Standard 15 (Revised) on "Employee benefits" issued by The Institute of Chartered Accountants of India.

SCHEDULE 2 A - MINORITY INTEREST

			As at 31-Mar-08	As at 31-Mar-07
	Minority Interest at the date on which parent subsidiary relationship came into existence		**27,60**	22,83
	Subsequent increase/(decrease)		**9,32**	5,78
		Total	**36,92**	28,61

SCHEDULE 3 - DEPOSITS

			As at 31-Mar-08	As at 31-Mar-07
I.	**Demand Deposits**			
	(i) From Banks		**844,71**	695,35
	(ii) From Others		**27,885,42**	19,091,21
		Total	**28,730,13**	19,786,56
II.	**Savings Bank Deposits**		**26,153,94**	19,584,82

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
III. Term Deposits			
(i) From Banks		**1,519,59**	1,505,29
(ii) From Others		**44,227,72**	27,387,60
	Total	**45,747,31**	28,892,89
	Total	**100,631,38**	68,264,27

SCHEDULE 4 - BORROWINGS

		As at 31-Mar-08	As at 31-Mar-07
I. Borrowings in India			
(i) Reserve Bank of India		**-**	-
(ii) Other Banks		**886,78**	925,63
(iii) Other Institutions and agencies		**22**	155,66
	Total	**887,00**	1,081,29
II. Borrowings outside India		**3,591,86**	1,734,10
	Total	**4,478,86**	2,815,39

Secured borrowings included in I & II above:
Rs. 22 lacs (previous year: Rs. 155,66 lacs)

SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS

		As at 31-Mar-08	As at 31-Mar-07
I. Bills Payable		**3,157,21**	3,678,14
II. Interest Accrued		**1,674,50**	1,703,69
III. Others (including provisions)		**7,543,90**	4,459,69
IV. Upper and Lower Tier II capital and Innovative Perpetual Debt*		**3,249,10**	3,282,60
V. Contingent Provisions against standard assets		**533,58**	343,92
VI. Proposed Dividend (including tax on dividend)		**352,47**	261,57
	Total	**16,510,76**	13,729,61

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

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA			
I. Cash in hand (including foreign currency notes)		**940,09**	639,28
II. Balances with Reserve Bank of India			
(a) In current accounts		**11,513,09**	4,335,97
(b) In other accounts		**100,00**	100,00
	Total	**12,553,18**	5,075,25
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I. In India			
(i) Balances with Banks:			
(a) In current accounts		**288,29**	429,89
(b) In other deposit accounts		**756,26**	1,250,17
	Total	**1,044,55**	1,680,06
(ii) Money at call and short notice:			
(a) With banks		**-**	100,00
(b) With other institutions		**-**	90,00
	Total	**-**	190,00
	Total	**1,044,55**	1,870,06
II. Outside India			
(i) In current accounts		**173,67**	420,66
(ii) In other deposit accounts		**3,73**	12,13
(iii) Money at call and short notice		**1,052,85**	1,695,33
	Total	**1,230,25**	2,128,12
	Total	**2,274,80**	3,998,18

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

		As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 8 - INVESTMENTS			
A. Investments in India in			
(i) Government securities		**31,665,58**	22,544,22
(ii) Other approved securities		**58**	68
(iii) Shares*		**48,34**	77,86
(iv) Debentures and Bonds		**6,251,72**	7,389,85
(v) Joint Venture*		**4,37**	4,25
(vi) Units, Certificate of Deposits and Others		**11,317,20**	549,96
	Total	**49,287,79**	30,566,82
*Includes goodwill net of capital reserves, on account of investment in associates, amounting to Rs. 1,42 lacs (previous year: Rs. 1,42 lacs).			
B. Investments outside India		**22**	22
	Total	**49,288,01**	30,567,04
Investments			
(i) Gross Value of Investments			
(a) In India		**49,295,24**	30,661,07
(b) Outside India		**22**	22
	Total	**49,295,46**	30,661,29
(ii) Provision for Depreciation			
(a) In India		**7,45**	94,25
(b) Outside India		**-**	-
	Total	**7,45**	94,25
(iii) Net Value of Investments			
(a) In India		**49,287,79**	30,566,82
(b) Outside India		**22**	22
	Total	**49,288,01**	30,567,04

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
SCHEDULE 9 - ADVANCES				
A	(i) Bills purchased and discounted		1,637,38	804,76
	(ii) Cash Credits, Overdrafts and Loans repayable on demand		15,437,69	10,344,53
	(iii) Term loans		46,351,83	35,795,49
		Total	63,426,90	46,944,78
B	(i) Secured by tangible assets*		42,662,92	32,845,44
	(ii) Covered by Bank/Government Guarantees		1,752,48	522,36
	(iii) Unsecured		19,011,50	13,576,98
	* Including advances against Book Debts	Total	63,426,90	46,944,78
C	Advances in India			
	(i) Priority Sector		17,426,29	17,683,07
	(ii) Public Sector		477,20	205,15
	(iii) Banks		8,75	38,32
	(iv) Others		45,514,66	29,018,24
	(Advances are net of specific loan loss provisions)	Total	63,426,90	46,944,78
SCHEDULE 10 - FIXED ASSETS				
A.	Premises (including Land)			
	Gross Block			
	At cost on 31 March of the preceding year		367,71	314,50
	Additions during the year		160,88	53,21
	Deductions during the year		(4,19)	-
		Total	524,40	367,71

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
	Depreciation			
	As at 31 March of the preceding year		**65,29**	51,24
	Charge for the year		**16,27**	14,05
	On deductions during the year		**(7)**	-
		Total	**81,49**	65,29
	Net Block		**442,91**	302,42
B.	Other Fixed Assets (including furniture and fixtures)			
	Gross Block			
	At cost on 31 March of the preceding year		**1,548,14**	1,262,79
	Additions during the year		**337,10**	294,70
	Deductions during the year		**(15,89)**	(9,35)
		Total	**1,869,35**	1,548,14
	Depreciation			
	As at 31 March of the preceding year		**863,02**	654,59
	Charge for the year		**263,89**	212,44
	On deductions during the year		**(10,94)**	(4,00)
		Total	**1,115,97**	863,03
	Net Block		**753,38**	685,11
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

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

			As at 31-Mar-08	As at 31-Mar-07
	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	**1,196,29**	987,53

SCHEDULE 11 - OTHER ASSETS

			As at 31-Mar-08	As at 31-Mar-07
I.	Interest accrued		**1,191,11**	1,592,68
II.	Advance tax (net of provision)		**405,16**	445,23
III.	Stationery and stamps		**28,23**	16,87
IV.	Bond and share application money pending allotment		**3,43**	15,00
V.	Security deposit for commercial and residential property		**198,56**	130,83
VI.	Cheques in course of collection		**-**	6,59
VII.	Other assets *		**2,627,40**	1,528,27
	*Inlcudes deferred tax asset (net) of Rs. 381,52 lacs (previous year: Rs. 155,35 lacs)	**Total**	**4,453,89**	3,735,47

SCHEDULE 12 - CONTINGENT LIABILITIES

			As at 31-Mar-08	As at 31-Mar-07
I.	Claims against the Group not acknowledged as debts - Taxation		**233,56**	389,88
II.	Claims against the Group not acknowledged as debts - Others		**12,19**	14,32
III.	Liability on account of outstanding forward exchange contracts		**192,995,55**	123,416,46
IV.	Liability on account of outstanding derivative contracts		**374,441,83**	193,736,67
V.	Guarantees given on behalf of constituents - in India		**5,662,16**	4,054,22
VI.	Acceptances, endorsements and other obligations		**10,172,14**	2,605,05
VII.	Other items for which the Group is contingently liable		**9,594,90**	3,979,47
		Total	**593,112,33**	328,196,07

Schedules to the Consolidated Accounts

Year ended March 31, 2008

Rs. Lacs

		Year ended 31-Mar-08	Year ended 31-Mar-07
SCHEDULE 13 - INTEREST EARNED			
I.	Interest/discount on advances/bills	**6,966,66**	4,335,58
II.	Income from investments	**2,870,66**	2,052,32
III.	Interest on balance with RBI and other inter-bank funds	**276,11**	254,94
IV.	Others	**3,60**	3,31
	Total	**10,117,03**	6,646,15
SCHEDULE 14 - OTHER INCOME			
I.	Commission, exchange and brokerage	**1,829,88**	1,354,33
II.	(Loss)/Profit on sale of investments	**151,83**	(74,40)
III.	Profit/(Loss) on revaluation of investments	**77,77**	5,99
IV.	(Loss)/Profit on sale of building and other assets	**72**	(1,06)
V.	Profit on exchange transactions	**283,13**	190,35
VI.	Miscellaneous income	**32,44**	102,07
	Total	**2,375,77**	1,577,28
SCHEDULE 15 - INTEREST EXPENDED			
I.	Interest on Deposits	**4,381,88**	2,694,84
II.	Interest on RBI/Inter-bank borrowings	**242,43**	274,05
III.	Other interest*	**263,06**	210,41
	Total	**4,887,37**	3,179,30

**Principally includes interest on subordinated debt.*

		Year ended 31-Mar-08	Year ended 31-Mar-07
SCHEDULE 16 - OPERATING EXPENSES			
I.	Payments to and provisions for employees	**1,338,43**	799,86
II.	Rent, taxes and lighting	**262,29**	197,17
III.	Printing and stationery	**132,14**	86,28

Schedules to the Consolidated Accounts

Year ended March 31, 2008

Rs. Lacs

			Year ended 31-Mar-08	Year ended 31-Mar-07
IV.	Advertisement and publicity		**117,93**	75,96
V.	Depreciation on property		**280,14**	226,49
VI.	Directors' fees, allowances and expenses		**42**	48
VII.	Auditors' fees and expenses		**88**	64
VIII.	Law charges		**10,50**	5,55
IX.	Postage, telegram, telephone etc.		**356,87**	191,09
X.	Repairs and maintenance		**187,00**	128,89
XI.	Insurance		**90,26**	71,77
XII.	Other Expenditure*		**1,049,50**	689,79
*	Includes marketing expenses, professional fees, travel and hotel charges, entertainment, registrar and transfer agency fees and system management fees.	**Total**	**3,826,36**	2,473,97

SCHEDULE 17- PROVISIONS AND CONTINGENCIES

I.	Income tax		**701,97**	501,56
II.	Wealth tax		**45**	40
III.	Loan loss provision		**1,026,37**	691,13
IV.	Provision against standard assets		**189,66**	169,86
V.	Others*		**268,41**	63,75
	* Includes: Contingent provisions for tax, legal & other contingencies: Rs. 264,50 lacs (previous year: Rs. 54,71 lacs); Provisions for securitised-out assets: Rs. 3,91 lacs (previous year: Rs. 11,95 lacs) and write back of provision of country risk: Rs. Nil (previous year: Rs. 2,91 lacs)	**Total**	**2,186,86**	1,426,70

Schedules to the Consolidated Accounts

As at March 31, 2008

SCHEDULE 18 – EARNINGS PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net income after taxation of Rs. 1,595,07 lacs (previous year: Rs. 1,150,96 lacs) and the weighted average number of equity shares outstanding during the year amounting to 34,40,20,927 (previous year: 31,45,63,347).

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

Rupees

	For the year	
Particulars	**2007-2008**	**2006-2007**
Nominal value per share	10.00	10.00
Basic earnings per share	46.37	36.59
Effect of potential equity shares for stock options (per share)	(0.63)	(0.23)
Diluted earnings per share	45.74	36.36

Basic earnings per equity share have 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 year.

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

Rs. Lacs

	For the year	
Particulars	**2007-2008**	**2006-2007**
Earnings used in basic earnings per share	1,595,07	1,150,96
Impact of dilution on profits	-	-
Earnings used in diluted earnings per share	1,595,07	1,150,96

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	
Particulars	**2007-2008**	**2006-2007**
Weighted average number of equity shares used in computing basic earnings per equity share	*34,40,20,927*	*31,45,63,347*
Effect of potential equity shares for stock options outstanding	47,97,548	19,69,537
Weighted average number of equity shares used in computing diluted earnings per equity share	34,88,18,475	31,65,32,884

Schedules to the Consolidated Accounts

As at March 31, 2008

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008.

1 Capital Adequacy Ratio

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

Capital Adequacy Ratios	2007- 2008	2006- 2007
Tier 1	10.43%	8.58%
Tier 2	3.30%	4.50%
Total	**13.73%**	**13.08%**

2 Key Events

The shareholders of the Bank, in its extra-ordinary general meeting held on March 27, 2008, accorded their consent to a scheme of amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited. The shareholders of the Bank approved the issuance of one equity share of Rs. 10/- each of HDFC Bank Limited for every 29 equity shares of Re. 1/- each held in Centurion Bank of Punjab Limited. This is subject to receipt of approvals from the Reserve Bank of India, stock exchanges and other requisite statutory and regulatory authorities.

The shareholders also accorded their consent to issue equity shares and/or warrants convertible into equity shares at the rate of Rs. 1,530.13 per share (which is the minimum price calculated in accordance with the guidelines for preferential allotment issued by SEBI) to HDFC Limited and/or other promoter group companies on preferential basis, subject to regulatory approvals. The terms and conditions of the aforesaid warrants require 10% of the price of the equity shares to be paid at the time of allotment of the warrants. Each warrant carries a right/option to one equity share of the Bank. The options attached to the warrants may be exercised at any time within a period of 18 months from the date of issue of the warrant on balance payment of 90% of the issue price of equity shares.

The shareholders of the Bank have also approved increase in authorized capital from Rs. 450,00 lacs to Rs. 550,00 lacs.

3 Capital Infusion

- Preferential allotment of equity shares:

  During the year ended March 31, 2008 approvals from the Board and shareholders were sought to allot 1,35,82,000 equity shares of Rs. 10/- each at a premium of Rs. 1013.49 per share on a preferential basis to HDFC Ltd. aggregating to Rs. 1,390,10 lacs. The said allotment was done on June 29, 2007.

Schedules to the Consolidated Accounts

As at March 31, 2008

- Public Offering of American Depository Shares (ADS):

  During the year ended March 31, 2008, the Bank made a public offering of 6,594,504 American Depositary Shares (ADS), each ADS representing three equity shares, at a price of $ 92.10 per ADS. An amount of Rs. 2,393,87 lacs was received net of underwriting discounts and commissions.

4 Reserves and surplus

- General reserve

  The Bank has made an appropriation of Rs. 159,02 lacs (previous year: Rs. 114,14 lacs) out of profits for the year ended March 31, 2008 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

- Investment Reserve Account

  During the year, the Bank has transferred Rs. 38,50 lacs (previous year: Rs. 2,98 lacs) from the Profit and Loss Account [net of transfer from Investment Reserve Account: Rs. 3,28 lacs (previous year: Nil)] to Investment Reserve Account pursuant to the Reserve Bank of India guidelines.

5 Accounting for Employee Share based Payments

The shareholders of the Bank approved Plan “A” in January 2000, Plan “B” in June 2003, Plan “C” in June 2005 and Plan “D” in June 2007. 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.

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.

Plans B, C and D 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. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plan C and Plan D the price is that quoted on an Indian stock exchange with the highest trading volume as of the preceding working day of the date of grant of options.

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.

Schedules to the Consolidated Accounts

As at March 31, 2008

Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2008

Particulars	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,13,21,600	803.10
Granted during the year	83,05,500	1,098.70
Exercised during the year	16,77,800	631.81
Forfeited / lapsed during the year	10,11,500	938.32
Options outstanding, end of year	1,69,37,800	956.94
Options Exercisable	32,88,900	740.34

Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2007

Particulars	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	498.89

Following summarises information about stock options outstanding as at March 31, 2008

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average Exercise Price (Rs.)
Plan A*	Rs. 225.43 to Rs. 226.96	-	-	-
Plans B,C & D	Rs. 358.60 to Rs. 1,098.70	1,69,37,800	0.8	956.94

* No stock options under Plan A were outstanding as at March 31, 2008.

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

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average Exercise Price (Rs.)
Plan A	Rs. 225.43 to Rs. 226.96	9,100	-	226.71
Plans B & C	Rs. 358.60 to Rs. 994.85	1,13,12,500	1.4	803.57

Rs. 10 lacs = Rs. 1 million | 117

Schedules to the Consolidated Accounts
As at March 31, 2008

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, 2008 are:

Particulars	**March 31, 2008**	**March 31, 2007**
Dividend yield	0.6%	0.5%
Expected volatility	25.20%	31.75%
Risk-free interest rate	7.7% - 7.9%	7.8% - 7.9%
Expected life of the option	1-4 years	1-5 years

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 pro forma amounts indicated below:

Rs. Lacs

Particulars	**March 31, 2008**	**March 31, 2007**
Net Profit (as reported)	1,595,07	1,150,96
Add: Stock-based employee compensation expense included in net income	-	-
Less: Stock based compensation expense determined under fair value based method: (pro forma)	161,16	89,48
Net Profit: (pro forma)	**1,433,91**	**1,061,48**
Basic earnings per share (as reported)	46.37	36.59
Basic earnings per share (pro forma)	41.68	33.74
Diluted earnings per share (as reported)	45.74	36.36
Diluted earnings per share (pro forma)	41.11	33.53

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

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

7 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, 2008 are Rs. 2,012,00 lacs (previous year: Rs. 2,012,00 lacs), Rs. 1,037,10 lacs (previous year: Rs. 1,070,60 lacs) and Rs. 200,00 lacs (previous year: Rs. 200,00 lacs) respectively.

Schedules to the Consolidated Accounts

As at March 31, 2008

No fresh issue of subordinated debt (lower tier II capital), upper tier II capital or innovative perpetual debt was made during the year ended March 31, 2008.

During the year ended March 31, 2007, the Bank raised Rs. 635,90 lacs as upper tier II capital at an annualized coupon ranging between 8.80% to 9.20%. During the previous fiscal the Bank had also raised a 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. During the year ended March 31, 2007 the Bank had raised Rs. 410,00 lacs as lower tier II capital at an annualized coupon ranging between 8.45% to 9.10%. The Bank had also raised 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 during the said fiscal.

Based on the balance term to maturity as at March 31, 2008, 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.

8 Investments

- Investments include securities aggregating Rs. 203,86 lacs (previous year: Rs. 89,40 lacs) which are kept as margin for clearing of securities and Rs. 6,080,39 lacs (previous year: Rs. 3,841,08 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.

- Investments amounting to Rs. 16,139,31 lacs (previous year: Rs. 8,467,73 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).

- Other investments include certificate of deposits amounting to Rs. 1,563,81 lacs (previous year: nil), commercial paper amounting to Rs. 34,92 lacs (previous year: Rs. 9,89 lacs), investments in debt mutual fund units amounting to Rs. 9,232,89 lacs (previous year: Rs. 256,23 lacs), investments in equity mutual fund units amounting to Rs. 100 lacs (previous year: Rs. 100 lacs) and deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 484,58 lacs (previous year: Rs. 282,84 lacs).

9 Other Fixed Assets (including furniture and fixtures)

It includes amount capitalized on software, website cost and Bombay Stock Exchange Card. Details regarding the same are tabulated below:

Rs. Lacs

Particulars	2007-2008	2006-2007
Cost as at March 31 of the previous year	279,58	217,28
Additions during the year	80,02	62,30
Accumulated depreciation as at March 31	(227,55)	(175,02)
Net value as at March 31 of the current year	132,05	104,56

Schedules to the Consolidated Accounts

As at March 31, 2008

10 Other Assets

Other assets include deferred tax asset (net) of Rs. 381,52 lacs (previous year: Rs. 155,35 lacs). The break up of the same is as follows:

Rs. Lacs

Particulars	March 31, 2008	March 31, 2007
Deferred tax asset arising out of		
Loan loss provisions	298,27	204,29
Others	159,50	37,36
Total	**457,77**	**241,65**
Deferred tax liability arising out of		
Depreciation	(76,25)	(86,30)
Total	**(76,25)**	**(86,30)**
Deferred Tax Asset (net)	**381,52**	**155,35**

Management believes that the Bank will have profits against which the above temporary differences will be utilized.

11 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

Particulars	March 31, 2008	March 31, 2007
Opening provision for reward points	16,13	8,75
Provision for reward points made during the year	14,96	9,24
Utilisation/Write back of provision for reward points	(31)	(1,86)
Effect of change in cost of reward points	4,20	-
Closing provision for reward points	34,98	16,13

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.

Schedules to the Consolidated Accounts
As at March 31, 2008

b) Description of contingent liabilities

Sr. No.	Contingent liability*	Brief description
1.	Claims against the Group not acknowledged as debts - taxation	The Group is a party to various taxation matters in respect of which appeals are pending. The Group 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 Group not acknowledged as debts - others	The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, results of operations or cash flows.
3.	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts of financial instruments of such foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

Schedules to the Consolidated Accounts

As at March 31, 2008

Sr. No.	Contingent liability*	Brief description
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 Group is contingently liable	These include a) Credit enhancements in respect of securitised out loans. b) Bills rediscounted by the Bank. c) Capital commitments. d) Repo borrowings. e) Guarantees in favour of exchanges to meet margin requirements.

* Also refer Schedule 12 - Contingent Liabilities

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 Employee Benefits

Rs. Lacs

Gratuity

Particulars	2007-2008
• Reconciliation of opening and closing balance of the present value of the defined benefit obligation	
Present value of obligation as at April 1, 2007	28,03
Interest cost	2,22
Current service cost	4,76
Benefits paid	(1,94)

Cont....

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. Lacs

Particulars		2007-2008
	Actuarial (gain) / loss on obligation	5,35
	Present value of obligation as at March 31, 2008	38,42
•	Reconciliation of opening and closing balance of the fair value of the plan assets	
	Fair value of plan assets as at April 1, 2007	15,89
	Expected return on plan assets	1,58
	Contributions	8,08
	Benefits paid	(1,94)
	Actuarial gain / (loss) on plan assets	(1,07)
	Fair value of plan assets as at March 31, 2008	22,54
•	Amount recognised in balance sheet	
	Fair value of plan assets as at March 31, 2008	22,54
	Present value of obligation as at March 31, 2008	(38,42)
	Asset / (Liability) as at March 31, 2008	(15,88)
•	Expense recognised in profit/loss account	
	Interest Cost	2,22
	Current Service Cost	4,76
	Expected return on plan assets	(1,58)
	Net actuarial (gain) / loss recognised in the year	6,42
	Net cost	11,82
	Actual return on plan assets	4,91
	Estimated contribution for the next year	9,22

Assumptions (HDFC Bank Limited):

-	Discount rate	8.2% per annum
-	Expected return on plan assets	8.2% per annum
-	Salary escalation rate	10.0% per annum

Schedules to the Consolidated Accounts
As at March 31, 2008

Assumptions (HDFC Securities Limited):

- Discount rate	8.0% per annum
- Expected return on plan assets	8.0% per annum
- Salary escalation rate	5.0% per annum

Assumptions (HDB Financial Services Limited):

- Discount rate	8.2% per annum
- Salary escalation rate	10.0% per annum

Compensated Absences

The actuarial liability of compensated absences of un-encashable accumulated absences of the employees of the Group as at March 31, 2008 was Rs. 113,51 lacs.

Assumptions (HDFC Bank Limited):

- Discount rate	8.2% per annum
- Salary escalation rate	10.0% per annum

Assumptions (HDFC Securities Limited):

- Discount rate	8.0% per annum
- Salary escalation rate	5.0% per annum

Assumptions (HDB Financial Services Limited):

- Discount rate	8.2% per annum
- Salary escalation rate	10.0% per annum

Of the above, Rs. 63,71 lacs (net of tax) has been charged out of opening revenue reserves pursuant to the transitional provisions laid out in (AS) 15 (Revised) Employee Benefits.

Expected rate of return on investments is determined based on the assessment made by the Group at the beginning of the year with regard to its existing portfolio. The Group's investments have been made in insurance funds.

The Group does not have any unfunded defined benefit plan save for one subsidiary.

The Group contributed Rs. 44,72 lacs to the provident fund and Rs. 12,88 lacs to the superannuation plan.

Schedules to the Consolidated Accounts

As at March 31, 2008

14. Segment reporting

Summary of the operating segments of the Group is given below — Rs. lacs

Particulars	2007-2008	2006-2007
1. Segment Revenue		
a) Treasury	1,651,67	473,39
b) Retail Banking	9,096,49	7,829,37
c) Wholesale Banking	6,737,31	5,085,21
d) Other Banking Operations	1,387,64	
e) Unallocated	(13,57)	
Total	**18,859,54**	**13,387,97**
Less: Inter Segment Revenue	6,366,74	5,164,54
Income from Operations	12,492,80	8,223,43
2. Segment Results		
a) Treasury	488,32	18,37
b) Retail Banking	540,15	928,64
c) Wholesale Banking	1,197,96	749,81
d) Other Banking Operations	336,99	
e) Unallocated	(269,24)	(51,80)
Total Profit Before Tax, Minority Interest & Earnings from Associates 1,645,02		**2,294,18**
Income Tax expense	701,97	501,56
Net Profit Before Minority Interest & Earnings from Associates	**1,592,21**	**1,143,46**
3. Capital Employed		
Segment assets		
a) Treasury	54,351,34	4,478,66
b) Retail Banking	42,487,36	50,187,43
c) Wholesale Banking	28,156,95	36,075,09
d) Other Banking Operations	3,252,25	
e) Unallocated	4,945,17	603,14
Total Assets	**133,193,07**	**91,344,32**

Schedules to the Consolidated Accounts

As at March 31, 2008

Rs. lacs

Particulars	2007-2008	2006-2007
Segment liabilities		
a) Treasury	3,790,41	3,202,39
b) Retail Banking	61,524,33	47,931,66
c) Wholesale Banking	49,256,10	33,475,77
d) Other Banking Operations	(1,76)	
e) Unallocated	18,623,99	264,13
Total Liabilities	**133,193,07**	**84,873,95**
Net Segment assets / (liabilities)		
a) Treasury	50,560,93	1,276,27
b) Retail Banking	(19,036,97)	2,255,77
c) Wholesale Banking	(21,099,15)	2,599,32
d) Other Banking Operations	3,254,01	
e) Unallocated	(13,678,82)	339,01
4. Capital Expenditure (including net CWIP)		
a) Treasury	106,58	40,18
b) Retail Banking	342,70	220,31
c) Wholesale Banking	150,64	64,02
d) Other Banking Operations	38,44	
e) Unallocated	-	-
Total	**638,36**	**324,51**
5. Depreciation		
a) Treasury	22,93	12,53
b) Retail Banking	186,20	181,51
c) Wholesale Banking	45,34	32,45
d) Other Banking Operations	25,67	
e) Unallocated	-	-
Total	**280,14**	**226,49**

The classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Due to the said change, figures for the year ended March 31, 2007 are not reclassified and hence not comparable.

Schedules to the Consolidated Accounts

As at March 31, 2008

15. Related Party Disclosures

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

Promoter

Housing Development Finance Corporation Ltd.

Enterprises under common control of the promoter

HDFC Asset Management Company Ltd.

HDFC Standard Life Insurance Company Ltd.

HDFC Developers Ltd.

HDFC Holdings Ltd.

HDFC Investments Ltd.

HDFC Trustee Company Ltd.

GRUH Finance Ltd.

HDFC Realty Ltd.

HDFC Ergo General Insurance Company Ltd. (formerly HDFC Chubb General Insurance Company Ltd.)

HDFC Venture Capital Ltd.

HDFC Ventures Trustee Company Ltd.

HDFC Sales Pvt. Ltd. (formerly Home Loan Services India Pvt. Ltd.)

HDFC Property Ventures Ltd.

Associates

Computer Age Management Services Private Ltd. (ceased to be an associate from October 12, 2007)

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Flexcel International Private Ltd. (ceased to be an associate from March 31, 2008)

Atlas Documentary Facilitators Company Private Ltd.

HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Harish Engineer, Executive Director

Paresh Sukthankar, Executive Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

Schedules to the Consolidated Accounts

As at March 31, 2008

The related party balances and transactions for the year ended March 31, 2008 are summarized as follows:

Rs. Lacs

Items / Related Party	Enterprises under Common Control of the Promoter	Associates / Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposit	132,41	30,79	3,91	1,09	168,20
Placement of Deposits	18	19,50	-	3,50	23,18
Advances	-	20	-	-	20
Purchase of fixed assets	-	21,20	-	-	21,20
Interest received	-	3	-	-	3
Rendering of Services	260,83	-	-	-	260,83
Receiving of Services	14,25	360,51	-	54	375,30
Equity Investment	-	3,71	-	-	3,71
Dividend on equity investment	-	1,38	-	-	1,38
Accounts Receivable	10,03	-	-	-	10,03
Accounts Payable	-	25,90	-	-	25,90
Management Contracts	-	-	6,61	-	6,61

The related party balances and transactions for the year ended March 31, 2007 are summarized as follows:

Rs. Lacs

Items / Related Party	Enterprises under Common Control of the Promoter	Associates / Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposit	103,98	12,50	1,27	42	118,17
Placement of Deposits	18	13,10	-	3,50	16,78
Advances	-	30	-	-	30
Purchase of fixed assets	-	11,39	-	-	11,39
Interest received	-	3	-	-	3
Rendering of Services	132,83	-	-	-	132,83
Receiving of Services	6,43	232,67	-	43	239,53
Equity Investment	-	5,52	-	-	5,52
Dividend on equity investment	-	5,23	-	-	5,23
Accounts Receivable	8,92	1,05	-	-	9,97
Accounts Payable	-	10,61	-	-	10,61
Management Contracts	-	-	2,16	-	2,16

Since there is only one entity in the parent/promoter category details of transactions therewith have not been disclosed.

Schedules to the Consolidated Accounts

As at March 31, 2008

16 Leases

The details of maturity profile of future operating lease payments are given below:

Rs. Lacs

Period	March 31, 2008	March 31, 2007
Not later than one year	184,62	171,79
Later than one year and not later than five years	621,86	673,56
Later than five years	214,35	345,37
Total	**1,020,83**	**1,190,72**
The total of minimum lease payments recognized in the profit and loss account for the year	180,49	136,58

Operating leases primarily comprise office premises and staff residences, which are renewable at the option of the Group.

17 Changes in Accounting Policies

- Premium amortisation

  During the year ended March 31, 2008, the Bank changed its accounting policy on amortization of premia on investments in the held to maturity (HTM) category. The Bank amortizes the said premia prospectively on yield to maturity basis. Hitherto, the Bank amortized premia on investments in the HTM category on a straight-line basis. This change in policy has resulted in the profit after tax for the year ended March 31, 2008 being higher by Rs. 18,58 lacs. As per RBI clarification dated July 11, 2007, premium amortised on investments in the HTM category is deducted from interest income.

- Employee Benefits

  The Group adopted AS 15 (revised 2005) Employee Benefits with effect from April 1, 2007. As per the transition provisions of the standard, the difference between the transitional liability and that as per the pre-revised AS 15 (net of related tax expense) amounting to Rs. 63,71 lacs has been adjusted against the opening balance of revenue reserves and surplus. This change in policy has resulted in the profit after tax being lower by Rs. 11,28 lacs for the year ended March 31, 2008.

18 Comparative figures

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

The Reserve Bank of India (RBI) issued a general clarification dated July 11, 2007 requiring banks to reflect amortization of premia on investments in the Held to Maturity (HTM) category under interest income from investments. In accordance with the said clarification the Bank has reclassified the amount of amortization of premia (for investments held in the Held to Maturity category) under 'Interest Earned'. This was hitherto classified under 'Provisions and Contingencies'. On account of the said reclassification, net interest income and provisions and contingencies are now lower by Rs. 288,38 lacs for the year ended March 31, 2008 (previous year: Rs. 241,09 lacs).

In respect of segment reporting the classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Due to the said change, figures for the year ended March 31, 2007 are not reclassified and hence not comparable.

Schedules to the Accounts

As at March 31, 2008

PRINCIPAL ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION

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

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

B. BASIS OF PREPARATION

The financial statements 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. Suitable adjustments are made to align with the format prescribed under the Banking Regulation Act, 1949.

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

The Bank had bought a stake of 29.5% in HDFC Securities Ltd. during the fiscal year ended March 31, 2001. During the financial year ended on March 31, 2006 the Bank bought a further stake of 25.5% from HDFC Ltd., thereby obtaining a controlling interest of 55% in HDFC Securities Ltd. During the fiscal 2007-08 the Bank increased its stakeholding in HDFC Securities Ltd. to 59.0%. The Bank paid a price of Rs. 62.5 per share for acquiring the add-on shares. This has resulted in goodwill on account of the acquisition of the add-on stake amounting to Rs. 59 lacs, which has been netted off from capital reserves on consolidation.

During the year 2007-08 the Bank also invested in 10 crore equity shares of HDB Financial Services Limited o f Rs. 10 each at par aggregating to Rs. 100 crores. HDB Financial Services Limited is a non-banking financial company and a subsidiary of the Bank. It is yet to commence full-fledged operations. As at March 31, 2008, the stake-holding of the Bank in the company was 95.3%. This has resulted in goodwill of Rs. 3,43 lacs, which has been netted off, from capital reserves on consolidation.

Schedules to the Consolidated Accounts

As at March 31, 2008

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

Name	Relation	Country of Incorporation	Ownership Interest
HDFC Securities Ltd.*	Subsidiary	India	59.0%
HDB Financial Services Limited*	Subsidiary	India	95.3%
Atlas Documentary Facilitators Company Pvt. Ltd.*	Associate	India	29.0%
SolutionNET India Pvt. Ltd. *	Associate	India	19.0%
Softcell Technologies Ltd. **	Associate	India	12.0%
HBL Global Pvt. Ltd.	Associate	India	Nil

* The audited financial statements of HDFC Securities Ltd. and HDB Financial Services Limited, and the un-audited financial statements of Atlas Documentary Facilitators Company Pvt. Ltd. and SolutionNet India Pvt. Ltd. have been drawn up to the same reporting date as that of the Bank, i.e. March 31, 2008.

** The un-audited financial statements of the associate have been drawn for the period ended February 29, 2008.

Computer Age Management Services Pvt. Ltd. (CAMS) ceased to be an associate with effect from October 12, 2007 and Flexcel International Pvt. Ltd. (Flexcel) ceased to be associate with effect from March 31, 2008. Unaudited financial statements of CAMS have been drawn for the period ended September 30, 2007 and those of Flexcel have been drawn for the period ended February 29, 2008.

C. SIGNIFICANT ACCOUNTING POLICIES

1 Investments

HDFC Bank Ltd.

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 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.

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 131

Schedules to the Consolidated Accounts

As at March 31, 2008

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

Securities which are not 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.

Premium amortised on investment in held to maturity category is deducted from interest income as per the RBI guidelines.

Profit on sale of investments under Held to Maturity category is taken to the Profit and Loss account. The above profit, net of taxes and transfers to statutory reserve is appropriated to "Capital Reserve".

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 constant yield to maturity 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.

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 former is lower than the latter, is provided as a loss in the income statement.

Schedules to the Consolidated Accounts

As at March 31, 2008

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.

HDFC Securities Ltd.

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

2 Advances

HDFC Bank Ltd.

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

Advances are classified as secured or unsecured pursuant to the Reserve Bank of India guidelines 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.

The Bank maintains general provision for standard assets 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 up to 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. 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.

Schedules to the Consolidated Accounts

As at March 31, 2008

In addition to the provisions required according to the asset classification status, provisioning is done for individual country exposures (other than for home country exposure). Countries are categorised into seven risk categories namely insignificant, low, moderate, high, very high, restricted and off-credit and provisioning is done in respect of that country where the net funded exposure is one percent or more of the Bank's total assets.

3 Securitisation Transactions

HDFC Bank Ltd.

The Bank securitises out its receivables to Special Purpose Vehicles (SPVs) 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.

The RBI issued guidelines on securitization 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

HDFC Bank Ltd.

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.

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 remaining primary period of lease*
- *VSATs at 10% per annum*
- *ATMs at 12.5% per annum*

Schedules to the Consolidated Accounts
As at March 31, 2008

- *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*
- *Point of sale terminals at 20% per annum*
- *Assets at residences of executives of the Bank at 25% per annum*
- *Items (excluding staff assets) 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.

HDFC Securities Ltd.

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

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

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

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

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

HDFC Bank Limited Annual Report 2007-08 Rs. 10 lacs = Rs. 1 million 135

Schedules to the Consolidated Accounts

As at March 31, 2008

HDB Financial Services Ltd.

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.

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.*
- *Office equipment at 16.21% per annum*
- *Computers at 16.21% per annum*
- *Software and System development expenditure at 20.00% 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 Company

5 Impairment of Assets

Group

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment loss, if any, is provided in the profit and loss account to the extent the carrying amount of assets exceeds their estimated recoverable amount.

6 Transactions involving foreign exchange

HDFC Bank Ltd.

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

Foreign currency monetary items are 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.

Schedules to the Consolidated Accounts

As at March 31, 2008

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 closing rates of exchange notified by FEDAI at the Balance Sheet date.

7 Lease accounting

Group

Lease payments for assets taken on operating lease are recognized in the profit and loss account over the lease term in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8 Employee Benefits

HDFC Bank Ltd.

Employee Stock Option Scheme ("ESOS")

The Employees Stock Option Scheme ("the scheme ") provides for the grant of equity shares of the Bank to its employees. The Scheme provides that employees are granted an option to acquire equity shares of the Bank that vests in a graded manner. The options may be exercised within a specified period. The Bank follows the intrinsic value method to account for its stock-based employees compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price on the grant date. Normally, the exercise prices of the Bank's stock options are equal to fair market price on the grant date and there is no compensation cost under the intrinsic value method.

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, 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 defined gratuity benefit plans are valued by an independent external actuary as at the balance sheet date using the projected unit credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognized in profit/loss account.

Schedules to the Consolidated Accounts
As at March 31, 2008

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 insurance companies, which administer 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 (employee's basic salary upto a maximum level of Rs 6,500 per month) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Bank has no liability for future provident fund benefits other than its annual contribution. The balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. The Bank recognizes such contributions as an expense in the year incurred. Interest payable to the members of the trust shall not be lower than the statutory rate of interest declared by the Central government under the Employees Provident Funds and Miscellaneous Provisions Act 1952 and shortfall, if any, shall be made good by the Bank. The guidance note on implementing (AS) 15 (revised 2005) Employee Benefits states that benefits involving employer established provident funds, which requires interest shortfalls to be provided, are to be considered as defined benefit plans. Pending the issuance of the guidance note from the Actuary Society of India, the Bank's actuary has expressed an inability to reliably measure provident fund liabilities. Accordingly the Bank is unable to ascertain the related information.

Leave Encashment/Compensated Absences

The Bank does not have a policy of encashing unavailed leave for its employees. The Bank provides for compensated absences in accordance with (AS) 15 (revised 2005) Employee Benefits. The provision is based on an independent external actuarial valuation at the balance sheet date, which includes assumptions about demographics, early retirement, salary increases, and interest rates.

HDFC Securities Ltd.

Provident Fund:

The Company's Contribution to Recognised Provident Fund (maintained and managed by the Office of Regional Provident Fund Commissioner) paid/payable during the year is recognised in the Profit and Loss Account.

Gratuity Fund:

The Company makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Company accounts for the net present value of its obligations for gratuity benefits based on an independent external actuarial valuation determined on the basis of the projected unit credit method (PUCM) carried out annually. Actuarial gains and losses are immediately recognised in the Profit and Loss Account.

Schedules to the Consolidated Accounts

As at March 31, 2008

Compensated Absences:

The Company has a scheme of compensated absences for employees. The liability thereof is determined on the basis of an Actuarial valuation as at the end of the year in accordance with AS-15.

Other Employee Benefits:

Other benefits are determined on an undiscounted basis and recognised based on the likely entitlement thereof on accrual basis.

HDB Financial Services Ltd.

Gratuity

The Company provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, 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 Company has not made annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Company accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually as at the balance sheet date.

Provident fund

In accordance with law, all employees of the Company are entitled to receive benefits under the provident fund. The Company contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Company contributes an amount (employee's basic salary upto a maximum level of Rs 6,500 per month) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Company has no liability for future provident fund benefits other than its annual contribution.

Compensated Absences

The Company does not have a policy of encashing unavailed leave for its employees. The Company provides for compensated absences in accordance with AS 15 (revised 2005) Employee Benefits. The provision is based on an independent external actuarial valuation at the balance sheet date.

9 Revenue Recognition

HDFC Bank Ltd.

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets where it is recognized upon realization as per RBI norms.

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

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

Amortization expense of premia on investments in the Held to Maturity (HTM) category is deducted from interest income.

Schedules to the Consolidated Accounts

As at March 31, 2008

Interest income is net of commission paid to sales agents (net of non volume based subvented income from dealers, agents and manufacturers) – (hereafter called "net commission") for originating fixed tenor retail loans. The net commission paid to sales agents for originating retail loans is expensed in the year in which it is incurred.

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

HDFC Securities Ltd.

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

Income from other services is recognised on completion of services.

HDB Financial Services Ltd.

Interest income is recognised in the profit or loss account on an accrual basis.

10 Deferred Revenue Expenses and Preliminary Expenses

HDB Financial Services Ltd.

Expenses incurred in connection with Company incorporation are classified as Preliminary Expenses and are charged in the year in which it is incurred.

11 Credit cards reward points

HDFC Bank Ltd.

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

12 Income tax

Group

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and fringe benefit tax. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognised subject to Management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using substantially 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 substantial enactment of the change.

Schedules to the Consolidated Accounts
As at March 31, 2008

13 Derivative Financial Instruments

HDFC Bank Ltd.

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

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

14 Earnings per share

Group

The Group reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued, by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net profit for the year 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 except where the results are anti dilutive.

15 Segment Information – Basis of preparation

Group

The classification of exposures to the respective segments now conform to the guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007. Business 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 organization structure, the internal business reporting system and the guidelines prescribed by RBI. The Group operates in the following segments:

(a) Treasury

The treasury services segment primarily consists of net interest earnings on investments portfolio and gains or losses on investment operations.

Schedules to the Consolidated Accounts
As at March 31, 2008

(b) Retail Banking

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 other services to such customers. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

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, 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.

(c) Wholesale Banking

The wholesale banking segment provides loans and transaction services to large corporate, emerging corporate, supply chain 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, interest earned on the cash float arising from transaction services, fees from such transaction services and also earnings from foreign exchange and derivatives transactions on behalf of corporate customers. 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.

(d) Other Banking Operations

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, and primary dealership business and the associated costs.

(e) Unallocated

All items which cannot be allocated to any of the above are classified under this segment. This includes capital and reserves, debt classifying as tier I or tier II capital and other unallocable assets and liabilities.

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.

Geographic Segments

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

Schedules to the Consolidated Accounts

As at March 31, 2008

16 Accounting for Provisions, Contingent Liabilities and Contingent Assets

Group

In accordance with (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Group recognises provisions 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.

Provisions are determined based on management estimate required to settle the obligation at the balance sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

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

17 Bullion

HDFC Bank Ltd.

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The import consignment for wholesale customers are typically 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. To the extent of the bars sold to retail customers, the Bank consolidates such sales and fixes the purchase price of the bullion / bars with the supplier. The gain on sale is classified under commission income.

The Bank also borrows and lends gold, which is treated as borrowing/lending as the case may be with the interest paid/received classified as interest expense/income.

18 Net Profit

Group

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

For and on behalf of the Board

Aditya Puri
Managing Director

Paresh Sukthankar
Executive Director

Harish Engineer
Executive Director

Mumbai, 5 May, 2008