Financial Highlights

	1999-2000	2000-2001	2001-2002
Interest Income	679,87	1,255,04	1,681,18
Interest Expense	374,28	753,75	1,073,74
Net Interest Income	**305,59**	**501,29**	**607,44**
Other Income	119,54	176,57	335,90
Net Revenues	**425,13**	**677,86**	**943,34**
Operating costs	171,39	309,59	417,95
Operating Result	**253,74**	**368,27**	**525,39**
Provisions and Contingencies	58,89	53,21	100,01
Loan Loss Provisions	53,60	52,96	85,77
Others	5,29	25	14,24
Profit before tax	**194,85**	**315,06**	**425,38**
Provision for taxation	74,81	104,94	128,34
Profit after tax	**120,04**	**210,12**	**297,04**
Funds :			
Deposits	8,427,72	11,658,11	17,653,81
Subordinated debt	150,00	200,00	200,00
Stockholders' Equity	751,52	913,09	1,942,28
Working Funds	11,731,03	15,617,33	23,787,38
Loans	3,462,34	4,636,66	6,813,72
Investments	5,748,28	7,145,14	12,004,02
Key Ratios :			
Earnings per share (Rs)	5.93	8.64	11.01
Return on Average Networth	29.00%	24.53%	18.30%
Tier 1 Capital Ratio	9.56%	8.69%	10.81%
Total Capital Ratio	12.19%	11.09%	13.93%
Dividend per share (Rs)	1.60	2.00	2.50
Dividend payout ratio	29.96%	25.55%	23.68%
Book value per share as at March 31 (Rs)	30.90	37.50	69.00
Market price per share as at March 31 (Rs)*	257.20	228.35	236.60
Price to Earnings Ratio	43.37	26.43	21.50

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

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Rs. Lacs

2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
1,963,17	2,455,71	2,905,43	4,230,18	6,647,93	10,115,00	16,332,26
1,191,96	1,211,05	1,315,56	1,929,50	3,179,45	4,887,12	8,911,10
771,21	**1,244,66**	**1,589,87**	**2,300,68**	**3,468,48**	**5,227,88**	**7,421,16**
465,55	480,03	651,34	1,123,98	1,516,23	2,283,15	3,290,60
1,236,76	**1,724,69**	**2,241,21**	**3,424,66**	**4,984,71**	**7,511,03**	**10,711,76**
577,05	810,00	1,085,40	1,691,09	2,420,80	3,745,62	5,532,81
659,71	**914,69**	**1,155,81**	**1,733,57**	**2,563,91**	**3,765,41**	**5,178,95**
88,86	195,73	176,87	480,06	925,16	1,484,78	1,879,71
88,39	178,28	176,22	479,76	861,01	1,216,03	1,726,28
47	17,45	65	30	64,15	268,75	153,43
570,85	**718,96**	**978,94**	**1,253,51**	**1,638,75**	**2,280,63**	**3,299,24**
183,25	209,46	313,38	382,73	497,30	690,45	1,054,31
387,60	**509,50**	**665,56**	**870,78**	**1,141,45**	**1,590,18**	**2,244,93**
22,376,07	30,408,86	36,354,25	55,796,82	68,297,94	100,768,60	142,811,58
200,00	600,00	500,00	1,702,00	3,282,60	3,249,10	6,477,80
2,244,83	2,691,88	4,519,85	5,299,53	6,433,15	11,497,23	14,646,33
30,424,08	42,306,99	51,429,00	73,506,39	91,235,61	133,176,60	183,270,77
11,754,86	17,744,51	25,566,30	35,061,26	46,944,78	63,426,90	98,883,05
13,388,08	19,256,79	19,349,81	28,393,96	30,564,80	49,393,54	58,817,55
13.75	17.95	22.92	27.92	36.29	46.22	52.85
18.10%	20.14%	20.44%	17.47%	19.40%	16.05%	16.12%
9.49%	8.03%	9.60%	8.55%	8.58%	10.30%	10.18%
11.12%	11.66%	12.16%	11.41%	13.08%	13.60%	15.09%
3.00	3.50	4.50	5.50	7.00	8.50	10.00**
24.72%	22.15%	24.00%	22.55%	22.92%	22.17%	22.17%
79.60	94.52	145.86	169.24	201.42	324.39	344.31
234.55	378.75	573.64	774.25	954.15	1,331.25	973.40
17.06	21.10	25.03	27.74	26.29	28.80	18.42

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BOARD OF DIRECTORS

Mr. Jagdish Capoor, *Chairman*

Mr. Keki Mistry

Mrs. Renu Karnad

Mr. Arvind Pande

Mr. Ashim Samanta

Mr. Chander Mohan Vasudev

Mr. Gautam Divan

Dr. Pandit Palande

Mr. Aditya Puri, *Managing Director*

Mr. Harish Engineer, *Executive Director*

Mr. Paresh Sukthankar, *Executive Director*

Mr. Vineet Jain *(upto 27.12.2008)*

SENIOR MANAGEMENT TEAM

Mr. A Parthasarthy

Mr. A. Rajan

Mr. Abhay Aima

Mr. Anil Jaggia

Mr. Bharat Shah

Mr. G. Subramanian

Mr. Kaizad Bharucha

Mrs. Mandeep Maitra

Mr. Navin Puri

Mr. Pralay Mondal

Mr. Rahul Bhagat

Mr. Sashi Jagdishan

Mr. Sudhir M. Joshi

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: +91 22 66521000; Fax: +91 22 24960737
Website: www.hdfcbank.com

REGISTRARS & TRANSFER AGENTS

Datamatics Financial Services Ltd
Plot No. A 16 & 17,
Part B Cross Lane,
MIDC, Marol, Andheri (East),
Mumbai 400 093.
Tel: +91 22 66712213-14
Fax: +91 22 28213404
E-mail: hdinvestors@dfssl.com

15^{th} ANNUAL GENERAL MEETING

Date	:	July 14, 2009
Day	:	Tuesday
Time	:	2:30 p.m.
Place	:	Ravindra Natya Mandir, Sayani Road, Prabhadevi, Mumbai 400 025.
Book Closure	:	June 24, 2009 to July 14, 2009 (both days inclusive)

Contents

To the Members,

Your Directors have great pleasure in presenting the Fifteenth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2009.

Financial Performance

(Rs. in crores)

	For the year ended	
	March 31, 2009	March 31, 2008
Deposits and Other Borrowings	145,497.4	105,363.5*
Advances	98,883.0	63,426.9
Total Income	19,622.9	12,398.2
Profit before Depreciation and Tax	3,659.2	2,552.4
Net Profit	2,245.0	1,590.2
Profit brought forward	2,574.6	1,932.0
Total Profit available for Appropriation	4,819.6	3,522.2
Appropriations		
Transfer to Statutory Reserve	561.2	397.5
Transfer to General Reserve	224.5	159.0
Transfer to Capital Reserve	93.9	-
Transfer to Investment Fluctuation Reserve	(13.9)	38.5
Proposed Dividend	425.4	301.3
Tax including Surcharge and Education Cess on Dividend	72.3	51.2
Education Cess on Dividend paid for Prior Year	0.6	0.1
Balance carried over to Balance Sheet	3,455.6	2,574.6

** Change pursuant to reclassification*

The Bank posted total income and net profit of Rs. 19,622.9 crores and Rs. 2,245.0 crores respectively for the financial year ended March 31, 2009 as against Rs. 12,398.2 crores and Rs. 1,590.2 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 dual objectives of appropriately rewarding shareholders through dividends and retaining capital to maintain a healthy capital adequacy ratio to support future growth. It has had a consistent track record of moderate but steady increases in dividend declarations over its history with the dividend payout ratio ranging between 20% and 25%. Consistent with this policy, and in recognition of the overall performance during 2008-09, your directors are pleased to recommend a dividend of 100% for the year ended March 31, 2009, as against 85% for the year ended March 31, 2008. This dividend shall be subject to tax on dividend to be paid by the Bank.

Awards

Your Bank continued to receive awards and gain recognition from leading domestic and international organizations during the fiscal 2008-09. Some of them are:

- Euromoney Annual Survey : The Best local Bank. Also Ranked 1st in Relationship Management and 2nd in private banking services overall.
- Business India : Best Bank 2008.
- Forbes Asia : One of the Fab 50 Companies in Asia Pacific.

- Nasscom IT User Award 2008 : Best IT Adoption in the Banking Sector.
- Asian Banker Excellence in Retail Financial Services : Best Retail Bank 2008.
- Asiamoney : Best Local Cash Management Bank Award.
- Microsoft & Indian Express Group : Security Strategist Award 2008.
- World Trade Center Award of Honour : For outstanding contribution to international trade services.

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.

Issuance of Equity Shares and Warrants

The Reserve Bank of India (RBI) approved the scheme of amalgamation of Centurion Bank of Punjab with your Bank effective May 23, 2008. Consequently, the shareholders of the erstwhile Centurion Bank of Punjab were allotted 69,883,956 equity shares of Rs. 10 each pursuant to the share swap ratio of one equity share of Rs. 10 each of HDFC Bank for every twenty nine equity shares of Re. 1 each held in Centurion Bank of Punjab by them as on June 16, 2008.

To enable the promoter group to restore its shareholding percentage in the Bank to the pre-merger level and in line with shareholder and regulatory approvals, during the quarter ended June 30, 2008 your Bank issued 26,200,220 warrants convertible into an equivalent number of equity shares to HDFC Limited on a preferential basis at a rate of Rs. 1,530.13 each. HDFC Limited can exercise the said options until December, 2009.

During the year under review, 10.67 lakh shares were allotted to the employees of your Bank pursuant to the exercise of options under the employee stock option scheme of the Bank. These include the shares allotted under the employee stock option scheme of Centurion Bank of Punjab.

Other Capital Raising

During the Fiscal year 2008-2009 your bank issued Lower and Upper Tier II bonds aggregating to Rs. 2,875 crores. The proceeds from these bond issuances have been included as Tier II capital.

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) calculated in line with the Basel II framework stood at 15.7%, well above the regulatory minimum of 9.0%. Of this, Tier I CAR was 10.6%. During the year under consideration the Bank raised Tier II capital to maintain a healthy CAR. In the Fiscal year 2008-2009 the Reserve Bank of India revised the risk weights accorded to various asset classes which had a net positive impact on the Capital Adequacy Ratio of your Bank.

From the current Financial year the Bank has complied with the standards set out for the standardised approach for credit risk and the Basic Indicator approach for operational risk under Basel II as directed by the Reserve Bank of India. The implementation of the Basel II framework is in harmony with the Bank's objective of adopting international best practices in risk management. The Bank's CAR as per Basel II is 15.7% as compared to 15.09% calculated as per Basel I.

Amalgamation of Centurion Bank of Punjab Limited with the Bank

During the year ended March 31, 2009, the Reserve Bank of India accorded its consent to the Scheme of Amalgamation of Centurion Bank of Punjab Limited with your Bank. Pursuant to the order of amalgamation the operations of both Banks were merged with effect from May 23, 2008. The appointed date for the merger was April 01, 2008. During the fiscal year various facets of integration including systems, human resources, branches, operating processes and business plans have been integrated. With the result both banks currently operate as one seamlessly integrated entity.

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, 2009.

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

The Indian economy faced significant slowdown in growth momentum in 2008-09, driven by a severe downturn in the global economy on the back of sustained pressure on the global financial system. For India, estimates of 2008-09 GDP growth range from 6.0%-7.0% against an average growth rate of 8.8% per annum over the period 2003-2008.

The key shock to India's growth has come from external sources, largely by way of lower exports and a marked reduction in inflow of foreign capital. While export growth entered into negative territory in the third quarter of the financial year 2008-2009 against a growth rate of around 27% during the same period last year, foreign inflows are likely to have contracted to USD 16 billion in 2008-09 from almost USD 100 billion in 2007-08. This has dampened domestic investment momentum which was earlier a key growth driver of the Indian economy. Growth in gross capital formation in the last quarter of the financial year 2008-2009 fell to 5.3% from 13.7% a year ago.

The industrial sector has been the largest casualty of the marked slowdown in both investment and imports, slowing from a growth rate of 8.9% in the year ended March 31, 2008 to possibly 4-4.5% in the year ended March 31, 2009. Services, particularly financial services and trade & transport – have also been impacted by the cyclical downturn in industry and the external pressure from a tough global financial environment. We expect growth in services to slow down from 10.8% in the fiscal year 2007-2008 to 9.4% in the financial year ended March 31, 2009.

In response to the severe pressure on global liquidity in the aftermath of the collapse of Lehman Brothers in October, 2008, liquidity within the domestic Indian banking system also came under substantial pressure. As international credit lines froze, pressure on the domestic banking system intensified. Since then, a series of moves by the Reserve Bank of India to slash the Cash Reserve Ratio (CRR) and the key domestic policy rates have improved the liquidity situation within the banking system. The central bank cut the reverse repo and repo rate by a total of 250 bps and 400 bps respectively since September 2008, and addressed liquidity pressures by cutting the CRR and the Statutory Liquidity Ratio by a total of 400 bps and 100 bps respectively, leading to a liquidity surplus in the Indian banking system since November 2008.

Interest rates too have mirrored the broad-based uncertainty in the global economy and markets and have been very volatile since the global crisis intensified last year. The overnight inter-bank call money rate as well as deposit and lending rates spiked up sharply during the October 2008 liquidity shortage spell, impacting domestic growth prospects. Since January 2009, however, inter-bank rates have eased substantially with the overnight call money rate ruling around 3-4%, while longer-tenor yields have moved higher by an average of 160 basis points (bps) in response to concerns over a widening fiscal deficit spurred by an expansionary fiscal policy. Effective lending and deposit rates have broadly tracked the down-trend in policy rates, albeit at a much slower pace. While policy rates have declined by an average of 250-400 bps, the lending rates of banks have broadly scaled lower by 150-225 bps and deposit rates have come down by 100-150 bps.

Despite some easing of effective lending rates, credit growth has moderated over the year, spiking up to a high of 29% in the October-November, 2008 period but falling steadily thereafter to a growth rate of 18.1% in March 2009. While the spike in credit growth in the third quarter of 2008-09 was largely fuelled by demand from oil marketing and fertilizer companies reeling under losses accumulated on the back of firm commodity prices as well as some substitution of foreign sources of funding with domestic bank credit, the decline in economy-wide credit demand in the fourth quarter of 2008-09 was broadly in sync with lower domestic growth. Retail consumer borrowing slipped lower as consumer demand slowed down; pushing growth in the retail loans lower to 14.8% in the financial year ended March 31, 2009 from 18-20% a year ago. Additionally, banks have been more cautious in incremental retail lending in the face of rising delinquencies and higher credit risk perception with the economic slowdown.

On the foreign trade side, merchandise exports plummeted over the course of the year driven primarily by sharp deterioration in global growth. Manufacturing export orders, in particular, have felt the brunt of the slowdown in the global economy. In February 2009, domestic exports fell by 21.3% on the back of 15% contraction in January 2009 and export growth is expected to slow down from 9% in 2008-2009 to around 3% in 2009-2010.

Both oil and non-oil imports have declined in response to a reduction in commodity prices and deceleration in the domestic growth cycle. However, the full impact of this reduction in domestic oil imports is likely to be felt of the financial year 2009-2010. Thus, the trade deficit position should improve significantly going forward with slower export performance being more than offset by sharp reductions in non-oil and oil imports. We therefore expect a reduction in the trade balance deficit from USD 119 billion in 2008-2009 to around USD 105 billion in 2009-2010. Net invisibles (software exports and private transfers) are another category that could remain flat or decrease marginally in response to slackness in global growth. However, a lower trade balance should act as the main driver in reducing the current account deficit from USD 30.9 billion in the financial year ended March 31, 2009 to USD 14.5 billion for the same period next year.

The total balance of payments position in the fiscal year ended March 31, 2009 was in deficit due to strong portfolio outflows and a sharp reduction in foreign currency inflows in categories such as net Foreign Direct Investment (FDI) and External Commercial Borrowing (ECB) flows. In fact, for the first time in 10 years, the capital account showed a negative balance of USD 3.7 billion. The capital account balance is likely to remain under pressure in the next financial year. However, the sharp deficit seen over the last fiscal year is unlikely to be repeated. Short-term trade credit flows could revive from the lows witnessed in the October-December 2008 period and provide some cushion to the capital account. FDI flows could pick up towards the latter half of the financial year ending March 31, 2010 as global investors look for high yielding destinations such as India. Thus, the capital account position is expected to improve next year resulting in a much more comfortable position in the total balance of payments.

Indian equity markets have fallen significantly over the course of the last financial year due to a sharp pull out by portfolio flows and risk aversion buying in the global markets. However, the domestic equity markets could improve towards the latter half of the next financial year once global investors start pricing in a global recession as Indian economic fundamentals still remain strong and attractive in absolute terms.

(Sources : Ministry of Finance, RBI, CSO)

Risks and Concerns

While adequate capital provisioning and stringent prudential regulations have largely shielded the domestic banking system from the global crisis, some cyclical deterioration in asset quality remains a concern for the banking system. Bank credit, particularly in the retail segment, has been an important driver of the consumption boom in India and has played a significant role in pushing up the trend of the growth rate of the Indian economy in the last few years. Recent stress tests have revealed that the banking system as a whole remains robust enough to withstand a sharp increase in asset quality slippage. An increase in delinquencies and non-performing assets will nevertheless restrict the ability of the banks to grow rapidly and both the economy and the banking system will have to align themselves to a less buoyant growth outlook in the year ahead.

An increase in Investments has been a crucial anchor of growth in recent years; buoyant global growth conditions have aided fresh investment initiatives in recent years. Foreign capital has had a crucial role to play in providing ready capital specifically streamlined to cater to financing investment initiatives. A lack of such funds is likely to constrain a sustained recovery in investment and capital growth in the year ahead.

Another risk that is likely to impact domestic growth conditions is the possible de-stabilizing impact of a sharp fall in exports on industry. India's export to GDP ratio rose from 12.5% in 2000-01 to 22% in 2007-08. As industry scales back growth expectations, runs down inventories and builds in a lower growth outlook, it is likely to undergo significant re-adjustments and pose as a significant area of concern for both the banking system and the economy at large.

At present, a recovery in consumption holds the key to a more stable growth outlook for the Indian economy. High inflation and a tight monetary environment acted as primary dampeners for consumption in the first half of 2008-09, with growth in consumption declining much before the financial crisis acquired global proportion. Growth in private final consumption expenditure fell to 5.3% in Q2FY09 as compared to 7.6% a year ago. Recent monetary easing alongside a sharp fall in inflation is likely to provide some support to consumption in the financial year 2009-10. However, the possibility of contracting personal disposable incomes that may dilute the positives of lower interest rates and prices remains a concern in the year ahead.

Opportunities

The problems of the international financial system are likely to persist in 2009-10 and this will impinge on India's ability to attract external capital. The implication is that the domestic recovery will have to be funded largely by the domestic financial system, particularly banks. This substitution of global funding sources by domestic sources is likely to create a number of opportunities for domestic finance. The Indian corporate sector will, for a while to come, depend more on domestic funding both for operating needs as well as for capacity expansion.

Infrastructure spending, for one, will continue to be used as a key countercyclical policy tool. This creates opportunities for banks either directly in project finance or in providing short term funds for companies involved in these projects. Second, the rural sector has fared better than the urban segment in the downturn – rural markets for goods and services (including credit) appear to have been robust. This is partly due to the fact that a number of the countercyclical policy initiatives have had a rural bias (rural roads and irrigation projects for some). Given the dependence of a large fraction of the population on the rural economy and the fact that a number of product markets are under-penetrated, it provides opportunities for sustained growth for a number of sectors.

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 is likely to continue to see further pressure in the year ahead. Growth is likely to slowdown further from 6.7% in the year ending March 31, 2009 to around 5.8% next year as industrial growth continues to decelerate. Investment momentum is likely to remain subdued amidst flat local demand even as an accommodative monetary policy alongside receding inflationary risks, provide some support to growth. Demand for credit is unlikely to recover till domestic growth conditions improve. However, India will remain one of the fastest growing economies in the world and if risk appetite and global stability were to stage a come-back by the end of 2009-10, India will remain an attractive foreign investment destination.

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 continue building 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 merger of Centurion Bank of Punjab Limited (CBoP) with HDFC Bank was effected during the year with April 1, 2008 as the appointed date. The financial results for the year ended March 2009 are therefore for the merged entity, whilst the results for the year ended March 2008 are on a standalone basis for HDFC Bank and are therefore not comparable.

The financial performance during the fiscal year 2008-09 remained healthy with total net revenues (net interest income plus other income) increasing by 42.6% to Rs. 10,711.8 crores from Rs. 7,511.0 crores in 2007-08. The revenue growth was driven both by an increase in net interest income and other income. Net interest income grew by 42.0% primarily due to increase in the average balance sheet size by 46.5% (including the impact of the merger of CBOP) and a net interest margin of 4.2%.

Other income registered a growth of 44.1% over that in the previous year to Rs. 3,290.6 crores in the current year, primarily due to fees and commissions, profit/loss on revaluation and sale of investments and income from foreign exchange and derivatives. In 2008-09, commission income increased by 43.3% to Rs. 2,457.3 crores with the main drivers being commission from distribution of third party insurance and mutual funds, fees on debit/credit cards, transactional charges and fees on deposit accounts, processing fees of retail assets and cards, and fees from cash management and trade products. With bond yields having fallen over 100 bps to 150 bps across tenors, the Bank made a profit on sale / revaluation of investments of Rs. 382.6 crores during the year. Foreign exchange and derivatives revenues grew from Rs. 319.8 crores to Rs. 440.5 crores of which, over 80% came from customer foreign exchange transactions. The Bank incurred a loss of Rs. 158.2 crores on account of derivative transactions during the year ended March 31, 2009. The said loss is primarily attributable to the unwinding of certain trading positions and due to contrary positions taken against bond trading positions as a part of risk strategy.

Operating (non-interest) expenses increased from Rs. 3,745.6 crores in 2007-08 to Rs. 5,532.8 crores in 2008-09, due to the organic expansion in the Branch network and the amalgamation of Centurion Bank of Punjab (which had a significantly higher cost-income ratio than HDFC Bank) with your Bank. The Bank now has a significantly larger network and reach across the country as compared to that at the end of the previous financial year. This has resulted in higher infrastructure and staffing expenses. Operating cost to net revenues increased to 51.7%, from 49.9% in the corresponding year. Staff expenses accounted for 40.5% of non-interest expenses in 2008-09, due to an increase in staff strength and increase in average salary levels. Loan loss provisions and provision for standard assets increased from Rs. 1,216.0 crores to Rs. 1,726.3 crores in 2008-09 in line with the increase in non-performing assets and the Bank's policy of providing aggressively in excess of the regulatory requirements. The Bank also provided Rs. 152.8 crores as contingent provisions for tax, legal and other contingencies.

Net profit increased by 41.2% from Rs. 1,590.2 crores in 2007-08 to Rs. 2,245.0 crores in 2008-09. Return on average net worth was constant at 16.1% even on an enhanced equity base (due to merger with CBoP). The Bank's basic earning per share increased from Rs. 46.2 to Rs. 52.9 per equity share.

During 2008-09, the Bank's total balance sheet increased by 37.6% over that on March 31, 2008 to Rs. 183,270.8 crores. Total Deposits increased from Rs. 100,768.6 crores (as of March 31, 2008) to Rs. 142,811.6 crores (as of March 31, 2009). With Savings account deposits at Rs. 34,914.7 crores and current account deposits at Rs. 28,444.9 crores, demand (CASA) deposits were around 44.4% of total deposits as of March 31, 2009. During 2008-09, gross advances grew by 48.3% to Rs. 100,239.3 crores. This was driven by a growth of 38.3% in wholesale advances to Rs. 39,085.8 crores, and an increase of 55.5% in retail advances to Rs. 61,153.5 crores.

Business Segments' Update

Consistent with its performance in the past, this year too the bank has achieved healthy growth across various operating and financial parameters. The 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.

Retail Banking

The growth in your Bank's retail banking business was robust during the current financial year. The Bank's retail deposits grew by over 63.7% to Rs. 99,276.5 crores at the end of the financial year ended March 31, 2009, while its retail assets grew by 55.5% to Rs. 61,153.5 crores during the same period.

The Bank caters to various customer segments with a wide range of products and services. HDFC Bank is a one stop shop financial services provider of deposit products of virtually all types, of retail loans (auto loans, personal loans, commercial vehicle loans, etc.), credit cards, debit cards, depository (custody services), investment advisory, bill payments and several transactional services. Apart from its own products, the Bank sells third party financial products like mutual funds and insurance.

Branch Banking

This year the Bank significantly expanded its distribution network – from 761 branches in 327 cities in March 2008 to 1,412 branches in 528 Indian cities in March 2009. The Bank's ATMs increased from 1,977 to 3,295 during the same period. The expansion of the network was due to a combination of organic growth and the amalgamation of Centurion Bank of Punjab. Today your Bank's branch network is deeply entrenched across the country with significant density in areas conducive to the growth of its businesses. The Bank's focus on semi-urban and under-banked markets continued, with 64% of the Bank's branches now outside the top nine Indian cities. The Bank's customer base grew in line with the growth in its network and currently stands at over 18 million customers. The number of savings accounts grew almost 70% to approximately 10 million and savings balances which is a good indicator of the Banks retail liability franchise grew 33.5% to Rs. 34,914.7 crores at the end of the current financial year.

The Bank continues to provide unique products and services with customer centricity a key objective. The Bank's Imperia premium, preferred and classic banking services seeks to address the diverse needs of different customer segments in the personal banking space, with specifically trained personnel and customized products.

In order to provide its customers increased choices, flexibility and convenience the Bank continued to make significant headway in its multi channel servicing strategy. The Bank offered its customers the use of ATMs, internet banking, phone banking and mobile banking in addition to its expanded branch network to serve their banking needs.

The Bank increased its debit card base by 57.8% this year which translated to increased usage at its ATMs, providing greater convenience to customers while easing the load at the Bank's branches and reducing servicing costs. The Bank also made strong inroads in its internet banking with around 20% of its registered customers now using net banking facilities for their banking requirements. Your bank now offers phone banking in over 500 locations in addition to giving its customers the ease of accessing their bank accounts over their mobile phones. The success of the Bank's multi-channel strategy is evidenced in the fact that almost 80% of customer initiated transactions are serviced through the non-branch channels.

Retail Assets

Your Bank continued to grow at a healthy pace in almost all the retail loan products in which it operates and remains amongst the top lenders in retail assets products in India. The Bank grew its retail asset portfolio in a well balanced manner by focusing on both returns as well as risk. The Bank's auto finance business remained a key business driver for its retail asset portfolio. Additionally other key retail loan products exhibited robust growth rates and asset quality.

The Bank continued its focus on internal customers for its credit cards portfolio. Although there was an increase in delinquencies for certain segments, credit card losses were lower than industry figures. Overall credit cards remained a profitable business for your Bank with over 4.3 million cards in force as at March 2009.

The Bank also has a significant presence in the "merchant acquiring" business with the total number of point-of-sale (POS) terminals installed at over 70,000.

In addition to the above products the Bank originates home loans under its arrangement with HDFC Limited, the Bank originated approximately an average Rs. 3,500 crores of these products every month in the financial year ended March 31, 2009. During the year the bank also purchased from HDFC Ltd. under the "loan assignment" route approximately Rs. 4,000 crores of AAA credit enhanced home loans which qualified as priority sector advances. Of these, approximately Rs. 2,000 crores were originated by the Bank.

The Bank also distributes life and general insurance products through its tie-ups with insurance companies and mutual fund houses in the country. The success in the distribution of the above products has been demonstrated with the growth in the Bank's fee income.

The Bank's data warehouse, Customer Relationship Management (CRM) and analytics 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 greater efficiency in fraud control and collections resulting in lower credit losses.

Wholesale Banking

The wholesale banking business registered a healthy growth in 2008-09. 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 some small and medium enterprises (SMEs). The Bank has a number of business groups catering to various segments of its wholesale banking 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 2008-09, 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 (supply chain) 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. 22 trillion. Your Bank also strengthened its market leadership in cash settlement services for major stock exchanges and commodity exchanges in the country. The Bank met the overall priority sector lending requirement of 40% of net bank credit.

The Bank's financial institutions and government business group (FIG) offers commercial and transaction banking products to financial institutions, public sector undertakings, central and state government departments. The main focus for this segment remained offering various deposit and transaction banking products to this segment besides deepening these relationships by offering funded, non-funded treasury and foreign exchange products.

International Operations

In October 2008, your bank opened its first overseas commercial branch in Bahrain. The branch offers the bank's suite of banking services including treasury and trade finance products for corporate clients and wealth management products for Non-resident Indians. The Bahrain branch will serve as your bank's gateway into the middle-east tapping the growth potential in this region.

Treasury

The treasury group is responsible for compliance with reserve requirements and management of liquidity and interest rate risk on the Bank's balance sheet. 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 2008-09, revenues from foreign exchange and derivative transactions grew by 37.7% to Rs. 440.5 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 are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk. 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 portfolio of government securities. While a significant portion of these SLR securities are held in the "Held-to-Maturity' (HTM) category, some of these are held in the "Available for Sale" (AFS) category. In the current year the Bank realized gains on its bond portfolio in a declining interest rate environment.

Service Quality Initiatives

Your Bank continued to improve customer service in various spheres of its business through Service Quality Initiatives and Quality Projects using Lean Sigma Tool-kit, 5S and other business excellence initiatives. Over 1,500 projects were executed during the year that resulted in a significant reduction of turn around times for various processes, process efficiency improvements, cost reduction, enhanced productivity and ultimately improved customer service.

Your Bank has integrated the customer complaints management processes with the existing service quality initiatives to achieve greater synergies towards driving service excellence. Service quality initiatives include the audit of services and improvement on the areas identified on the basis of customer feedback on experiences at various touch-points. Your Bank also integrated service quality objectives with the Business Objectives of the Bank to bring a coordinated approach towards improving business by delighting customers. New elements were added and renewed improvement schemes were installed using technology to ensure customer convenience, security of transactions and reduce transaction cost. The service quality improvement drive was implemented for business units of the bank as well as key support departments.

The Bank plans to use this platform to drive systemic changes and process re-engineering using technology and Service Quality Initiatives to further enhance customer experience and business value.

Risk Management & Portfolio Quality

The Bank in the course of its business is exposed to various risks, of which the most important are credit risk, market risk (including liquidity risk and price risk) and operational risk. The identification, measurement, monitoring and control of risks remain key aspects of the Bank's risk management system. Sound risk management supported by a balanced risk-reward trade-off is critical to achieving the Bank's business strategy for business and revenue growth. Specific to credit risk, the Bank has distinct policies and processes in place for the retail and wholesale businesses. The credit cycle in the retail assets business is managed through appropriate front-end credit, operational and collection processes. There are programs for each product, which define the target customer segments, underwriting standards, security structure etc., to ensure consistency of credit origination patterns. Given its granularity, the retail credit portfolio is managed largely on a portfolio basis, across various products and customer segments. During the year the Bank obtained an ISO 9001:2008 certification for its retail asset underwriting. Credit risk in the wholesale business is managed through target market definition, comprehensive credit assessment, appropriate approval process, ongoing post-disbursement monitoring and remedial management procedures. The risk in the portfolio is managed and mitigated by periodic reviews and diversification across individual borrowers, related borrowers, industries, sectors etc.

As of March 31, 2009, the Bank's ratio of gross Non-Performing Assets (NPAs) to total customer assets was 1.98%. The Bank's ratio of gross NPAs was 1.3% on March 31, 2008, which moved to 1.7% immediately after the merger of CBOP. Of the total gross NPAs on March 31, 2009 around 42% were on account of the merger. Net non-performing assets (gross non-performing assets less specific loan loss provisions, interest in suspense and ECGC claims received) were 0.6% of customer assets as of March 31, 2009. The specific loan loss provisions that the Bank has made for its non-performing assets continue to be more conservative than the regulatory requirement.

In accordance with the guidelines issued by Reserve Bank of India on the New Capital Adequacy Framework (Basel II), the Bank has migrated to the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk effective March 31, 2009. The Bank, simultaneously, progresses on its initiatives towards meeting the standards set out for the more advanced capital approaches under Basel II. These initiatives cover enhancement of the Bank's risk management architecture, capabilities, processes, systems and technology in areas such as ratings systems, borrower segmentation, exposure aggregation, risk mapping, risk estimation and capital computation.

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.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility

As its operations have grown your bank has retained its focus on various areas of corporate sustainability that impact the socio economic ecosystem that we are part of. HDFC Bank's focus in the area of corporate sustainability includes social sustainability & social welfare and financial inclusion.

Social Sustainability & Social Welfare

Your Bank is committed to making a positive impact across the local communities it is present in and the society at large. The bank has initiated a number of programs to encourage economic, social and educational development within the communities that it operates; while at the same time contributing to several grass root level development programs across these geographies.

The foundation of social sustainability is based on creating employment opportunities. Your bank directly employs 52,687 people across the nation while at the same time generating opportunities for thousands of others through its vast network of agents, suppliers and contractors.

Your Bank believes that the benefits of economic growth should percolate to all sections of society and the best means to action this is to use education and skills training as the means of intervention to impact its objectives for the overall development of society. In the year 2008-2009 towards its aim of quality education the Bank has supported a variety of educational programs ranging from educational sponsorships for girls, adoption of state-run schools, running of academic support classes and reading classes. Apart from these initiatives the Bank also provide skills training to school dropouts, youth, women and other disadvantaged groups.

The Bank's social development programs have so far touched the lives of around 17,000 children and 3,000 youth. The Bank has also initiated a 'Social and Financial literacy Program' for school children to educate them on the importance of savings, to enable them differentiate between healthy and unhealthy spending, cultivate financial best practices and to take financial decisions based on real needs.

Financial Inclusion

Microfinance has, in recent times come to be recognized as one of the key developmental tools that can be harnessed for alleviating poverty through social and economic empowerment of the poor. Your bank was one of the early movers to enter into the microfinance sector five years ago. Considering the huge impact on the livelihoods and empowerment of the rural poor, the bank has adopted different business models in order to reach segments of the rural poor. The Bank's microfinance program provides access to financial services such as credit, savings, insurance, money transfers etc. to the poor in a sustainaible and commercially viable manner.

Bulk lending to Microfinance Institutions

The Bank has successfully implemented the bulk bank linkage model. Under this program which has been growing rapidly the bank extends bulk loans to micro finance institutions for onward lending to women enabling them to undertake income generation activities. The bank in partnership with 104 Microfinance institutions and 203 NGOs has extended credit facilities exceeding Rs. 700 crores in 17 states and has financially included over 2 million rural households creating inroads to alleviate poverty that is prevalent in certain sections of the country.

Lending to Self Help Groups

As part of its commitment towards social banking and facilitating community development, the Bank has played an active role in providing financial services through Self Help Groups (SHGs) under the business correspondent model and considers it as a potential initiative for delivering financial services to the rural poor in a sustainable manner. Under the SHG bank linkage programme, the bank has financed around 43,000 SHGs with an amount of over Rs. 200 crores and has brought in approximately 6 lakh households under financial inclusion through business correspondent partners. These SHGs are provided with No Frill Savings Account, Closed User Group ATM cards and Point of Sale terminals for delivering financial services using low cost technology at their doorsteps. The bank has also facilitated a platform through online market linkage facility for SHGs undertaking micro entrepreneurial activity.

With the view to imparting financial literacy, bank has published financial literacy booklet in regional language and has devised a short film for financial counselling.

Health and Hygiene

Under its health care project, the bank has provided financial assistance to a number of villages for the construction of basic sanitation facilities. The society formed through this initiative motivated and educated people on the importance of basic sanitation. Villagers were convinced to come together to form federations and manage the funds and their deployment. These village level committees undertook the sanitation project with the support of the Bank.

Water security and the provision of safe drinking water is a fundamental requirement for sustainable development. The Bank provides financial support to village level SHG federations comprising 800 families in Sivanarpuram and Keerapalayam part of the Cuddalore district that lack potable water due to iron chlorosis, turbity, microbial contamination etc. This federation along with its technology partner plans to set up a 'safe drinking water' plant. This grass roots approach of introducing applicable technology achieves the twin objectives of providing drinking water a basic right, and also serves as an income generation program.

The employees of your Bank form the core of all its CSR programs and continue to contribute actively, through corporate volunteering. Under the bank's payroll contribution program amounts donated by the employees are matched by the bank. In response to the Bihar floods the employees of the bank donated a day's basic salary to the prime ministers relief fund.

Your Bank continues to focus in designing financially sustainable models that encourage community participation, ownership and wide outreach. The Bank has opened 12 specialised microfinance branches in the states of Tamilnadu, Andhra Pradesh and Orissa to cater to the needs of the above initiatives.

HUMAN RESOURCES

The total number of employees of your bank increased from 37,836 as on March 31, 2008 to 52,687 as of March 31, 2009. The growth in the employee base was in line with the growth in the banks businesses and distribution both inorganically as well as organically. The Bank continues to focus on training its employees on a continuing basis, both on the job and through training programs conducted by internal and external faculty. The Bank has consistently believed that broader employee ownership of its shares has a positive impact on its performance and employee motivation.

HDFC Bank lists 'people' as one of its stated values. The Bank believes in empowering its employees and constantly takes various measures to achieve this.

STATUTORY DISCLOSURES

The information required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, 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 52,687 employees as on March 31, 2009. 515 employed throughout the year were in receipt of remuneration of more than Rs. 24.0 lakhs per annum and 54 employees employed for part of the year were in receipt of remuneration of more than Rs. 2.0 lakhs 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, 2009 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. Vineet Jain resigned as a Director of the Bank with effect from December 27, 2008. Your Directors wish to place on record their sincere appreciation of the contribution made by Mr. Jain during his tenure as a Director.

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

The brief resume/details relating to the Directors who are to be 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. The re-appointment of Auditors is subject to the approval of the Reserve Bank of India.

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 23, 2009

Annexure to Directors' Report for the year ended March 31, 2009

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	Options Lapsed	Total Options in Force as on March 31,2009
ESOS IV	358.60	-	-	55500	-	-	202300
ESOS V	366.30	-	-	23400	-	-	99700
ESOS VI	362.90	-	-	23000	-	-	85200
ESOS VII	630.60	-	1726800	700200	38400	75200	2395600
ESOS VIII	994.85	-	728800	28500	163500	4000	2535900
ESOS IX	994.85	-	703400	22200	119600	9600	2299000
ESOS X	1098.70	-	327500	-	41000	29000	585000
ESOS XI	1098.70	-	672400	1300	46400	10800	1277000
ESOS XII	1098.70	-	3051800	14000	147600	3800	5901100
ESOS XIII	1126.45	1253000	-	-	-	-	1253000
eCBOP – Key ESOP	116.00	-	-	41380	-	-	122070
eCBOP 2004 – Scheme 1	565.50	-	-	680	-	600	3999
eCBOP 2004 – Scheme 2	442.25	-	-	15473	-	2950	44231
eCBOP 2004 – Scheme 3	442.25	-	-	2450	-	-	15369
eCBOP 2004 – Scheme 4	442.25	-	26663	17442	-	6178	25603
eCBOP 2004 – Scheme 5	536.50	-	300207	37831	31671	14239	391801
eCBOP 2004 – Scheme 6	536.50	-	7407	21606	6706	1112	56400
eCBOP 2004 – Scheme 7	593.05	-	46946	62064	63181	6455	394041
eCBOP 2004 – Scheme 8	859.85	-	99925	207	10622	16871	224819
eCBOP 2007 – Scheme 1	1162.90	-	742495	-	121239	78017	1285402
eCBOP 2007 – Scheme 2	1258.60	-	214764	-	18534	14243	396492
Total		1253000	8649107	1067233	808453	273065	19594027

** 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. 106.7 lacs towards share capital and Rs. 6,246.4 lacs towards share premium (net of Fringe Benefit Tax) on account of 1,067,233 stock options exercised and allotted during the year under review.
Pricing Formula for ESOS XIII	Closing market price on the stock exchange where there is highest trading volume on the immediately preceding working day of the date of grant.

Details of options granted to:

		Name	Options Granted
i.	Directors & Senior managerial personnel	Abhay Aima	75000
		Aditya Puri	175000
		Ashish Parthasarthy	75000
		Harish Engineer	100000
		Kaizad Bharucha	75000
		Mandeep Maitra	75000
		Navin Puri	75000
		Paresh Sukthankar	100000
		Pralay Mondal	75000
		Rahul Bhagat	75000
		Rajan Ananthanarayan	78000
		Sashi Jagdishan	75000
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	The Compensation Committee at its meeting held on 14th January 2009 has approved the following variations subject to the approval of the members : 1) The exercise period in respect of options granted under Schemes ESOS VIII to XIII of the Bank was extended from 2 years from the date of vesting to 4 years from the date of vesting and in the case of options granted under ESOS VII the exercise period was extended to 4 years from the date of vesting in respect of the second and third tranches that were vested on 18th July 2007 and 18th July 2008 respectively. 2) In respect of the options granted by the erstwhile Centurion Bank of Punjab Limited under its various employee stock option schemes and outstanding as on 14th January 2009, the exercise period was extended to six months from the last working day of the employee in the Bank in line with the terms applicable to the other employees of the Bank under the existing Schemes, in the event of resignation from employment for reasons other than retirement.

HDFC BANK
We understand your world

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. 52.6.
Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed.	Had the Bank followed fair value method for accounting the stock option compensation expense would have been higher by Rs. 156.6 crores. Consequently profit after tax would have been lower by Rs. 103.4 crores and the basic EPS of the Bank would have been Rs. 50.42 per share (lower by Rs. 2.43 per share) and the Diluted EPS would have been Rs. 50.17 per share (lower by Rs. 2.42 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. 595.29 and the weighted average fair value is Rs. 333.45
A description of the method and significant assumptions used during the year to estimate the fair values of options, at the time of grant 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 9.2% to 9.3%
ii. Expected life,	1-4 years
iii. Expected volatility,	It will be around 39.71%
iv. Expected dividends, and	0.8%
v. The price of the underlying share in market at the time of option grant	The per share market price was Rs. 1,126.45 at the time of grant of options under ESOS XIII

The compensation committee, at its meeting held on January 14, 2009, accorded its approval for extending the life of some of the ESOPs from two years from date of vesting to four years from date of vesting. ESOPs thus modified have been fair valued as on January 14, 2009, being the modification date. The various assumptions considered in the pricing model for the ESOPs modified during the year ended March 31, 2009 are :

	March 31, 2009
Dividend Yield	0.9%
Expected volatility	47.13%
Risk-free interest rate	4.5%-5.2%
Expected life of the option	1-6 years

The incremental share based compensation determined under fair value based method amounts to Rs. 43.2 crores.

Auditors' Report

To The Shareholders of HDFC Bank Limited

We have audited the attached Balance Sheet of **HDFC Bank Limited** ("the Bank") as at 31 March 2009 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.

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.

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.

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) The returns received from Bahrain branch have been found adequate for the purposes of our audit.

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 and are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

We further report that:

(a) 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.

(b) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.

(c) as per the information and explanations given to us the Central government has, till date, not prescribed any cess payable under Section 441A of the Companies Act, 1956.

(d) 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, 2009 from being appointed as a director in terms of clause (g) of sub-section 1 of Section 274 of the Companies Act, 1956.

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

(a) In the case of Balance Sheet, of the state of affairs of the Bank as at 31 March 2009;

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

(c) 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
M. No. 048523

Mumbai
23 April 2009

Balance Sheet

As at March 31, 2009

Rs. in '000

	Schedule	As at 31-Mar-09	As at 31-Mar-08
CAPITAL AND LIABILITIES			
Capital	1	**4,253,841**	3,544,329
Equity Share Warrants		**4,009,158**	-
Reserves and Surplus	2	**142,209,460**	111,428,076
Employees' Stock Options (Grants) Outstanding		**54,870**	-
Deposits	3	**1,428,115,800**	1,007,685,910
Borrowings	4	**26,858,374**	45,949,235
Other Liabilities and Provisions	5	**227,206,229**	163,158,482
	Total	**1,832,707,732**	1,331,766,032
ASSETS			
Cash and balances with Reserve Bank of India	6	**135,272,112**	125,531,766
Balances with Banks and Money at Call and Short notice	7	**39,794,055**	22,251,622
Investments	8	**588,175,488**	493,935,382
Advances	9	**988,830,473**	634,268,934
Fixed Assets	10	**17,067,290**	11,750,917
Other Assets	11	**63,568,314**	44,027,411
	Total	**1,832,707,732**	1,331,766,032
Contingent Liabilities	12	**4,059,816,885**	5,930,080,864
Bills for Collection		**85,522,390**	69,207,148
Principal Accounting Policies and Notes forming integral part of the financial statements	17 & 18		

In terms of our report of even date attached.

For Haribhakti & Co.
Chartered Accountants

Manoj Daga
Partner

Mumbai, 23 April, 2009

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, 2009

Rs. in '000

		Schedule	Year Ended 31-Mar-09	Year Ended 31-Mar-08
I.	**INCOME**			
	Interest earned	13	**163,322,611**	101,150,087
	Other income	14	**32,906,035**	22,831,425
		Total	**196,228,646**	123,981,512
II.	**EXPENDITURE**			
	Interest expended	15	**89,111,044**	48,871,146
	Operating expenses	16	**55,328,058**	37,456,168
	Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 105,431 lacs (previous year : Rs. 690,45 lacs)]		**29,340,152**	21,752,268
		Total	**173,779,254**	108,079,582
III.	**PROFIT**			
	Net Profit for the year		**22,449,392**	15,901,930
	Profit brought forward		**25,746,345**	19,320,397
		Total	**48,195,737**	35,222,327
IV.	**APPROPRIATIONS**			
	Transfer to Statutory Reserve		**5,612,349**	3,975,483
	Proposed dividend		**4,253,841**	3,012,680
	Tax (including cess) on dividend		**722,940**	512,005
	Dividend (including tax/cess thereon) pertaining to previous year paid during the year		**5,900**	621
	Transfer to General Reserve		**2,244,939**	1,590,193
	Transfer to Capital Reserve		**938,660**	-
	Transfer to / (from) Investment Reserve Account		**(138,550)**	385,000
	Balance carried over to Balance Sheet		**34,555,658**	25,746,345
		Total	**48,195,737**	35,222,327
V.	**EARNINGS PER EQUITY SHARE (Face value Rs. 10 per share)**		**Rs.**	Rs.
	Basic		**52.85**	46.22
	Diluted		**52.59**	45.59
	Principal Accounting Policies and Notes forming integral part of the financial statements	17 & 18		

In terms of our report of even date attached.

For Haribhakti & Co.
Chartered Accountants

Manoj Daga
Partner

Mumbai, 23 April, 2009

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Dr. Pandit Palande
Directors

HDFC BANK
We understand your world

For the year ended March 31, 2009

Rs. in '000

Particulars	2008-2009	2007-2008
Cash flows from operating activities		
Net profit before income tax	**32,992,534**	**22,806,398**
Adjustments for :		
Depreciation	3,599,088	2,717,161
(Profit) / Loss on Revaluation of Investments	279,856	(777,664)
Amortisation of premia on investments	4,442,222	2,883,812
Loan Loss provisions	16,057,967	10,263,694
Floating Provisions	50,000	-
Provision against standard assets	1,204,814	1,896,602
Provision for wealth tax	6,100	4,500
Contingency provision	1,528,129	2,683,004
(Profit) on sale of fixed assets	(41,890)	(6,956)
	60,118,820	**42,470,551**
Adjustments for :		
(Increase) in Investments	(29,544,309)	(190,277,830)
(Increase) in Advances	(212,421,813)	(175,084,828)
Increase / (Decrease) in Borrowings	(28,941,226)	17,795,336
Increase in Deposits	202,337,174	324,706,510
(Increase) / (Decrease) in Other assets	992,702	(3,767,356)
Increase in Other liabilities and provisions	4,320,793	20,074,785
	(3,137,859)	**35,917,168**
Direct taxes paid (net of refunds)	(14,223,562)	(8,685,912)
Net cash flow from / (used in) operating activities	**(17,361,421)**	**27,231,256**
Cash flows from investing activities		
Purchase of fixed assets	(6,752,720)	(6,293,691)
Proceeds from sale of fixed assets	114,946	95,879
Net cash used in investing activities	**(6,637,774)**	**(6,197,812)**

Cash Flow Statement

For the year ended March 31, 2009

Rs. in '000

Particulars	2008-2009	2007-2008
Cash flows from financing activities		
Money received on exercise of stock options by employees	878,060	1,060,051
Proceeds from issue of Convertible Warrants	4,009,158	-
Proceeds from ADR issue net of underwriting commission	-	23,938,655
Proceeds from issue of preferential allotment of equity share capital	-	13,901,041
Proceeds from issue of Upper & Lower Tier II capital Instruments	28,750,000	-
Redemption of subordinated debt	(460,000)	-
Dividend during the year	(3,018,580)	(2,236,321)
Tax on Dividend	(512,005)	(379,962)
Net cash generated from financing activities	**29,646,633**	**36,283,464**
Cash and cash equivalents on amalgamation	**21,635,341**	**-**
Net increase in cash and cash equivalents	**27,282,779**	**57,316,908**
Cash and cash equivalents as at April 1st	**147,783,388**	**90,466,480**
Cash and cash equivalents as at March 31st	**175,066,167**	**147,783,388**

In terms of our report of even date attached.

For Haribhakti & Co.
Chartered Accountants

Manoj Daga
Partner

Mumbai, 23 April, 2009

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
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Renu Karnad
Arvind Pande
C M Vasudev
Gautam Divan
Dr. Pandit Palande
Directors

As at March 31, 2009

Rs. in '000

		As at 31-Mar-09	As at 31-Mar-08
SCHEDULE 1 - CAPITAL			
Authorised Capital			
55,00,00,000 (31 March, 2008 : 55,00,00,000) Equity Shares of Rs. 10/- each		**5,500,000**	5,500,000
Issued, Subscribed and Paid-up Capital			
42,53,84,109 (31 March, 2008 : 35,44,32,920) Equity Shares of Rs. 10/- each		**4,253,841**	3,544,329
	Total	**4,253,841**	3,544,329
SCHEDULE 2 - RESERVES AND SURPLUS			
I. Statutory Reserve			
Opening Balance		**15,193,539**	11,218,056
Additions on amalgamation		**2,181,403**	-
Additions during the year		**5,612,349**	3,975,483
	Total	**22,987,291**	15,193,539
II. General Reserve			
Opening Balance		**5,115,584**	4,160,838
Additions during the year		**2,244,939**	1,590,193
Deductions during the year*		**-**	(635,447)
	Total	**7,360,523**	5,115,584
III. Balance in Profit and Loss Account		**34,555,658**	25,746,345
IV. Share Premium Account			
Opening Balance		**64,794,740**	26,245,426
Additions during the year		**643,241**	38,549,314
	Total	**65,437,981**	64,794,740
V. Amalgamation Reserve			
Opening Balance		**145,218**	145,218
Additions during the year		**10,490,346**	-
	Total	**10,635,564**	145,218
VI. Capital Reserve			
Opening Balance		**17,850**	17,850
Additions during the year		**938,660**	-
	Total	**956,510**	17,850

As at March 31, 2009

Rs. in '000

		As at 31-Mar-09	As at 31-Mar-08
VII. Investment Reserve Account			
Opening Balance		**414,800**	29,800
Additions during the year		**17,092**	417,800
Deductions during the year		**(155,642)**	(32,800)
	Total	**276,250**	414,800
VIII. Foreign Currency Translation Account			
Opening Balance		-	-
Additions during the year		**(317)**	-
	Total	**(317)**	-
	Total	**142,209,460**	111,428,076

**Represents transition adjustment during the previous year 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-09	As at 31-Mar-08
A. I. Demand Deposits			
(i) From Banks		**7,592,207**	8,447,086
(ii) From Others		**276,857,000**	279,149,871
	Total	**284,449,207**	287,596,957
II. Savings Bank Deposits		**349,147,360**	261,539,430
III. Term Deposits			
(i) From Banks		**16,305,286**	15,195,861
(ii) From Others		**778,213,947**	443,353,662
	Total	**794,519,233**	458,549,523
	Total	**1,428,115,800**	1,007,685,910
B. I. Deposits of Branches in India		**1,427,670,642**	1,007,685,910
II. Deposits of Branches Outside India		**445,158**	-
	Total	**1,428,115,800**	1,007,685,910

SCHEDULE 4 - BORROWINGS

		As at 31-Mar-09	As at 31-Mar-08
I. Borrowings in India			
(i) Reserve Bank of India		**-**	-
(ii) Other Banks		**6,556,193**	8,867,811
(iii) Other Institutions and agencies		**627,784**	2,195
	Total	**7,183,977**	8,870,006

As at March 31, 2009

Rs. in '000

			As at 31-Mar-09	As at 31-Mar-08
II.	**Borrowings outside India**		**19,674,397**	37,079,229
		Total	**26,858,374**	45,949,235
	Secured borrowings included in I & II above : Rs. Nil (previous year : Rs. 22 lacs)			
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS				
I.	Bills Payable		**29,224,076**	31,572,080
II.	Interest Accrued		**33,238,704**	16,747,529
III.	Others (including provisions)		**87,385,781**	73,487,414
IV.	Upper and Lower Tier II capital and Innovative Perpetual Debt		**64,778,000**	32,491,000
V.	Contingent Provisions against standard assets		**7,602,887**	5,335,774
VI.	Proposed Dividend (including tax on dividend)		**4,976,781**	3,524,685
		Total	**227,206,229**	163,158,482
	**Issued during the year : Upper Tier II Debt : Rs. 157,500 lacs (previous year : Nil) and Lower Tier II Debt : Rs. 130,000 lacs (previous year : Nil)*			
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA				
I.	Cash in hand (including foreign currency notes)		**15,861,868**	9,400,877
II.	Balances with Reserve Bank of India			
	(a) In current accounts		**118,410,244**	115,130,889
	(b) In other accounts		**1,000,000**	1,000,000
		Total	**119,410,244**	116,130,889
		Total	**135,272,112**	125,531,766
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE				
I.	**In India**			
	(i) Balances with Banks :			
	(a) In current accounts		**2,439,891**	2,879,203
	(b) In other deposit accounts		**6,610,615**	7,069,898
		Total	**9,050,506**	9,949,101
	(ii) Money at call and short notice :			
	(a) With banks		**-**	-
	(b) With other institutions		**12,422,500**	-
		Total	**12,422,500**	-
		Total	**21,473,006**	9,949,101

Rs. in '000

			As at 31-Mar-09	As at 31-Mar-08
II.	**Outside India**			
	(i) In current accounts		**5,298,405**	1,736,740
	(ii) In deposit accounts		**1,014,400**	37,312
	(iii) Money at call and short notice		**12,008,244**	10,528,469
		Total	**18,321,049**	12,302,521
		Total	**39,794,055**	22,251,622

SCHEDULE 8 - INVESTMENTS

			As at 31-Mar-09	As at 31-Mar-08
A.	**Investments in India in**			
	(i) Government securities		**521,565,829**	316,655,822
	(ii) Other approved securities		**12,500**	5,799
	(iii) Shares		**397,334**	344,659
	(iv) Debentures and Bonds		**19,428,414**	62,517,190
	(v) Subsidiaries / Joint Ventures		**1,550,991**	1,237,801
	(vi) Units, Certificate of Deposits and Others		**45,218,242**	113,171,933
		Total	**588,173,310**	493,933,204
B.	**Investments outside India**		**2,178**	2,178
		Total	**588,175,488**	493,935,382
	(i) Gross Value of Investments			
	(a) In India		**588,727,406**	494,007,727
	(b) Outside India		**2,178**	2,178
		Total	**588,729,584**	494,009,905
	(ii) Provision for Depreciation			
	(a) In India		**554,096**	74,523
	(b) Outside India		**-**	-
		Total	**554,096**	74,523
	(iii) Net Value of Investments			
	(a) In India		**588,173,310**	493,933,204
	(b) Outside India		**2,178**	2,178
		Total	**588,175,488**	493,935,382

As at March 31, 2009

Rs. in '000

			As at 31-Mar-09	As at 31-Mar-08
SCHEDULE 9 - ADVANCES				
A	(i) Bills purchased and discounted		**48,553,378**	16,373,800
	(ii) Cash Credits, Overdrafts and Loans repayable on demand		**215,972,035**	154,376,855
	(iii) Term loans		**724,305,060**	463,518,279
		Total	**988,830,473**	634,268,934
B	(i) Secured by tangible assets*		**734,678,312**	426,629,170
	(ii) Covered by Bank/Government Guarantees		**24,956,098**	17,524,826
	(iii) Unsecured		**229,196,063**	190,114,938
		Total	**988,830,473**	634,268,934
	** Including advances against Book Debts*			
C.	I. Advances in India			
	(i) Priority Sector		**297,815,970**	174,262,927
	(ii) Public Sector		**30,831,056**	4,772,000
	(iii) Banks		**3,666,663**	87,500
	(iv) Others		**648,182,980**	455,146,507
		Total	**980,496,669**	634,268,934
	II. Advances Outside India			
	(i) Due from Banks		**-**	-
	(ii) Due from Others			
	a) Bills Purchased and discounted		**469,480**	-
	b) Syndicated Loans		**-**	-
	c) Others		**7,864,324**	-
		Total	**8,333,804**	-
	Advances are net of provisions	**Total**	**988,830,473**	634,268,934
SCHEDULE 10 - FIXED ASSETS				
A.	Premises (including Land)			
	Gross Block			
	At cost on 31st March of the preceding year		**5,243,809**	3,676,903
	Additions on amalgamation		**1,298,061**	-
	Additions during the year		**669,230**	1,608,764
	Deductions during the year		**(50,435)**	(41,858)
		Total	**7,160,665**	5,243,809

As at March 31, 2009

Rs. in '000

		As at 31-Mar-09	As at 31-Mar-08
	Depreciation		
	As at 31st March of the preceding year	**815,063**	653,022
	Additions on amalgamation	**356,312**	-
	Charge for the year	**318,536**	162,749
	On deductions during the year	**(7,251)**	(708)
	Total	**1,482,660**	815,063
	Net Block	**5,678,005**	4,428,746
B.	Other Fixed Assets (including furniture and fixtures)		
	Gross Block		
	At cost on 31st March of the preceding year	**18,187,640**	15,060,199
	Additions on amalgamation	**4,906,684**	-
	Additions during the year	**5,460,218**	3,281,910
	Deductions during the year	**(762,533)**	(154,469)
	Total	**27,792,009**	18,187,640
	Depreciation		
	As at 31st March of the preceding year	**10,865,469**	8,417,753
	Additions on amalgamation	**2,972,979**	-
	Charge for the year	**3,271,247**	2,554,412
	On deductions during the year	**(628,749)**	(106,696)
	Total	**16,480,946**	10,865,469
	Net Block	**11,311,063**	7,322,171
C.	Assets on Lease (Plant and Machinery)		
	Gross Block		
	At cost on 31st March of the preceding year	**438,277**	438,277
	Additions on amalgamation	**4,175,328**	-
	Total	**4,613,605**	438,277

As at March 31, 2009

Rs. in '000

		As at 31-Mar-09	As at 31-Mar-08
Depreciation			
As at 31st March of the preceding year		**117,412**	117,412
Additions on amalgamation		**3,966,210**	-
Charge for the year		**9,305**	-
	Total	**4,092,927**	117,412
Lease Adjustment Account			
As at 31st March of the preceding year		**320,865**	320,865
Additions on amalgamation		**121,591**	-
	Total	**442,456**	320,865
Unamortised cost of assets on lease		**78,222**	-
	Total	**17,067,290**	11,750,917

SCHEDULE 11 - OTHER ASSETS

			As at 31-Mar-09	As at 31-Mar-08
I.	Interest accrued		**14,182,607**	11,904,853
II.	Advance tax (net of provision)		**9,064,297**	4,071,414
III.	Stationery and stamps		**310,936**	282,286
IV.	Non banking assets acquired in satisfaction of claims		**5,934**	-
V.	Bond and share application money pending allotment		**-**	34,280
VI.	Security deposit for commercial and residential property		**3,878,934**	1,941,681
VII.	Others*		**36,125,606**	25,792,897
		Total	**63,568,314**	44,027,411

**Inlcudes deferred tax asset (net) of Rs. 862,82 lacs (previous year : Rs. 383,21 lacs)*

SCHEDULE 12 - CONTINGENT LIABILITIES

			As at 31-Mar-09	As at 31-Mar-08
I.	Claims against the bank not acknowledged as debts - Taxation		**5,694,200**	2,335,204
II.	Claims against the bank not acknowledged as debts - Others		**456,475**	120,828
III.	Liability on account of outstanding forward exchange contracts		**2,338,927,663**	1,929,955,520
IV.	Liability on account of outstanding derivative contracts		**1,533,722,300**	3,744,418,300
V.	Guarantees given on behalf of constituents - in India		**76,353,601**	56,621,614
VI.	Acceptances, endorsements and other obligations		**93,873,829**	101,721,365
VII.	Other items for which the Bank is contingently liable		**10,788,817**	94,908,033
		Total	**4,059,816,885**	5,930,080,864

For the year ended March 31, 2009

Rs. in '000

			Year Ended 31-Mar-09	Year Ended 31-Mar-08
SCHEDULE 13 - INTEREST EARNED				
I.	Interest / discount on advances / bills		**121,367,462**	69,667,332
II.	Income from investments		**40,079,598**	28,720,416
III.	Interest on balance with RBI and other inter-bank funds		**1,842,584**	2,723,914
IV	Others		**32,967**	38,425
		Total	**163,322,611**	101,150,087
SCHEDULE 14 - OTHER INCOME				
I.	Commission, exchange and brokerage		**24,572,966**	17,145,033
II.	Profit on sale of investments		**4,105,383**	1,640,111
III.	Profit / (loss) on revaluation of investments		**(279,856)**	777,664
IV.	Profit on sale of building and other assets (net)		**41,890**	6,956
V.	Profit on exchange transactions (net)		**5,986,077**	2,831,292
VI.	Miscellaneous income / (loss)		**(1,520,425)**	430,369
		Total	**32,906,035**	22,831,425
SCHEDULE 15 - INTEREST EXPENDED				
I.	Interest on Deposits		**80,154,548**	43,827,282
II.	Interest on RBI / Inter-bank borrowings		**5,564,918**	2,424,268
III.	Other interest*		**3,391,578**	2,619,596
		Total	**89,111,044**	48,871,146
	**Principally includes interest on subordinated debt.*			
SCHEDULE 16 - OPERATING EXPENSES				
I.	Payments to and provisions for employees		**22,381,984**	13,013,504
II.	Rent, taxes and lighting		**5,073,955**	2,586,063
III.	Printing and stationery		**1,670,614**	1,309,817
IV.	Advertisement and publicity		**1,086,768**	1,147,346
V.	Depreciation on bank's property		**3,599,088**	2,717,161
VI.	Directors' fees, allowances and expenses		**4,214**	3,910
VII	Auditors' fees and expenses		**13,302**	8,154
VIII.	Law charges		**193,062**	104,994
IX.	Postage, telegram, telephone etc.		**3,343,654**	3,498,771
X.	Repairs and maintenance		**3,029,322**	1,793,326
XI.	Insurance		**1,387,532**	901,621
XII.	Other Expenditure*		**13,544,563**	10,371,501
		Total	**55,328,058**	37,456,168

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

For the year ended March 31, 2009

SCHEDULE 17 - PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009.

A OVERVIEW

HDFC Bank Limited, incorporated in Mumbai, India is a publicly held 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. During the year, the Bank commenced operations abroad by establishing its first overseas branch in Bahrain.

B BASIS OF PREPARATION

The financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and comply with generally accepted accounting principles, statutory requirements prescribed under the Banking Regulation Act 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and notified by the Companies Accounting Standard Rules, 2006 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. Any revision in the accounting estimates is recognized prospectively in the current and future period.

C PRINCIPAL ACCOUNTING POLICIES

1 Investments

Classification

In accordance with the Reserve Bank of India guidelines, Investments are classified at the date of purchase into "Held for Trading" (HFT), "Available for Sale" (AFS) and "Held to Maturity" (HTM) categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines. 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 :

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

Investments which the Bank intends to hold till maturity, are classified as HTM securities. Investments in the equity of subsidiaries are categorized as "Held to Maturity" in accordance with RBI guidelines.

Investments which are not classified in the above categories, are classified under "Available for Sale" category.

Acquisition Cost :

In determining acquisition cost of an investment:

- 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.

Disposal of Investments :

Profit/Loss on sale of investments under the aforesaid three categories are taken to the Profit and Loss account. The profit from sale of investment under Held to Maturity category, 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. Such amortization of premium is adjusted against interest income under the head "Income from investments" as per RBI guidelines.

Non-performing investments are identified and depreciation/provision is made thereon based on the RBI 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.

2 Advances

Advances are classified as performing and non-performing based on the Reserve Bank of India guidelines and are stated net of bills rediscounted, specific provisions, floating provisions, interest in suspense for non-performing advances and claims received from Export Credit Guarantee Corporation. Interest on non - performing advances is transferred to an interest suspense account and not recognised in the Profit and Loss Account until received.

Specific loan loss provisions in respect of non-performing advances (NPAs) 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 RBI guidelines. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels.

The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market value of interest rate and foreign exchange derivative contracts and gold at levels stipulated by RBI from time to time. Provision for standard assets is included under Other Liabilities. 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. Floating provisions are netted off from Advances (as on March 31, 2009 - these were hitherto included under Other Liabilities). 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.

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance/securities, which would generally include, among others, alteration of repayment period/repayable amount/the amount of installments/rate of interest (due to reasons other than competitive reasons). Restructured accounts are reported as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made. Restructuring is done at a borrower level.

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 risk categories as per Export Credit Guarantee Corporation of India Ltd. (ECGC) guidelines 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 and Transfer of Assets

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 of standard assets 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 and 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.

In accordance with RBI guidelines on sale of non performing advances if the sale is at a price below the net book value (i.e. book value less provisions held), the shortfall is debited to the Profit and Loss Account. If the sale is for a value higher than the net book value, the excess provision is not reversed but is utilised to meet the shortfall/loss on account of sale of other non performing advances.

4 Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation as adjusted for impairment, if any. 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, which are not lower than the rates prescribed in Schedule XIV of the Companies Act, 1956 are given below:

- Owned Premises at 1.63% per annum.
- Improvements to lease hold premises are charged off over the remaining primary period of lease.
- VSATs at 10% per annum
- ATMs at 10% 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 20% 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 provided on pro rata basis by the Bank.

The Bank undertakes assessment of the useful life of an asset at periodic intervals taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use etc. Whenever there is a revision of the estimated useful life of an asset, the unamortised depreciable amount will be charged over the revised remaining useful life of the said asset.

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

Foreign currency income and expenditure items of domestic operations are translated at the exchange rates prevailing on the date of the transaction, and income and expenditure items of integral foreign operations (representative offices) and non-integral foreign operations (foreign branch) are translated at the monthly average closing rates.

Foreign currency monetary items of domestic and integral foreign operations are translated at the closing exchange rates notified by Foreign Exchange Dealers' Association of India (FEDAI) at the balance sheet date and the resulting net profit or loss is included in the Profit and Loss Account.

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 notified by FEDAI and at interpolated rates for contracts of interim maturities. The resulting profit or loss is included in the Profit and Loss Account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date, are effectively 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.

Both monetary and non-monetary foreign currency assets and liabilities of non integral foreign operations are translated at closing exchange rates notified by FEDAI at the balance sheet date and the resulting profit/losses from exchange differences are accumulated in the foreign currency translation account until the disposal of the net investment in the non-integral foreign operations.

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 as determined under the option plan.

Fringe Benefit Tax ("FBT") on employee stock options crystallises on the date of exercise of stock options by employees and is computed based on the difference between its fair market value on date of vesting and its exercise price. FBT is recovered from employees as per the Scheme and consequently there is no impact on profit and loss of the Bank.

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 and in respect of erstwhile Lord Krishna Bank (eLKB) employees, the Bank makes annual contribution to a fund set up by eLKB and administered by the board of trustees. The defined gratuity benefit plans are valued by an independent 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, as such contribution is in the nature of defined contribution.

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 of 8.33 % of employee's basic salary upto a maximum salary level of Rs 6500/- 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. In respect of eLKB employees, the Bank contributes to a fund set up by eLKB and administered by the 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.

The Bahrain Branch makes contributions to the relevant government scheme calculated as a percentage of the employees' salaries. The Bahrain Branch's obligations are limited to these contributions, which are expensed when due, as such contribution is in nature of defined contribution.

Leave Encashment/Compensated Absences

The Bank does not have a policy of encashing unavailed leave for its employees, except for eCBoP employees whose leave accredited till March 31, 2009 subject to a maximum of 42 days can be encashed. The Bank provides for leave encashment/compensated absences based on an independent actuarial valuation at the balance sheet date, which includes assumptions about demographics, early retirement, salary increases and interest rates.

Pension

In respect of pension payable to certain erstwhile eLKB employees, which is a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and balance amount is provided based on actuarial valuation at the balance sheet date conducted by an independent actuary. In respect of employees who have moved to a cost to company (CTC) driven compensation and have completed services up to 15 years as on October 31, 2007, contribution made till October 31, 2007 and additional one -time contribution made for employees (who have completed more than 10 years but less than 15 years) stands frozen and will be converted into annuity after a lock-in-period of two years. Hence for this category of employees, liability stands frozen and no additional provision would be required except for interest if any, which is not ascertainable. In respect of the employees who accepted the offer and have completed services for more than 15 years, pension would be paid based on salary as of October 31, 2007 and provision is made based on actuarial valuation at the balance sheet date conducted by an independent actuary.

9 Revenue and Expense Recognition

Interest income is recognised in the Profit and 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 non coupon bearing discounted instruments and instruments which carry a premia on redemption is recognised over the tenor of the instrument on a constant yield basis.

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

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

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 on a straight line basis over the period of service.

10 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.

11 Income Tax

Income tax expense comprises 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 and liabilities are measured using the enacted or substantially enacted tax rates at the balance sheet date.

Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future. In case of unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is virtual certainty of realization of such assets. Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably/virtually certain to be realized.

Provision for fringe benefit tax ('FBT') is made on the basis of applicable FBT on the taxable value of chargeable expenditure of the Bank as prescribed under the Income Tax Act, 1961 and rules framed there under.

12 Derivative Contracts

The Bank recognizes all derivative contracts at the fair value at the date on which the derivative contracts are entered into and are re-measured at fair value as at the balance sheet or reporting dates. Derivatives are classified as assets when the net fair value is positive (Positive marked to market) and as liabilities when the net fair value is negative (Negative marked to market). Changes in the fair value of derivatives other than those designated as hedges are included in the Profit and Loss Account.

Derivative contracts designated as hedge are not marked to market unless their underlying is 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. Gains or losses arising from hedge ineffectiveness, if any, are recognised in the Profit and Loss Account.

13 Earnings Per Share

The Bank reports basic and diluted earnings per equity share in accordance with AS - 20, Earnings Per Share, issued by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net profit for the year by the weighted average number of equity shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period except where the results are anti dilutive.

14 Segment Information – Basis of preparation

The classification of exposures to the respective segments conforms 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 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, fees from services rendered, foreign exchange earnings on retail products etc.. 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, non-fund facilities 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 customers, interest earned on the cash float arising from transaction services, fees from such transaction services, earnings from trade services and other non-fund facilities and also earnings from foreign exchange and derivatives transactions on behalf of 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 Business

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, 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 approved yield curve or at a certain agreed transfer price rate. Transaction charges are levied 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.

15 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 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.

16 Bullion

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The imports are typically on a back-to-back basis and are priced to the customer based on an estimated price quoted by the supplier. The Bank earns a fee on such wholesale bullion transactions. The fee is classified under commission income.

The Bank sells bullion to its retail customers. The difference between the sale price to customers and actual price quoted by supplier is also reflected 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.

For the year ended March 31, 2009

SCHEDULE 18 - NOTES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009.

1. Merger with Centurion Bank of Punjab Limited

The Scheme of Amalgamation ('the Scheme') of Centurion Bank of Punjab Limited ('CBoP' or 'eCBoP') with HDFC Bank Ltd. ('HDFC Bank' or 'the Bank') under section 44 A (4) of the Banking Regulation Act, 1949 which was approved by the shareholders of both the banks on March 27, 2008 was sanctioned by the RBI vide their order DBOD No. PSBD.16197/16.01.131/2007-08 dated May 20, 2008, and is effective from May 23, 2008. The appointed date of the merger was April 1, 2008. Both the entities were banking companies incorporated under the Companies Act, 1956 and licensed by the RBI under the Banking Regulation Act, 1949.

As per the Scheme, upon its coming into effect from the appointed date i.e. April 1, 2008, the entire undertaking of CBoP including all its assets and liabilities stood transferred/deemed to be transferred to and vest in HDFC Bank. As per the Scheme, in consideration of the transfer of and vesting of the undertaking of CBoP, one equity share of HDFC Bank of the face value of Rs. 10/- each fully paid-up was issued to members of the eCBoP for every twenty nine equity shares of the face value of Re. 1/- each of CBoP held by them on the record date i.e. June 16, 2008. Accordingly 6,98,83,956 equity shares of Rs. 10/- each of HDFC Bank were allotted at par to the shareholders of CBoP vide board resolution dated June 24, 2008. The excess of the value of net assets transferred over the paid up value of shares issued in consideration have been adjusted in Amalgamation Reserve as per the Scheme of Amalgamation.

The amalgamation has been accounted using the pooling of interest method. Accordingly, the assets and liabilities of CBoP that vested in HDFC Bank as on April 1, 2008 were accounted at the values at which they were appearing in the books of CBoP as on March 31, 2008 and provisions arising out of harmonization of accounting policies and estimates, as approved by the Board of Directors of HDFC Bank and as prescribed in the Scheme, were made for the difference between the net value appearing in the books of CBoP and the value as determined by HDFC Bank. Also the Bank provided for merger related expenses on a best estimate basis. Such adjustments, as per the Scheme, were made by the Bank against the reserves arising on amalgamation.

After accounting the assets, liabilities and reserves of CBoP and after effecting the above adjustments, a surplus of Rs. 1,049,03 lacs arose, which was credited to Amalgamation Reserve in accordance with the Scheme.

(Rs. lacs)

Particulars	Amount	Amount
Net Assets of eCBoP as on the reporting date of merger*		**2,089,85**
Less : 6,98,83,956 equity shares of face value of Rs. 10/- each	(69,88)	
Statutory Reserves taken over on amalgamation	(218,15)	(288,03)
Excess of net assets over the paid-up value of shares issued and Statutory Reserve		**1,801,82**
Less : Harmonization of accounting policies and estimates		(690,62)
Less : Expenses related to merger		(62,17)
Amalgamation Reserve		**1,049,03**

**Net assets taken over on April 1, 2008 adjusted for options allotted by eCBoP between April 1, 2008 till May 22, 2008.*

As per AS 14, Accounting for Amalgamation, if the amalgamation is an "amalgamation in the nature of merger", the identity of reserves of the amalgamating entity is required to be preserved in the books of HDFC Bank. However the balances in Profit and Loss Account (Rs. 246,49 lacs), Securities Premium Account (Rs. 1,354,60 lacs), Capital Reserve (Rs. 65 lacs) and Investment Reserve Account (Rs. 7,02 lacs) have been credited to Amalgamation Reserve in accordance with the scheme. As a result the balances in these accounts are lower by the aforesaid amounts.

2 Capital Infusion

Pursuant to the amalgamation of eCBoP with HDFC Bank Ltd. and post approval of the shareholders of the Bank at its extraordinary general meeting held on March 27, 2008, the Bank issued 2,62,00,220 warrants to its promoter HDFC Ltd. on a preferential basis on June 3, 2008. These warrants are convertible into equity shares of the Bank at a price of Rs. 1,530.13 each (as determined under the SEBI (DIP) guidelines for preferential issues). In accordance with the terms of the warrants, 10% of the aforesaid price of the equity shares is payable on allotment of the warrants. Accordingly, the Bank received an amount of Rs. 400,92 lacs on June 3, 2008 on allotment of the warrants and the same is shown as "Equity Share Warrants" in the Balance Sheet. HDFC Ltd. can exercise the option any time upto December 2, 2009.

3 Capital Adequacy

The Bank's capital adequacy ratio is calculated in accordance with the Reserve Bank of India (RBI) guidelines. As per RBI's prudential norms on Capital Adequacy under the Basel I framework (Basel I), the Bank is required to maintain a Capital to Risk - weighted Asset Ratio of a minimum 9%, for both credit risk and market risk. RBI has also issued its prudential guidelines on 'Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework' (Basel II). The Bank has migrated to the new framework effective March 31, 2009. Under the Basel II guidelines, the Bank is required to maintain a minimum Capital to Risk-weighted Asset Ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier I capital ratio of 6%. Further, the minimum capital maintained by the Bank as on March 31, 2009 is subject to a prudential floor, which is the higher of the following amounts :

(a) Minimum capital required as per the new framework (Basel II)

(b) 100% of the minimum capital required to be maintained as per the Basel I framework.

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines under both Basel I and Basel II frameworks, is as follows :

(Rs. Lacs)

Particulars	Basel I		Basel II
	March 31, 2009	March 31, 2008	March 31, 2009
Tier I capital	13,690,28	11,062,96	13,690,28
Tier II capital	6,604,92	3,548,37	6,604,92
Total capital	20,295,20	14,611,33	20,295,20
Risk weighted assets	134,530,75	107,447,99	129,382,68
Minimum capital required @ 9% CRAR	12,107,77	9,670,32	11,644,44
Capital Adequacy Ratios			
Tier 1	10.18%	10.30%	10.58%
Tier 2	4.91%	3.30%	5.11%
Total	15.09%	13.60%	15.69%
Amount of subordinated debt (Tier II capital) raised during the year	2,875,00	-	2,875,00

The Bank's capital funds as on March 31, 2009 are higher than that required under the Basel I and Basel II framework.

The difference between Risk Weighted Assets under the Basel I and Basel II framework is a net impact of the following key changes :

- Under the Basel II framework, risk weights are applicable to claims on corporates with corresponding to their external rating or the lack of it ranging from 20% to 150%, compared to a uniform 100% under Basel I.
- Exposures qualifying for inclusion in the regulatory retail portfolio under Basel II attract a risk weight of 75%, against 100% under Basel I.
- In the Basel II framework, non-market related off-balance sheet items in the nature of undrawn or partially undrawn fund-based facility and irrevocable commitments to provide off - balance sheet facilities are included in risk weighted assets after applying a credit conversion factor. These are not risk-weighted under Basel I.
- The Basel II framework recognizes risk mitigation techniques in the form of eligible financial collaterals such as bonds, gold, debt mutual funds, etc, whilst under Basel I only cash margins and deposits were considered as eligible financial collateral.
- Restructured assets attract a risk weight of 125% under the new framework compared to 100% under Basel I.
- Operational Risk is subject to a capital charge under the Basel II framework.

4 Earnings Per Equity Share

Basic and Diluted earnings per equity share have been calculated based on the net profit after taxation of Rs. 2,244,94 lacs (previous year : Rs. 1,590,19 lacs) and the weighted average number of equity shares outstanding during the year amounting to 42,47,54,825 (previous year : 34,40,20,927).

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

(Rupees)

Particulars	For the year ended	
	March 31, 2009	**March 31, 2008**
Nominal value per share	10.00	10.00
Basic earnings per share	52.85	46.22
Effect of potential equity shares (per share)	(0.26)	(0.63)
Diluted earnings per share	52.59	45.59

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.

There is no impact of dilution on profits in the current year and previous year.

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

Particulars	For the year ended	
	March 31, 2009	**March 31, 2008**
Weighted average number of equity shares used in computing basic earnings per equity share	42,47,54,825	34,40,20,927
Effect of potential equity shares outstanding	21,06,683	47,97,548
Weighted average number of equity shares used in computing diluted earnings per equity share	42,68,61,508	34,88,18,475

5 Reserves and Surplus

General Reserve

The Bank has made an appropriation of Rs. 224,49 lacs (previous year : Rs. 159,02 lacs) out of profits for the year ended March 31, 2009 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment Reserve Account

During the year, the Bank has transferred Rs. 13,86 lacs (net) from Investment Reserve Account to the Profit and Loss Account. In the previous year, the Bank transferred Rs. 38,50 lacs (net) from Profit and Loss Account to Investment Reserve Account.

6 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 working day preceding the date of grant.

Such options vest at the discretion of the Compensation Committee. These 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 grant. Modifications, if any, made to the terms and conditions of ESOPs as approved by the Compensation Committee are disclosed separately.

The eCBoP had granted stock options to its employees prior to its amalgamation with the Bank. The options were granted under the following Schemes framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time :

1) Key ESOP-2004

2) General ESOP-2004

3) General ESOP-2007

The outstanding options granted under each of the above Schemes and the grant prices were converted into equivalent HDFC Bank options and prices in the swap ratio of 1:29 i.e. 1 stock option of HDFC Bank for every 29 stock options granted and outstanding of CBoP as on May 23, 2008, the effective date of the amalgamation, in accordance with Clause 9.9 of the Scheme of Amalgamation of CBoP with the Bank. The vesting dates for the said stock options granted in various tranches were revised as per Clause 9.9 of the Scheme. All the aforesaid stock options are exercisable within a period of 5 years from the date of vesting. Key Options were granted at an exercise price, which was less than the then fair market price of the shares. General Options were granted at the fair market price. The fair market price was the latest available closing price, prior to the date of the Board of Directors meeting in which options were granted or shares were issued, on the stock exchange on which the shares of the Bank were listed. If the shares were listed on more than one stock exchange, then the stock exchange where there was highest trading volume on the said date was considered.

Method used for accounting for shared based payment plan

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

Activity in the options outstanding under the Employee Stock Options Plan as at March 31, 2009

Particulars	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,69,37,800	956.94
Additions on amalgamation	35,51,978	894.20
Granted during the year	12,53,000	1,126.45
Exercised during the year	10,67,233	595.29
Forfeited/lapsed during the year	10,81,518	965.32
Options outstanding, end of year	1,95,94,027	975.64
Options Exercisable	1,12,75,016	907.66

Activity in the options outstanding under the Employee 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	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

Following summarises the information about stock options outstanding as at March 31, 2009

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of options (in years)	Weighted average exercise price (Rs.)
Plan A	Rs. 366.30	99,700	2.61	366.30
Plan B	Rs. 358.60 to Rs. 1,098.70	3,408,400	3.67	959.11
Plan C	Rs. 630.60 to Rs. 1,098.70	5,971,600	3.42	870.93
Plan D	Rs. 1,098.70 to Rs. 1,126.45	7,154,100	3.92	1,103.56
Key-ESOP - 2004	Rs. 116.00	122,070	3.98	116.00
General ESOP - 2004	Rs. 442.25 to Rs. 859.85	1,156,263	4.50	611.80
General ESOP - 2007	Rs. 1,162.90 to Rs. 1,258.60	1,681,894	4.91	1,185.46

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 options (in years)	Weighted average exercise price (Rs.)
Plan A	Rs. 366.30	123,100	3.57	366.30
Plan B	Rs. 358.60 to Rs. 1098.70	3,752,900	2.86	951.05
Plan C	Rs. 630.60 to Rs. 1098.70	6,995,300	2.28	847.56
Plan D	Rs. 1098.70	6,066,500	2.74	1,098.70

Fair Value methodology

The fair value of options used to compute proforma 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, 2009 are :

Particulars	March 31, 2009	March 31, 2008
Dividend yield	0.8%	0.6%
Expected volatility	39.71%	25.20%
Risk - free interest rate	9.2% - 9.3%	7.7% - 7.9%
Expected life of the option	1-4 years	1-4 years

Details of Modifications in terms and conditions of ESOPs

The Compensation Committee, at its meeting held on January 14, 2009, accorded its approval for extending the life of some of the ESOPs under Plans B, C and D from two years from date of vesting to four years from date of vesting. ESOPs thus modified have been fair valued as of January 14, 2009, being the modification date. The various assumptions considered in the pricing model for the ESOPs modified during the year ended March 31, 2009 are :

Particulars	March 31, 2009
Dividend yield	0.9%
Expected volatility	47.13%
Risk - free interest rate	4.5% - 5.2%
Expected life of the option	1-6 years

The incremental share based compensation determined under fair value based method amounts to Rs. 43,24 lacs.

Impact of fair value method on net profit and earnings per share

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

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Net Profit (as reported)	2,244,94	1,590,19
Add : Stock - based employee compensation expense included in net income	-	-
Less : Stock based compensation expense determined under fair value based method (pro forma)	103,40	161,16
Net Profit (pro forma)	2,141,54	1,429,03
	Rs.	**Rs.**
Basic earnings per share (as reported)	52.85	46.22
Basic earnings per share (pro forma)	50.42	41.54
Diluted earnings per share (as reported)	52.59	45.59
Diluted earnings per share (pro forma)	50.17	40.97

7 Other Liabilities

Others (including provisions) under other liabilities include :

- 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, 2009 are Rs. 3,459,70 lacs (previous year : Rs. 2,012,00 lacs), Rs. 2,818,10 lacs (previous year : Rs. 1,037,10 lacs) and Rs. 200,00 lacs (previous year : Rs. 200,00 lacs) respectively. Of this, subordinated debt (Lower Tier II capital) and Upper Tier II capital issued by eCBOP amounting to Rs. 247,70 lacs (net of redemption of Rs. 46,00 lacs during the year) are outstanding as on March 31, 2009.

During the year ended March 31, 2009, the Bank raised subordinated debt qualifying for Tier II capital amounting to Rs. 2,875,00 lacs. The details of these bonds are given below :

Particulars	Date of Allotment	Coupon Rate (%)	Tenure	Amount (Rs. Lacs)
Lower Tier II Bonds	December 26, 2008	10.70%	10 Years	1,150,00
Upper Tier II Bonds	December 26, 2008	10.85%[1]	15 Years[2]	578,00
Lower Tier II Bonds	February 19, 2009	9.75%	10 Years	150,00
Upper Tier II Bonds	February 19, 2009	9.95%[3]	15 Years[4]	200,00
Upper Tier II Bonds	March 17, 2009	9.85%[5]	15 Years[6]	797,00
			Total	**2,875,00**

Note:

(1) Coupon rate of 10.85% per annum payable for 10 years and stepped - up coupon rate of 11.35% per annum for last 5 years if call option is not exercised at the end of 10 years from the date of allotment.

(2) Call Option exercisable on December 26, 2018 at par with the prior approval of RBI.

(3) Coupon rate of 9.95% per annum payable for 10 years and stepped - up coupon rate of 10.45% per annum for last 5 years if call option is not exercised at the end of 10 years from the date of allotment.

(4) Call Option exercisable on February 19, 2019 at par with the prior approval of RBI.

(5) Coupon rate of 9.85% per annum payable for 10 years and stepped - up coupon rate of 10.35% per annum for last 5 years if call option is not exercised at the end of 10 years from the date of allotment.

(6) Call Option exercisable on March 17, 2019 at par with the prior approval of RBI.

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.

Based on the balance term to maturity as at March 31, 2009, 97% of the book value of subordinated debt (Lower Tier II capital) and Upper Tier II capital is considered as Tier II capital for the purpose of capital adequacy computation.

- Other liabilities includes contingent provisions towards standard assets of Rs. 760,29 lacs (previous year : Rs. 533,58 lacs).
- Consequent to the Reserve Bank of India circular DBOD.No.BP.BC.83/21.01.002/2008-09 dated November 15, 2008 provision for standard assets has been reduced to 0.40%, except for agricultural and small and medium enterprise (SME) sectors, where the rate of provisioning will continue to be 0.25%. The revised norms are prospective. The provisions held by the Bank over and above that required under the revised norms have not been reversed in accordance with these norms.

8 Investments

- **Details of investments** **(Rs. lacs)**

Particulars	**March 31, 2009**	**March 31, 2008**
Value of Investments		
Gross value of Investments		
- In India	58,872,74	49,400,77
- Outside India	22	22
Provisions for Depreciation on Investments		
- In India	55,41	7,45
- Outside India	-	-
Net Value of Investments		
- In India	58,817,33	49,393,32
- Outside India	22	22

For the year ended March 31, 2009

- **Movement of provisions held towards depreciation on investments.** **(Rs. lacs)**

Particulars	March 31, 2009	March 31, 2008
Opening balance	7,45	94,25
Add : Provision made during the year/on Amalgamation*	51,41	7,12
Less : Write-off, write back of excess provision during the year	3,45	93,92
Closing balance	55,41	7,45

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

- **Repo Transactions**

✓ Details of repo/reverse repo deals done during the year ended March 31, 2009

(Rs. lacs)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As at March 31, 2009
Securities sold under repos	-	4,851,18	829,75	-
Securities purchased under reverse repos	-	10,658,01	1,173,63	2,518,89

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

✓ Details of Repo/Reverse Repo deals done during the year ended March 31, 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.

- **Non-SLR Investment Portfolio**

✓ Issuer-wise composition of Non-SLR Investments as at March 31, 2009

(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	3,351,30	3,235,94	-	3,032,60	3,042,60
2	Financial institutions	56,73	20,94	-	-	10,00
3	Banks	1,502,36	1,500,36	-	2,50	2,00
4	Private corporate	324,91	216,77	-	3,51	3,51
5	Subsidiaries/Joint ventures	155,10	155,10	-	17,65	155,10
6	Others	1,274,48	1,100,74	-	13,30	1,260,19
7	Provision held towards depreciation	(5,16)				
	Total	**6,659,72**	**6,229,85**	**-**	**3,069,56**	**4,473,40**

* Excludes investments in equity shares and units

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✓ 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.

✓ Non performing Non-SLR investments

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Opening balance	66	9,69
Additions during the year/on Amalgamation	1,57	51
Reductions during the year	-	9,54
Closing balance	2,23	66
Total provisions held	**2,23**	**66**

□ **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, 2009				As at March 31, 2008			
	Held for Trading	Available for Sale	Held to Maturity	Total	Held for Trading	Available for Sale	Held to Maturity	Total
Government securities	5,94,453	6,629,87	39,582,18	52,156,58	1,253,57	4,763,98	25,648,03	31,665,58
Other approved securities	-	1,25	-	1,25	-	58	-	58
Shares	4,47	32,48	3,00	39,95	8,82	20,86	5,00	34,68
Debentures and Bonds	60,62	1,702,83	179,39	1,942,84	480,70	5,537,72	233,30	6,251,72
Subsidiary/joint ventures	-	-	155,10	155,10	-	-	123,78	123,78
Others	-	4,521,82	-	4,521,82	9,232,88	2,084,32	-	11,317,20
Total	**6,009,62**	**12,888,25**	**39,919,68**	**58,817,54**	**10,975,97**	**12,407,46**	**26,010,11**	**49,393,54**

□ Investments include securities aggregating Rs. 1,111,70 lacs (previous year : Rs. 203,86 lacs) which are kept as margin for clearing of securities and Rs. 5,548,54 lacs (previous year : Rs. 6,080,39 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.

- Investments include securities aggregating Rs. 570 lacs (previous year : Nil) which are kept as margin with National Securities Clearing Corporation of India Ltd. (NSCCIL) and Rs. 4,75 lacs (previous year : Nil) which are kept as margin with Multi Commodity Exchange of India Ltd. (MCX).

- Investments amounting to Rs. 16,035,13 lacs (previous year : Rs. 16,139,31 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).

- Other investments include certificate of deposits : Rs. 1,383,25 lacs (previous year : Rs. 1,563,81 lacs), commercial paper : Rs. 94,60 lacs (previous year : Rs. 34,92 lacs), investments in debt mutual fund units : Nil (previous year : Rs. 9,232,89 lacs), investments in equity mutual fund units : Rs. 68 lacs (previous year : Rs. 100 lacs), security receipts issued by Reconstruction Companies : Rs. 10,69 lacs (previous year : Nil), deposits with NABARD under the RIDF Deposit Scheme : Rs. 2,527,11 lacs (previous year : Rs. 484,58 lacs), deposits with SIDBI and NHB under the Priority/Weaker Sector Lending Schemes : Rs. 505,49 lacs (previous year : Nil).

- 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.

9 Derivatives

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

Sr. No.	Particulars	March 31, 2009	March 31, 2008
i)	The notional principal of swap agreements	128,231,98	350,090,00
ii)	Losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	2,299,23	1,887,16
iii)	Concentration of credit risk arising from swaps (with banks)	94.94%	90.00%
iv)	Collateral required by the Bank upon entering into Swaps	-	-
v)	The fair value of the swap book*	(68,89)	(45,63)

* Fair value of the swap book includes accruals.

- **Exchange Traded Interest Rate Derivatives** **(Rs. lacs)**

Sr. No.	Particulars	March 31, 2009	March 31, 2008
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

- **Qualitative Disclosures on Risk Exposure in Derivatives**

Overview of business and processes

Financial derivatives are financial instruments whose characteristics are derived from the underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The notional amounts of financial instruments such as 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

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or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The following sections outline the nature and terms of the most common types of derivatives used by the bank.

Interest rate contracts

Forward rate agreements give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is the difference between the contracted rate and the market rate prevailing on the settlement date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without exchanging the underlying (or notional) principal.

Interest rate caps and floors give the buyer the ability to fix the maximum or minimum rate of interest. The writer pays the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of interest rate caps and floors is known as an interest rate collar.

Exchange rate contracts

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on future date. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations.

Cross currency swaps are agreements to exchange principal amounts denominated in different currencies. Cross currency swaps may also involve the exchange of interest payments on one specified currency for interest payments in another specified currency for a specified period.

Currency options give the buyer, on payment of a premium, the right but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date. Option premia paid or received is recorded in Profit and Loss Account for rupee options at the expiry of the option and for foreign currency options on premium settlement date.

Most of the bank's derivative business relate to sales and trading activities. Sale activities include the structuring and marketing of derivatives to customers to enable them to hedge their market risks (both interest rate and exchange risks), within the framework of regulations as may apply from time to time. The Bank deals in derivatives on its own account (trading activity) principally for the purpose of generating a profit from short term fluctuations in price or yields. The Bank also deals in derivatives to hedge the risk embedded in some of its balance sheet assets and liabilities.

Constituents involved in derivative business

The Treasury front office enters into derivatives transactions with customers and inter-bank counterparties. 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.

Derivative policy

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 implemented a Board approved policy on Customer Suitability & Appropriateness to ensure that derivative transactions entered into are appropriate and suitable to the customer's nature of business/operations. Before entering into a derivative deal with a customer, the Bank scores the customer on various risk parameters and based on the overall score level it determines the kind of product that best suits its risk appetite and the customer's requirements.

Classification of derivatives book

The derivative book is classified into trading and banking book. When the Bank deals in derivatives on its own account (trading activity) principally for the purpose of generating a profit from short term fluctuations in price or yields, the same is classified as trading book. The trading book is managed within the trading limits approved by the Risk Monitoring Committee of the Board. All other derivative transactions are classified as a part of the banking book.

Hedging policy

For derivative contracts designated as hedge, the Bank documents at the inception of the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the effectiveness of the hedge. The assessment is done on an on-going basis to test if the derivative is still effective in offsetting the changes on the fair value of the hedged item.

The banking book includes transactions concluded for the purpose of providing customer structures which are covered with inter-bank counter parties on a back-to-back basis. These transactions are classified under banking – non hedge book. The banking book also consists of transactions to hedge balance sheet assets or liabilities. The hedge may be against a single asset or liability or against a portfolio of asset or liability in specific tenor buckets. The tenor of derivative hedges may be less than or equal to tenor of underlying asset or liability. These derivative transactions are classified as banking – hedge book. If the underlying asset or liability is not marked to market, then the hedge is also not marked to market.

- **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 RBI guidelines with regard to provisioning requirements. Overdue receivables representing positive mark-to-market value of a derivative contract are transferred to the account of the borrower and treated as non-performing asset, if these remain unpaid for 90 days or more and necessary provisions are made.

- **Quantitative disclosure on risk exposure in derivatives** **(Rs. lacs)**

Sr. No	Particular	Currency derivatives	Interest rate derivatives
1	Derivatives (notional principal amount)		
	a) Banking (including hedging)	4,756,62	16,585,44
	b) Trading	10,898,07	121,132,10
2	Marked to market positions (net) *		
	a) Asset (+)	944,82	-
	b) Liability (-)	-	(226,11)
3	Credit exposure	3,179,00	3,563,86
4	Likely change of one percentage change in interest rate (100*PV01)		
	a) Banking (including hedging)	5,33	90,83
	b) Trading	-	52,50
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	5,33	122,30
	b) Trading	-	99,35
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	22	90,83
	b) Trading	-	23,38

* Mark to market positions includes accruals.

- The notional principal amounts of derivatives reflect the volume of transactions outstanding at balance sheet date, and, do not represent the amounts at risk.
- For the purpose of this disclosure, currency derivatives include options purchased (including rupee options), cross currency interest rate swaps and currency futures.
- Interest rate derivatives include interest rate swaps and forward rate agreements.
- The Bank has computed maximum and minimum of PV01 for the year based on balances at the end of every month.
- Option volumes excludes notional amount of Rs. 13,417,93 lacs in respect of options sold.
- In respect of derivative contracts, the Bank evaluates the credit exposure arising therefrom, in line with the RBI Circular DBOD.NO.BP.BC.57/ 21.04.157/ 2008-09 dated October 13, 2008. Credit exposure has been computed using the current exposure method which is the sum of (a) the current replacement cost (marked to market value including accruals) of the contract or zero whichever is higher, and (b) the potential future exposure (PFE). PFE is a product of the notional principal amount of the contract and a factor. The factor used is based on the RBI-Basel II grid of credit conversion factors, and is selected on the basis of the residual maturity and the type of contract.

10 Asset Quality

- Movements in NPAs (funded) **(Rs. lacs)**

Particulars	March 31, 2009	March 31, 2008
(i) Net NPAs to Net Advances (%)	0.63%	0.47%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	906,97	657,76
(b) Additions during the year/on Amalgamation	3,413,30	1,202,76
(c) Reductions during the year	2,332,20	953,55
(d) Closing balance	1,988,07	906,97
(iii) Movement of Net NPAs		
(a) Opening balance	298,52	202,89
(b) Additions during the year/on Amalgamation	400,42	98,10
(c) Reductions during the year	71,32	2,47
(d) Closing balance	627,62	298,52
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	608,45	454,87
(b) Additions during the year/on Amalgamation	3,012,87	1,104,66
(c) Write-off/write-back of excess provisions	2,260,87	951,08
(d) Closing balance	1,360,45	608,45

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

Of the above, the movement in NPAs relating to the loan book of eCBoP during the year ended March 31, 2009 is as follows :

(Rs. lacs)

Particulars			**March 31, 2009**
(i)	Movement of NPAs (Gross)		
	(a)	Opening balance	-
	(b)	Additions during the year	1,549,67
	(c)	Reductions during the year	705,27
	(d)	Closing balance	844,40
(ii)	Movement of Net NPAs		
	(a)	Opening balance	-
	(b)	Additions during the year	243,63
	(c)	Reductions during the year	-
	(d)	Closing balance	243,63
(iii)	Movement of provisions for NPAs (excluding provisions on standard assets)		
	(a)	Opening balance	-
	(b)	Additions during the year	1,306,04
	(c)	Write-off/write-back of excess provisions	705,27
	(d)	Closing balance	600,77

The above information has been compiled by the management of the Bank.

- Floating provisions of Rs. 15,03 lacs has been netted from gross NPAs in the current year to arrive at net NPAs. This was hitherto shown under "Other Liabilities and Provisions". Movement in floating provision is given here below :

(Rs. lacs)

Particulars	**March 31, 2009**	**March 31, 2008**
Opening Balance	10,03	10,03
Provisions made during the year/on Amalgamation*	32,84	-
Draw down made during the year/on Amalgamation*	27,84	-
Closing Balance	15,03	10,03

* Floating provisions of Rs. 27,84 lacs of eCBoP has been utilised on amalgamation in the harmonization of accounting policies and estimates in line with the Scheme of Amalgamation.

- Details of loan assets subjected to restructuring as on March 31, 2009

(Rs. lacs except numbers)

Particulars of Accounts Restructured		**Outstanding as at March 31, 2009**		
		CDR Mechanism	**SME Debt Restructuring**	**Others**
Standard advances restructured	No. of Borrowers	2	9	3
	Amount Outstanding	16,50	20,27	15,07
	Sacrifice (diminution in the fair value)	72	-	35
Sub standard advances restructured	No. of Borrowers	2	-	1
	Amount Outstanding	67,73	-	84
	Sacrifice (diminution in the fair value)	8,42	-	11
Doubtful advances restructured	No. of Borrowers	-	-	-
	Amount Outstanding	-	-	-
	Sacrifice (diminution in the fair value)	-	-	-
Total	No. of Borrowers	4	9	4
	Amount Outstanding	84,23	20,27	15,91
	Sacrifice (diminution in the fair value)	9,14	-	46

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- Details of loan assets subjected to restructuring as on March 31, 2008

(Rs. lacs except numbers)

Particulars of Accounts Restructured		Outstanding as at March 31, 2008		
		CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	1	-	-
	Amount Outstanding	2,74	-	-
	Sacrifice (diminution in the fair value)	5	-	-
Sub standard advances restructured	No. of Borrowers	-	-	-
	Amount Outstanding	-	-	-
	Sacrifice (diminution in the fair value)	-	-	-
Doubtful advances restructured	No. of Borrowers	-	-	-
	Amount Outstanding	-	-	-
	Sacrifice (diminution in the fair value)	-	-	-
Total	No. of Borrowers	1	-	-
	Amount Outstanding	2,74	-	-
	Sacrifice (diminution in the fair value)	5	-	-

- Disclosure on restructured advances as required by RBI circular DBOD.No.BP.BC.No.124/21.04.132/2008-09 dated April 17, 2009 :

S.No	Disclosures	Number	Amount (Rs. lacs)
1.	Application received up to March 31, 2009 for restructuring, in respect of accounts which were standard as on September 1, 2008.	18	337,66
2.	Of (1), proposals approved and implemented as on March 31, 2009 and thus became eligible for special regulatory treatment and classified as standard assets as on the date of the balance sheet.	11	33,00
3.	Of (1), proposals approved and implemented as on March 31, 2009 but could not be upgraded to the standard category.	-	-
4.	Of (1), proposals under process/implementation which were standard as on March 31, 2009	2	51,05
5.	Of (1), proposals under process/implementation which turned NPA as on March 31, 2009 but are expected to be classified as standard assets on full implementation of the package.*	1	67,16

* excludes four accounts with an outstanding balance of Rs. 186,45 lacs as at March 31, 2009 which are classified as non-performing as at March 31, 2009, where restructuring proposals are under process and the outcome of implementation of the restructuring package is not ascertainable as at the balance sheet date.

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

  During the years ended March 31, 2009 and March 31, 2008, there were no financial assets that were sold by the Bank to securitization/reconstruction companies for asset reconstruction.

- Details of non-performing financial assets sold, excluding those sold to SC/RC

  During the year ended March 31, 2009, the Bank has sold certain non-performing assets in accordance with the guidelines issued by RBI on such sale.

(Rs. lacs except numbers)

Particulars	March 31, 2009	March 31, 2008
No of Accounts sold	5,119	-
Aggregate outstanding	84,07	-
Aggregate consideration	50,22	-

- During the years ended March 31, 2009 and March 31, 2008, there were no non-performing financial assets that were purchased 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, 2009	March 31, 2008
a)	**Direct exposure :**		**16,550,51**	**9,796,90**
	(i)	Residential mortgages * (of which housing loans eligible for inclusion in priority sector advances)	8,576,99 (4,729,34)	2,739,34 -
	(ii)	Commercial real estate	7,099,65	5,902,01
	(iii)	Investments in mortgage backed securities (MBS) and other securitised exposures:		
		a. Residential	873,87	1,155,55
		b. Commercial real estate	-	-
b)	**Indirect exposure :**		**1,923,29**	**360,14**
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)		1,923,29	360,14
		Total real estate exposure	**18,473,80**	**10,157,04**

* includes loans purchased under the direct loan assignment route.

Of the above, exposure to real estate developers is 0.8% (previous year : 0.4%) of total advances.

- **Details of capital market exposure** **(Rs. lacs)**

Sr. No.	Particulars	March 31, 2009	March 31, 2008
(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	49,33	20,42
(ii)	Advances against shares, bonds, debentures or other securities or on clean basis to individuals for investment in equity shares (including IPO's/ESOP's), convertible bonds or convertible debentures, units of equity oriented mutual funds	84,79	179,66
(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	658,92	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	39,18	136,01
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	3,448,90	3,065,71
(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 and unregistered) deemed to be on par with equity and hence reckoned for capital market exposure.	39,09	-
	Total Exposure to Capital Market	**4,320,21**	**4,483,92**

Exposure is higher of limits sanctioned or the amount outstanding.

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- **Details of Risk Category wise Country Exposure as at March 31, 2009 :** **(Rs. lacs)**

Risk Category	Exposure (Net)	Provision held
Insignificant	2,779,26	-
Low	1,480,29	-
Moderately low	160,28	-
Moderate	2,78	-
Moderately high	-	-
High	-	-
Very High	-	-
Total	**4,422,61**	**-**

- **Details of Risk Category wise Country Exposure as at March 31, 2008 :** **(Rs. lacs)**

Risk Category	Exposure (Net)	Provision held
Insignificant	2,010,67	-
Low	626,81	-
Moderate	72,56	-
High	-	-
Very high	16	-
Restricted	-	-
Off - credit	-	-
Total	**2,710,20**	**-**

- **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, 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. With effect from May 29, 2008 the said borrower was within the revised prudential limit of 25% of capital funds as stipulated vide RBI circular DBOD No. BC. 19/13.03.00/2008-09 dated July 1, 2008.

12 Other Fixed Assets (including furniture and fixtures)

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

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Cost as of March 31 at the previous year	354,97	276,86
Additions during the year/on Amalgamation	182,21	78,11
Accumulated depreciation as at March 31	(293,25)	(219,89)
Net value as at March 31 of the current year	**243,93**	**135,08**

For the year ended March 31, 2009

13 Other Assets

- Other Assets include deferred tax asset (net) of Rs. 862,82 lacs (previous year : Rs. 383,21 lacs). The break up of the same is as follows :

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Deferred tax asset arising out of :		
Loan loss provisions	614,05	298,23
Employee Benefits	53,44	38,40
Others	283,22	120,99
Total	**950,71**	**457,62**
Deferred tax liability arising out of :		
Depreciation	(87,89)	(74,41)
Total	**(87,89)**	**(74,41)**
Deferred tax asset (net)	**862,82**	**383,21**

- Key items under "Others" in Other Assets are as under :

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Unrealised gain on Foreign Exchange and Derivative Contracts	1173,19	316,73
Deferred Tax Assets	862,82	383,21
Deposits & amounts paid in advance	829,54	549,74
Account receivables	487,55	349,02
Bullion outstanding	168,05	107,00
Margin and price adjustment for Liquidity Adjustment Facility (LAF) with RBI	-	451,18
Forex Swap adjustment*	-	309,30
Residuary Items	91,40	113,05
Total	**3,612,55**	**2,579,23**

**The offset lies in the nostro mirror account*

14 Maturity Pattern of Key Assets and Liabilities

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

(Rs. lacs)

As at March 31, 2009	1 - 14 Days	15 - 28 Days	29 days to 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 and advances	6,342,90	2,445,84	11,200,87	10,575,67	13,976,89	40,557,36	6,091,37	7,692,15	98,883,05
Investments	17,063,44	1,125,44	2,540,01	2,355,52	4,147,37	21,618,57	4,519,68	5,447,51	58,817,54
Deposits	10,309,08	2,288,54	6,970,16	7,471,67	11,282,43	81,553,94	14,869,06	8,066,70	142,811,58
Borrowings	817,91	94,85	836,04	859,55	-	14,73	-	62,76	2,685,84
Foreign Currency Assets	2,226,07	240,34	886,23	709,55	390,25	575,84	118,68	8,49	5,155,45
Foreign Currency Liabilities	547,25	131,65	846,14	863,29	507,67	1,444,58	57,99	507,20	4,905,77

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(Rs. lacs)

As at March 31, 2008	1 - 14 Days	15 - 28 Days	29 days to 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 and advances	6,028,49	(555,55)	3,672,08	5,094,76	11,447,86	31,469,80	3,941,13	2,328,32	63,426,89
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	2,931,62	100,768,59
Borrowings	1,826,03	105,69	1,626,74	795,43	221,05	19,98	-	-	4,594,92
Foreign Currency Assets	2,729,71	199,62	439,21	371,45	135,53	51,96	147,73	1,24	4,076,45
Foreign Currency 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.

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, 2009	March 31, 2008
Opening provision for reward points	34,98	16,13
Provision for reward points made during the year	17,31	14,96
Utilisation/Write back of provision for reward points	(8,49)	(3,36)
Effect of change in rate for accrual of reward points	1,44	3,05
Effect of change in cost of reward points	(11,67)	4,20
Closing provision for reward points	**33,57**	**34,98**

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

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Sr. No.	Contingent liability*	Brief description
		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 such as 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 favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market rates or prices relative to their terms.
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 securitized-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 ended	
Particulars	**March 31, 2009**	**March 31, 2008**
Interest income as a percentage of working funds[1]	9.28%	8.42%
Net interest income as a percentage of working funds	4.22%	4.35%
Non - interest income as a percentage of working funds	1.87%	1.90%
Operating profit[2] as a percentage of working funds	2.94%	3.13%
Return on assets (average)	1.28%	1.32%
Business[3] per employee (Rs. lacs)	446	506
Profit per employee[4] (Rs. lacs)	4.18	4.97
Percentage of net non performing assets[5] to customer assets[6]	0.62%	0.42%
Percentage of net non performing assets to net advances[7]	0.63%	0.47%
Gross non performing assets to gross advances	1.98%	1.34%

Definitions :

1. Working funds is the daily average of total assets during the year.
2. Operating profit is net profit for the year before provisions and contingencies.
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, floating provisions (as on March 31, 2009) and ECGC claims received.
6. Customer assets include gross advances (but net of specific and floating provisions (as on March 31, 2009)), 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, floating provisions (as on March 31, 2009), interest in suspense and ECGC claims received.

For the year ended March 31, 2009

17 Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2009 on units, equity and preference shares amounting to Rs. 230,21 lacs (previous year : Rs. 267,60 lacs).

18 Earnings from Standard Assets Securitised-out Assets/sold

(Rs. lacs except numbers)

Particulars	**March 31, 2009**	**March 31, 2008**
Book value of loans securitised-out	2,215,40	290,06
Total no. of contracts securitised (nos.)	47,400	5,244
Sales consideration received	2,209,28	291,39
Profit/(Loss) on sell off**	(612)	1,25

** 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 and Loss Account for the period in which the sale occurs.

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

The Bank has provided credit and liquidity enhancements 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, 2009 was Rs. 682,69 lacs (previous year Rs. 465,81 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.

20 Miscellaneous Income

Miscellaneous income includes profit/(loss) of Rs. (158,16) lacs (previous year : Rs. 36,71 lacs) pertaining to derivative transactions.

21 Other Expenditure

Other expenditure includes expenses on collections and recoveries amounting to Rs. 292,42 lacs (previous year : Rs. 158,73 lacs) and outsourcing fees amounting to Rs. 382,51 lacs (previous year : Rs. 316,02 lacs) exceeding 1% of the total income of the Bank.

22 The break-up of 'Provisions and contingencies' included in the Profit and Loss Account is given below :

(Rs. lacs)

Particulars	**March 31, 2009**	**March 31, 2008**
Provision for Income Tax	1,054,31	690,45
Provision for Wealth tax	61	45
Provision for NPAs	1,605,80	1,026,37
Provision for Standard Assets	120,48	189,66
Other Provisions and Contingencies*	152,82	268,30
Total	**2,934,02**	**2,175,23**

* Includes Contingent provisions for tax, legal and other contingencies Rs. 154,68 lacs (previous year : Rs. 264,39 lacs), Floating Provisions Rs. 5,00 lacs (previous year : Nil), (write-back)/ provisions for securitised-out assets Rs. (7,93) lacs (previous year : Rs. 3,91 lacs) and provision for restructured assets Rs. 1,07 lacs (previous year : Nil).

For the year ended March 31, 2009

23 Employee Benefits

Gratuity

(Rs. lacs)

Particulars	March 31, 2009	March 31, 2008
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	38,09	27,77
Addition due to amalgamation	21,47	-
Interest cost	4,42	2,20
Current service cost	16,43	4,66
Benefits paid	(4,07)	(1,83)
Actuarial (gain)/loss on obligation :		
Experience adjustment	4,76	6,44
Assumption change	(8,53)	(1,15)
Present value of obligation as at March 31	**72,57**	**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	22,37	15,71
Addition due to amalgamation	11,39	-
Expected return on plan assets	3,16	1,56
Contributions	16,09	8,00
Benefits paid	(4,07)	(1,83)
Actuarial gain/(loss) on plan assets :		
Experience adjustment	(3,68)	(1,03)
Assumption change	12	(4)
Fair value of plan assets as at March 31	**45,38**	**22,37**
Amount recognised in Balance sheet		
Fair value of plan assets as at March 31	45,38	22,37
Present value of obligation as at March 31	(72,57)	(38,09)
Asset/(Liability) as at March 31	**(27,19)**	**(15,72)**
Expenses recognised in Profit and Loss Account		
Interest Cost	4,42	2,20
Current Service cost	16,43	4,66
Expected return on plan assets	(3,16)	(1,56)
Net Actuarial (gain)/loss recognised in the year	(22)	6,36
Net Cost	**17,47**	**11,66**
Actual return on plan assets	(39)	4,89
Estimated contribution for the next year	15,54	9,20
Assumptions		
Discount rate	8.0% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.2% per annum
Salary escalation rate	7.5% per annum	10.0% per annum

For the year ended March 31, 2009

Pension

Pension liability relates to employees of erstwhile Lord Krishna Bank which was merged with Centurion Bank of Punjab Ltd. hence there are no corresponding figures for the previous year.

(Rs. lacs)

Particulars	**March 31, 2009**
Reconciliation of opening and closing balance of the present value of the defined benefit obligation	
Present value of obligation as at April 1	-
Addition due to amalgamation	39,29
Interest cost	2,96
Current service cost	1,44
Benefits paid	(4,63)
Actuarial (gain)/loss on obligation :	
Experience adjustment	(8,06)
Assumption change	3,60
Present value of obligation as at March 31	**34,60**
Reconciliation of opening and closing balance of the fair value of the plan assets	
Fair value of plan assets as at April 1	-
Addition due to amalgamation	13,96
Expected return on plan assets	2,03
Contributions	28,86
Benefits paid	(4,63)
Actuarial gain/(loss) on plan assets :	
Experience adjustment	(2,69)
Assumption change	(63)
Fair value of plan assets as at March 31	36,90
Amount recognised in Balance sheet	
Fair value of plan assets as at March 31	**36,90**
Present value of obligation as at March 31	(34,60)
Asset/(Liability) as at March 31	**2,30**
Expenses recognised in Profit and Loss Account	
Interest Cost	2,96
Current Service cost	1,44
Expected return on plan assets	(2,03)
Net Actuarial (gain)/loss recognised in the year	(1,14)
Net Cost	**1,23**
Actual return on plan assets	(1,29)
Estimated contribution for the next year	49
Assumptions	
Discount rate	8.0% per annum
Expected return on plan assets	8.0% per annum
Salary escalation rate	7.5% per annum

For the year ended March 31, 2009

Expected rate of return on investments is determined based on the assessment made by the company 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. 83,93 lacs (previous year : Rs. 43,93 lacs) to the provident fund and Rs. 18,16 lacs (previous year : Rs. 12,88 lacs) to the superannuation plan respectively.

Compensated Absences

The actuarial liability of compensated absences of accumulated privileged and sick leaves of the employees of the Bank as of March 31, 2009 is given below :

(**Rs. lacs)**

Particulars	**March 31, 2009**	**March 31, 2008**
Privileged leave	102,34	97,30
Sick leave	24,81	15,70
Total actuarial liability	127,15	113,00
Assumptions		
Discount rate	8.0% per annum	8.2% per annum
Salary escalation rate	7.5% per annum	10.0% per annum

24 Segment Reporting

Summary of the operating segments of the Bank is given below :

(Rs. lacs)

Particulars	**March 31, 2009**	**March 31, 2008**
1. Segment Revenue		
a) Treasury	4,917,01	3,533,73
b) Retail Banking	14,880,83	9,096,49
c) Wholesale Banking	10,605,82	6,737,31
d) Other Banking Operations	2,146,04	1,279,42
e) Unallocated	3,51	-
Total	**32,553,21**	**20,646,95**
Less : Inter Segment Revenue	12,930,35	8,248,80
Income from Operations	**19,622,86**	**12,398,15**
2. Segment Results		
a) Treasury	488,18	488,32
b) Retail Banking	1,268,93	540,15
c) Wholesale Banking	1,242,25	1,197,97
d) Other Banking Operations	635,51	309,87
e) Unallocated	(335,62)	(255,67)
Total Profit Before Tax	3,299,25	2,280,64
Income Tax expense	(1,054,31)	(690,45)
Net Profit	**2,244,94**	**1,590,19**

For the year ended March 31, 2009

(Rs. lacs)

Particulars			March 31, 2009	March 31, 2008
3.	**Capital Employed**			
	Segment assets			
	a)	Treasury	66,380,51	54,351,34
	b)	Retail Banking	58,073,00	42,487,36
	c)	Wholesale Banking	46,049,91	28,156,95
	d)	Other Banking Operations	3,924,07	3,254,01
	e)	Unallocated	8,843,28	4,926,94
		Total Assets	**183,270,77**	**133,176,60**
	Segment liabilities			
	a)	Treasury	2,685,84	3,790,41
	b)	Retail Banking	92,400,30	61,524,33
	c)	Wholesale Banking	58,321,76	49,256,10
	d)	Other Banking Operations	-	-
	e)	Unallocated	29,862,87	18,605,76
		Total Liabilities	**183,270,77**	**133,176,60**
	Net Segment assets/(liabilities)			
	a)	Treasury	63,694,67	50,560,93
	b)	Retail Banking	(34,327,30)	(19,036,97)
	c)	Wholesale Banking	(12,271,85)	(21,099,15)
	d)	Other Banking Operations	3,924,07	3,254,01
	e)	Unallocated	(21,019,59)	(13,678,82)
4.	**Capital Expenditure (including net CWIP)**			
	a)	Treasury	41,59	106,58
	b)	Retail Banking	405,68	342,70
	c)	Wholesale Banking	132,80	150,64
	d)	Other Banking Operations	32,87	29,49
	e)	Unallocated	-	-
		Total	**612,94**	**629,41**
5.	**Depreciation**			
	a)	Treasury	46,03	22,93
	b)	Retail Banking	227,16	186,20
	c)	Wholesale Banking	69,01	45,34
	d)	Other Banking Operations	17,71	17,25
	e)	Unallocated	-	-
		Total	**359,91**	**271,72**

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.

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.

Subsidiaries

HDFC Securities Ltd.

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

Associates

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

SolutionNET India Pvt. Ltd.

Softcell Technologies Ltd.

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

Atlas Documentary Facilitators Company Pvt. Ltd.

HBL Global Pvt. Ltd.

Centillion Solutions and Services Pvt. Ltd.

Kairoleaf Analytics Pvt. Ltd. (ceased to be an associate from March 30, 2009)

International Asset Reconstruction Company Pvt. Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Paresh Sukthankar, Director

Harish Engineer, Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

For the year ended March 31, 2009

The Bank's related party balances and transactions for the year ended March 31, 2009 are summarized as follows :

(Rs. lacs)

Items / Related Party	Promoter	Enterprises under Common Control of the Promoter	Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposits	710,73	117,96	188,51	43,07	6,27	1,36	1,067,90
Placement of Deposits	2	18	1	29,00	-	3,50	32,71
Advances	-	-	62,65	-	-	-	62,65
Purchase of fixed assets	-	-	11	15,89	-	-	16,00
Interest received	-	-	4	-	-	-	4
Rendering of Services	56,10	540,63	6,47	18,10	-	-	621,30
Receiving of Services	1,03	23,44	9,46	497,14	-	54	531,61
Amount received on Equity Share Warrants Issued	400,92	-	-	-	-	-	400,92
Equity Investment	-	-	123,76	34,71	-	-	158,47
Dividend paid	44,58	-	-	-	-	-	44,58
Dividend received on equity investment	-	-	-	10	-	-	10
Accounts Receivable	3,72	70,25	-	-	-	-	73,97
Accounts Payable	-	-	6,38	38,02	-	-	44,40
Management Contracts	-	-	-	-	7,30	-	7,30
Loans Purchased	4,245,21	-	-	-	-	-	4,245,21
Assignment of Loans	1,961,55	-	-	-	-	-	1,961,55

The Bank being an authorised dealer, deals in foreign exchange and derivative transactions with certain parties which includes the promoter and related group companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The notional principal amount of foreign exchange and derivative contracts transacted with the promoter that were outstanding as on March 31, 2009 is Rs. 4,632,97 lacs. The contingent credit exposure pertaining to these contracts computed in line with the extant RBI guidelines on exposure norms is Rs. 361,31 lacs.

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

(Rs. lacs)

IItems / Related Party	Promoter	Enterprises under Common Control of the Promoter	Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Deposits	82,31	132,41	137,22	30,79	3,91	1,09	387,73
Placement of Deposits	2	18	1	19,50	-	3,50	23,21
Advances	-	-	-	20	-	-	20
Purchase of fixed assets	-	-	-	21,20	-	-	21,20
Interest received	-	-	21	3	-	-	24
Rendering of Services	52,01	260,83	13,75	-	-	-	326,59
Receiving of Services	1,06	14,25	1,96	360,51	-	54	378,32
Equity Investment	-	-	123,76	3,71	-	-	127,47
Dividend paid	27,20	-	-	-	-	-	27,20
Dividend received on equity investment	-	-	-	1,38	-	-	1,38
Accounts Receivable	1,83	10,03	10,31	-	-	-	22,17
Accounts Payable	-	-	-	25,90	-	-	25,90
Management Contracts	-	-	-	-	6,61	-	6,61

HDFC BANK
We understand your world

For the year ended March 31, 2009

26 Leases

The details of maturity profile of future operating lease payments are given below : **(Rs. lacs)**

Period	March 31, 2009	March 31, 2008
Not later than one year	318,50	181,61
Later than one year and not later than five years	1,086,06	616,57
Later than five years	544,10	213,21
Total	**1,948,66**	**1,011,39**
The total of minimum lease payments recognized in the Profit and Loss Account for the year	378,59	177,26

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, 2009 and March 31, 2008.

28 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.

29 Disclosure for customer complaints/unimplemented awards of Banking Ombudsman

Customer complaints

	Particulars	March 31, 2009
(a)	No. of complaints pending at the beginning of the year *	1,630
(b)	No. of complaints received during the year	2,96,469
(c)	No. of complaints redressed during the year	2,95,619
(d)	No. of complaints pending at the end of the year	2,480

* includes 83 complaints related to eCBOP added on Amalgamation.

Unimplemented awards of Banking Ombudsmen

	Particulars	March 31, 2009
(a)	No. of unimplemented awards at the beginning of the year *	6
(b)	No. of Awards passed by the Banking Ombudsmen during the year	6
(c)	No. of Awards implemented during the year	8
(d)	No. of unimplemented Awards at the end of the year	4

* includes 2 awards related to eCBOP added on Amalgamation.

For the year ended March 31, 2009

30 Disclosure of Letter of Comforts (LoCs) issued by the Bank

The Bank has not issued any Letter of Comfort during the year ended March 31, 2009 and March 31, 2008.

31 Changes in Accounting Estimates

Useful Life of Assets

During the year ended March 31, 2009, the Bank changed the useful life of software, automated teller machines (ATM's) and certain other fixed assets prospectively from April 1, 2008. Where there is a revision of the estimated useful life of an asset, the unamortised depreciable amount will be charged over the revised remaining useful life. This change in estimate has resulted in the profit after tax for the year ended March 31, 2009 being higher by Rs. 31,71 lacs.

32 Small and Micro Industries

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments.

33 Comparative Figures

Figures for the previous year have been regrouped and reclassified wherever necessary to conform to the current year's presentation. However, previous year figures are not comparable to that of the current year as those are of the standalone HDFC Bank and the current year figures includes erstwhile Centurion Bank of Punjab. In respect of the previous year figures, differences, if any, between figures reported in lacs in the previous year and reported in thousands in the current year are due to rounding off.

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

Mumbai, 23 April, 2009

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, 2009) Rs. lacs

Name of the subsidiary	HDFC Securities Ltd.	HDB Financial Services Ltd.
Capital	1,500	10,501
Reserves and Surplus	8,025	(1,288)
Total Assets	20,599	19,588
Total Liabilities (excluding capital and reserves)	11,074	10,375
Investments	-	-
Turnover (total income)	12,466	2,354
Profit / (Loss) Before Taxation	2,809	(919)
Provision for Taxation	(1,152)	(9)
Profit / (Loss) After Taxation	1,657	(928)
Proposed Dividend including tax thereon	35	-

1. **Scope of Application**

a) **The name of the top bank in the group to which the framework applies:**

The New Capital Adequacy Framework is applicable to HDFC Bank Limited (hereinafter referred to as the Bank) and its two subsidiaries (HDFC Securities Ltd. and HDB Financial Services Private Ltd.) which together constitutes the group in line with guidelines on preparation of consolidated prudential reports issued vide circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003.

b) **An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group:**

For financial reporting, the Bank consolidates its subsidiaries in accordance with (AS) 21, Consolidated Financial Statements on a line-by-line basis. Investments in associates are accounted by the equity method in accordance with (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements.

For the purpose of consolidated prudential regulatory reports, the consolidated bank includes all group entities under its control, except group companies which are engaged in insurance business and businesses not pertaining to financial services.

Details of subsidiaries and associates of the Bank along with the consolidation status for accounting and regulatory purposes are given below:

Name of entity	Brief description and Consolidation Status
HDFC Securities Limited (HSL)	HSL is a subsidiary engaged in stock broking and is fully consolidated in the consolidated financial statements.
HDB Financial Services Private Limited (HDBFS)	HDBFS is a subsidiary engaged in retail asset financing and is fully consolidated in the consolidated financial statements.
Atlas Documentary Facilitators Company Private Limited (ADFC)	ADFC is an associate engaged in back-office processing and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
SolutionNET India Private Limited (SolutionNET) Private Limited	SolutionNET is an associate engaged in providing information technology consulting and services and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
HBL Global Private Limited (HBL)	HBL is an associate engaged in providing the Bank with direct sales support for certain products of the Bank and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Softcell Technologies Limited (Soft cell)	Softcell is an associate engaged in providing business-to-business software services and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Centillion Solutions & Services Private Ltd (Centillion)	Centillion is an associate engaged in Back office processing services and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
International Asset Reconstruction Company Private Ltd (IARCL)	IARCL is an associate engaged in securitization and asset reconstruction and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Kairoleaf Analytics Private Limited (Kairoleaf)*	Kairoleaf was an associate engaged in providing analytical solutions and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.

*Kairloeaf Analytics Private Ltd ceased to be an associate with effect from March 30, 2009, on account of reduction in ownership interest from 29% to 14.60%.

The Bank's investment in the equity capital of subsidiaries are deducted, 50% from Tier I capital and 50% from Tier II capital. Investments in the Bank's associates are risk-weighted.

c) There is no capital deficiency in the subsidiaries of the bank as of March 31, 2009.

d) As of March 31, 2009, the Bank does not have investment in any insurance entity.

2. **Capital Structure**

a) **Summary information on the main features of all capital instruments eligible for inclusion under Tier I and Tier II capital outstanding as of March 31, 2009 :**

Capital funds are classified into Tier I and Tier II capital under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments (Tier I bonds) eligible for inclusion in Tier I capital that comply with the requirements specified by RBI. Elements of Tier II capital include revaluation reserve, if any, general provision for standard assets, upper Tier II instruments and subordinated debt instruments (lower Tier II bonds) eligible for inclusion in Tier II capital. HDFC Bank has issued debt instruments that form part of Tier I and Tier II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

Tier I bonds are non-cumulative and perpetual in nature with a call option after 10 years. Interest on Tier I bonds is payable semi-annually. There is a step up clause on interest payment of 75 basis points in conjunction with call option.

The upper Tier II bonds have an original maturity of minimum 15 years with call option after 10 years. These Tier II bonds have a step-up clause on interest payment ranging from 50 bps to 100 bps in conjunction with call option. The interest on upper Tier II bonds is payable either annually or semi-annually.

The lower Tier II bonds have an original maturity upto fourteen years. The interest on lower Tier II capital instruments is payable either annually or semi-annually.

b) Details of Tier I capital are given below:

(Rs. lacs)

Particulars	**Amount**
Paid up share capital	425,38
Reserves	14,213,76
Innovative Perpetual Debt	200,00
Gross Tier I	14,839,14
Deductions:	
Deferred Tax Asset	(861,92)
Credit enhancement on securitization (50%)	(203,70)
Total Deductions	(1,065,62)
Total Tier I capital (net of deductions)	**13,773,52**

c) The total amount of Tier II capital (net of deductions) as of March 31, 2009 is Rs. 6,666,80 lacs.

Details of Tier II capital are given below:

Particulars	**Amount**
Upper Tier II capital	2,818,10
Lower Tier II capital	3,264,48
Provision for Standard assets	760,29
Investment Reserve Account	27,63
Less: Credit enhancement on securitization	(203,70)
Total Tier II capital (net of deductions)	**6,666,80**

d) Debt capital instruments eligible for inclusion in Upper Tier II capital are given below:

(Rs. lacs)

Particulars	**Amount**
Total amount outstanding as of March 31, 2009	2,818,10
Of which amounts raised during the year	*1,575,00*
Amount eligible to be reckoned as capital funds	2,818,10

e) Subordinated debt eligible for inclusion in Lower Tier II capital is given below:

(Rs. lacs)

Particulars	**Amount**
Total amount outstanding as of March 31, 2009	3,459,70
Of which amounts raised during the year	*1,300,00*
Amount eligible to be reckoned as capital funds	3,264,48

f) The total eligible capital of the Bank outstanding as of March 31, 2009 amounts to Rs. 20,440,32 lacs.

3. Capital Adequacy

a) Summary discussion of the Bank's approach to assess the adequacy of capital to support current and future trends:

The Bank has a process for assessing its overall Capital Adequacy in relation to their risk profile and a strategy for maintaining their capital levels. The process provides an assurance that the Bank has adequate capital to support all risk in its business and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound corporate governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank has formalized a comprehensive Internal Capital Adequacy Assessment Process (ICAAP document). This document covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future trends / risks and a report on the capital projections for the current and following two years.

The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have an adverse material impact on its financial position. The Bank considers the following risks as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital:

- Credit Risk
- Market Risk
- Operational Risk

- Interest Rate Risk in the Banking Book
- Liquidity Risk
- Credit Concentration Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Reputation Risk

b) Capital Requirements for Credit Risk:

(Rs. lacs)

Particulars	**Amount**
Portfolios subject to Standardized approach	10,308,03
Securitization Exposures	431,68

c) Capital Requirements for Market Risk:

(Rs. lacs)

Particulars	**Amount**
Standardized duration approach:	
Interest rate risk	521,23
Foreign Exchange risk (including gold)	27,00
Equity risk	14,50
Total	**562,73**

d) Capital Requirements for Operational Risk:

(Rs. lacs)

Particulars	**Amount**
Capital required under Basic Indicator Approach	806,11

e) Total and Tier I Capital:

(Rs. lacs)

Particulars	**Amount**
Tier I capital ratio	10.62%
Total capital ratio	15.75%

4. Credit Risk

a) Credit Risk Management :

Credit Risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

Architecture:

The Bank has a comprehensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Monitoring Committee (RMC), which is a committee of the Board, guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. The RMC ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank. The Bank's Credit & Market Risk group drives credit risk management centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of credit and market risk, approving individual credit exposures and ensuring portfolio composition and quality. Within the Credit & Market Risk group and independent of the credit approval process, there is a framework for review and approval of credit ratings. With regard to the Wholesale Banking business the Bank's risk management functions are centralized. In respect of the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralized, the underwriting function is distributed across various geographies within the country. The risk management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank.

Credit Process:

We expect to achieve our earnings objectives and to satisfy our customers' needs while maintaining a sound portfolio. Credit exposures are managed through target market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures.

There are two different credit management models within which the credit process operates - the Retail Credit Model and the Wholesale Credit Model. The Retail Credit Model is geared towards high volume, small transaction size businesses and is based largely on actuarial / statistical techniques and the management of aggregate product portfolios. The Wholesale Credit Model on the other hand, is relevant to lower volume, larger transaction size, customised products and relies on a judgmental process for the origination, approval and maintenance of credit exposures.

The credit models have two alternatives to managing the credit process – Product Programs and Credit Transactions. In Product Programs, we approve maximum levels of credit exposure to a set of customers with similar characteristics, profiles and / or product needs, under clearly defined standard terms and conditions. This is a cost-effective approach to managing credit where credit risks and expected returns lend themselves to a standardized approach or predictable portfolio behavior in terms of yield, delinquency and write-off. Given the high volume environment, automated tracking and reporting mechanisms are important here to identify trends in portfolio behavior early and to initiate timely adjustments. In the case of Credit Transactions, the risk process focuses on individual customers or borrower relationships. The approval process in such cases is based on detailed analysis and the individual judgement of credit officials, often involving complex products or risks, multiple facilities / structures and types of securities.

The Bank's Credit Policies and Procedure Manual and Credit Programs, where applicable, form the core to controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The Policies / Programs generally address such areas as target markets / customer segmentation, qualitative-quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms, etc. They take cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics, etc.

As an integral part of the credit process, the Bank has a fairly sophisticated credit rating model appropriate to each market segment in Wholesale Credit. The models follow principles similar to those of international rating agencies. In Retail Credit, Score cards have been introduced in the smaller ticket, higher volume products like credit cards, two wheeler loans and auto loans. For other retail products, the Bank explores the appropriateness of using scores based on the statistical analysis of portfolio behaviour over a period of time.

Top management monitors overall portfolio quality and high-risk exposures periodically, including the weighted risk grade of the portfolio and industry diversification. Additional to, and independent of, the internal grading system and the RBI norms on asset classification, the Bank has a labeling system, where individual credits are labeled based on the degree of risk perceived in them by the Bank. Remedial strategies are developed once a loan is identified as an adversely labeled credit.

Definition of Non-Performing Assets:

The Bank follows the current guidelines of Reserve Bank of India (RBI) on income recognition, asset classification and provisioning. A Non-Performing Asset (NPA) is a loan or an advance where:

a. Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan. Any amount due to the Bank under any credit facility is "overdue" if it is not paid on the due date fixed by the Bank.

b. The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC). An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power or where there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period.

c. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

d. A loan granted for short duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

e. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

f. Any receivable representing positive mark-to-market value of a derivative contract, if overdue for a period of 90 days or more, is treated as non-performing asset and also makes all other funded facilities granted to the client as non-performing asset, following the principle of borrower-wise classification. The applicability of the principle of borrower-wise asset classification is confined to only the overdues arising from forward contracts and plain vanilla swaps and options. Accordingly, any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, if any, which has already crystallised or might crystallise in future and is / becomes receivable from the client, is parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more is itself classified as NPA, as per the extant income recognition and asset classification (IRAC) norms. The classification of all other assets of such clients will, however, continue to be governed by the extant IRAC norms.

Non-performing assets are classified into the following three categories:

a. Sub-standard Assets - A sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

b. ***Doubtful Assets*** - A doubtful asset is one, which remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values - highly questionable and improbable.

c. ***Loss Assets*** - A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Interest on non-performing assets is not recognised in the profit/loss account until received. Specific provision for non performing assets is made based on management's assessment of their degree of impairment subject to the minimum provisioning level prescribed by RBI.

Definition of 'Overdue'

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

b) Gross Credit Risk Exposures:

(Rs. lacs)

Category	Amount
Fund based*	105,489,42
Non Fund based**	17,063,74
Total	**122,553,16**

* Fund based exposures comprises loans and advances and investments of the bank

**Non fund based exposures comprises guarantees, acceptances, endorsements and letter of Credits

c) Geographic distribution of exposures:

(Rs. lacs)

Category	Fund Based	Non Fund Based
Domestic	104,656,04	17,063,74
Overseas	833,38	-
Total	**105,489,42**	**17,063,74**

d) Industry-wise distribution of exposures:

(Rs. lacs)

Industry	Fund Based	Non Fund Based
Agriculture and allied activities	3,250,14	13,68
Automobile & Auto Ancillary	3,899,16	198,65
Banks and Financial Institutions	4,595,53	198,38
Capital Market Intermediaries	676,68	1,488,47
Cement and Cement Products	314,97	396,01
Chemical and Chemical Products	620,45	209,66
Construction and Developers	955,29	420,77
Drugs and Pharmaceuticals	1,069,48	174,55
Engineering	1,752,94	2,569,11
Fertilisers and Pesticides	2,744,56	212,07
FMCG and Personal Care	435,59	59,78
Food and Beverage	1,882,70	359,72
Gems and Jewellery	795,97	175,46
Glass and Glass Products	238,15	32,67
Home Finance Companies	1,707,57	-
Information Technology	470,13	222,32
Infrastructure(Road, Port)	865,44	200,33
Iron and Steel	1,246,30	385,48
Mining and Minerals	370,77	88,62
NBFC/Financial Intermediaries	4,203,16	24,44
Non-ferrous Metals and Products	722,16	992,94
Paper, Printing and Stationery	370,74	406,20
Petroleum & Petroleum Products	2,643,73	1,835,65
Plastics and Plastic Products	258,95	54,21
Power	755,92	364,39
Real Estate & Property Services*	1,456,30	31,21
Retail Assets**	51,171,21	2,383,29
Road Transport***	5,327,05	170,96
Services	936,48	565,77
Telecom	1,184,32	665,21
Textile	1,276,41	182,54
Wholesale/Retail Trade	3,196,23	441,29
Other Industries****	4,094,94	1,539,91
Grand Total	**105,489,42**	**17,063,74**

* classification of exposure to real estate sector under "Exposures in Sensitive Sector", as disclosed in the Notes to the Financial Statements, is as per the RBI guidelines, which includes not only exposures to borrowers in the real estate industry but also exposure to borrowers in other industries, where the exposures are primarily secured by real estate and investment in home finance institutions and securitization.

** comprises auto loans, consumer loans, credit cards, home loans, personal loans, two wheeler loans, business loans except where otherwise classified.

*** includes retail commercial vehicle financing. **** covers about 24 industries such as leather and leather products, rubber and rubber products, cold storage, warehousing, wood and wood products, airlines, shipping each of which is less then 0.25% of the total exposure.

e) Residual Contractual Maturity breakdown of assets:

(Rs. lacs)

Maturity Buckets	Cash and Balances with Reserve Bank of India	Balances with Banks & Money at Call & Short Notice	Invest-ments	Advances	Fixed Assets	Other Assets	Grand Total
1 to 14 days	5,789,36	3,495,20	17,063,46	6,342,89	-	3,210,56	35,901,47
15 to 28 days	133,45	69,06	1,125,44	2,447,68	-	399,85	4,175,48
29 days to 3 months	433,48	334,00	2,540,01	11,205,24	-	3,24	14,515,97
3 to 6 months	453,97	42,59	2,355,52	10,582,53	-	1,03	13,435,64
6 months to 1 year	676,64	52,78	4,147,37	13,991,78	-	2,53	18,871,10
1 to 3 years	4,696,66	7,50	21,618,57	40,625,20	-	2,766,39	69,714,32
3 to 5 years	869,63	-	4,519,68	6,106,80	-	5,32	11,501,43
Above 5 years	474,03	8,81	5,345,11	7,725,24	1,732,28	1,89	15,287,36
Grand Total	**13,527,22**	**4,009,94**	**58,715,16**	**99,027,36**	**1,732,28**	**6,390,81**	**183,402,77**

f) Gross and Net NPAs:

(Rs. lacs)

NPA Classification	Amount
Sub Standard	1,647,47
Doubtful *	
- Doubtful 1	161,01
- Doubtful 2	20,61
- Doubtful 3	4,18
Loss	154,81
Total	**1,988,08**

* Doubtful 1, 2 and 3 categories correspond to the period for which asset has been doubtful - Up to one year (Doubtful 1), One to three years (Doubtful 2) and More than three years (Doubtful 3).

g) Net NPAs:

(Rs. lacs)

Particulars	Amount
Gross NPA	1,988,08
Less Provisions	1,360,46
Net NPA	627,62

h) NPAs Ratio:

Particulars	Ratios
Gross NPA as a ratio to Gross Advances	1.98%
Net NPA as a ratio to Net Advances	0.63%

i) Movement of Gross NPAs (Merged):

(Rs. lacs)

Particulars	Amount
Opening balances	906,97
Additions during the year/ on Amalgamation	3,413,31
Reductions during the year	(2,332,20)
Closing Balance	1,988,08

Of the above, the movement in NPAs arising on account of the advance book of eCBoP during the year ended March 31, 2009 is as follows:

Movement of Gross NPAs (eCBop):

(Rs. lacs)

Particulars	Amount
Opening balances	-
Additions during the year	1,549,67
Reductions during the year	(705,27)
Closing Balance	844,40

j) Movement of Provisions for NPA (Merged) :

(Rs. lacs)

Particulars	Amount
Opening balances	60,845
Provisions made during the year/ on Amalgamation	3,012,88
Write off	(2,187,37)
Write back of excess provisions	(73,50)
Closing Balance	1,360,46

Of the above, the movement of provisions in NPAs arising on account of the advance book of eCBoP during the year ended March 31, 2009 is as follows:

Movement of Provisions for NPA (eCBop) :

(Rs. lacs)

Particulars	Amount
Opening balances	-
Additions during the year	1,306,04
Write off	(702,76)
Write back of excess provisions	(2,51)
Closing Balance	600,77

k) **Amount of Non performing Investment:**

(Rs. lacs)

Particulars	Amount
Gross Non performing investment	2,23
Total provisions held on Non performing Investment	(2,23)
Net Non performing investment	-

l) **Movement of provisions for depreciation on investments:**

(Rs. lacs)

Particulars	Amount
Opening balance	7,45
Provisions made during the year	51,41
Write off	-
Write back of excess provisions	(3,45)
Closing balance	55,41

5. Credit Risk: Disclosures for portfolios subject to the Standardized Approach

a) **The Bank has used the Standardized Approach for the entire credit portfolio.**

Name of credit rating agencies used:

- The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by RBI, for risk weighting claims on domestic entities -
  1. Credit Analysis and Research Limited (CARE)
  2. Credit Rating Information Services of India Limited (CRISIL)
  3. Fitch India
  4. ICRA Limited (ICRA)
- The Bank is using the ratings assigned by the following international credit rating agencies, approved by RBI, for risk weighting claims on overseas entities -
  1. Fitch
  2. Moodys
  3. Standard & Poor's

Types of exposures for which each agency is used:

- The Bank has used the solicited ratings assigned by all the above approved credit rating agencies for all eligible exposures, both on balance sheet and off balance sheet, whether short term or long term, in the manner permitted in RBI's guidelines. The Bank has not made any discrimination among ratings assigned by these agencies nor restricted their usage to any particular type(s) of exposure(s).

Process used to transfer public issue ratings onto comparable assets in banking book:

- For assets in the Bank's portfolio that have contractual maturity less than or equal to one year, short term ratings accorded by the chosen credit rating agencies are considered relevant. For other assets, which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies are considered relevant.
- The Bank has used long term ratings of counterparty as a proxy for an unrated short term exposure on the same counterparty subject to compliance with the requirements for use of multiple rating assessments and applicability of issue rating to issuer / other claims. The long term ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the Standardised approach under the Revised Framework. The rating risk weight mapping furnished below was adopted for domestic corporate exposures, as per RBI's guidelines:

Risk Weight	20 %	30 %	50 %	100 %	150 %	100%
Rating	AAA	AA	A	BBB	BB & Below	UR

- If an issuer has a long-term exposure with an external long term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short-term or long-term, receives a 150% risk weight, unless recognised credit risk mitigation techniques have been used for such claims.
- For risk-weighting purposes, short-term ratings are deemed to be issue specific. They are only used to derive risk weights for claims arising from the rated facility. They are not generalised to other short-term claims. Further, a short-term rating is not used to support a risk weight for an unrated long-term claim. Short-term assessments are only used for short-term claims against banks and corporates.
- As permitted in the RBI guidelines, notwithstanding the above restriction on using an issue specific short term rating for other short term exposures, unrated short term claim on counterparty attract a risk weight of at least one level higher than the risk weight applicable to the rated short term claim on that counter-party. If a short-term rated facility to counterparty attracts a 20% or a 50% risk-weight, unrated short-term claims to the same counter-party cannot attract a risk weight lower than 30% or 100% respectively. Similarly, if an issuer has a short-term exposure with an external short term rating that warrants a risk weight of 150%, all unrated claims on the same counter-party, whether long-term or short-term, receives a 150% risk weight, unless the recognised credit risk mitigation techniques for such claims have been used.

- In respect of the issue specific short term ratings the following risk weight mapping has been adopted by the Bank, as provided in the RBI guidelines:

Short Term Rating (eqv.)	P1+	P1	P2	P3	P4 / P5	UR
Risk Weight	20 %	30 %	50 %	100 %	150 %	100%

- The Bank has been guided by the following rules in respect of exposures / obligors having multiple ratings from the chosen credit rating agencies for the purpose of risk weight calculation:

  (i) If there is only one rating by a chosen credit rating agency for a particular claim, that rating is used to determine the risk weight of the claim.

  (ii) If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, the higher risk weight is applied.

  (iii) If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.

- Where the Bank invests in a particular issue that has an issue specific rating by a chosen credit rating agency the risk weight of the claim is based on this assessment. Where the Bank's claim is not an investment in a specific assessed issue, the following general principles are applied:

  (i) In circumstances where the borrower has a specific assessment for an issued debt - but the Bank's claim is not an investment in this particular debt - the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) is applied to the Bank's unassessed claim only if this claim ranks pari passu or senior to the specific rated debt in all respects and the maturity of the unassessed claim is not later than the maturity of the rated claim, except where the rated claim is a short term obligation.

  (ii) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is unrated by any chosen credit rating agency, is assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari passu or junior to the rated exposure in all respects.

  (iii) Where the Bank extends an issuer or an issue specific rating assigned by a chosen credit rating agency to any other exposure which the Bank has on the same counterparty and which meets the above criterion, it is extended to the entire amount of credit risk exposure the bank has with regard to that exposure i.e., both principal and interest.

b) For exposure amounts after risk mitigation subject to the standardized approach, the Bank's outstanding (rated and unrated) in the following three major risk Buckets as well as those that are deducted:

(Rs. lacs)

Particulars	Amount
Below 100% risk weight	45,470,60
100% risk weight	44,083,39
More than 100% risk weight	32,999,17
Deducted	-
Total	**122,553,16**

6. Credit Risk Mitigation: Disclosures for Standardized Approaches

a) Qualitative Disclosures

The Bank's Credit Policies & Procedures Manual and Product Programs include the risk mitigation and collateral management policy of the Bank. The policy covers aspects on the nature of risk mitigants / collaterals acceptable to the Bank, the documentation and custodial arrangement of the collateral, the manner and periodicity of valuation, etc.

For purposes of computation of capital requirement for Credit Risk, the Bank recognizes only those collaterals that are considered as eligible for risk mitigation in RBI's guidelines.

- Cash deposit with the Bank
- Gold, including bullion and jewellery
- Securities issued by Central and State Governments
- Kisan Vikas Patra and National Savings Certificates
- Life insurance policies with a declared surrender value
- Debt securities rated at least BBB(-) /PR3 /P3/F3/A3
- Units of Debt Mutual Funds

The Bank uses the comprehensive approach in capital assessment. In the comprehensive approach, when taking collateral, the Bank calculates the adjusted exposure to a counterparty for capital adequacy purposes by netting off the effects of that collateral. The Bank adjusts the value of any collateral by a haircut to take account of possible future fluctuations in the value of the security occasioned by market movements.

For purposes of capital calculation and risk based pricing, the Bank recognizes the credit protection given by the following entities, considered eligible as per RBI's guidelines:

- Sovereign, entities including Bank for International Settlements (BIS), International Monetary Fund (IMF), European central bank and European Community as well as Multilateral Development Banks approved by RBI for the purpose, Export Credit Guarantee Corporation of India (ECGC) and Credit Guarantee Fund Trust for Small Industries (CGTSI), banks and primary dealers with a lower risk weight than the counter-party.
- Other entities externally rated AA(-) or better or equivalent. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

The credit risk mitigation taken is largely in the form of cash deposit with the Bank and thus the risk (credit and market) concentration of the mitigants is low.

b) For disclosed credit risk portfolio under the standardized approach, the total exposure that is covered by eligible financial collateral:

(Rs. lacs)

Particulars	Amount
Total exposure covered by eligible financial collateral	7,155,86

7. Securitisation – Disclosure for Standardized Approach

a) Risk Management Objectives and Policies:

Securitisation involves pooling together future cash flows and assigning them to a Special Purpose Vehicle (SPV). Such a sale of assets is on a 'True Sale' basis and the obligation of the seller is restricted to the amount of credit enhancement, if any, provided by it. On sale, the assets move out of the balance sheet of the seller entirely. The guidelines issued by RBI on securitisation of standard assets define securitisation as a two-stage process. In the first stage, there is sale of single asset or a pool of assets to a 'bankruptcy remote' special purpose vehicle (SPV) in return for an immediate cash payment. In the second stage, the security interests representing claims on incoming cash flows from the asset or pool of assets are transferred to third party investors by issuance of tradable debt securities.

The Bank undertakes securitization transactions from time to time. The Bank has a comprehensive policy, approved by the Board, for the securitization business. The policy clearly defines the various adherences required to be followed when selling down assets. The activities at the time of sell down includes, inter-alia, pool selection as per stated criteria, pool rating, due diligence audits, legal evaluation, etc. Similarly, when the Bank is investing in securitization instruments it examines the profile and track record of the originator, the type and nature of underlying receivables, pool characteristics, rating assigned, listing availability, credit enhancement available, etc and compares these with the standards set out in the policy.

The Bank participates in securitisation transactions in any or all of the following roles:

- Originator - The Bank sells down its own portfolio periodically.
- Service & collection agent - For all pools sold by the Bank, it undertakes the servicing and collection of loans.
- Investor - The Bank actively invests in Pass Through Certificates
- Liquidity facility provider - In cases of sell-down transactions, the Bank functions as the liquidity facility provider. The liquidity facility is a type of credit support used to meet temporary collection shortfalls.
- Credit Enhancement Facilities Provider - The Bank provides credit enhancement as stipulated by the rating agencies in case of rated sell down transactions.

The principal objectives of the Bank as an originator are a combination of reduction of credit risk in the portfolio, generation of liquidity, capital release, asset-liability management. As an investor, the objective of the Bank for entering into an asset opportunity with an appropriate risk-return trade off that the underlying assets carry.

b) Accounting Policy of the Bank for 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.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, 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 of standard assets 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 and 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.

c) **Names of External Credit Agencies used for securitisation transactions:**

- Credit Rating Information Services of India Limited(CRISIL)
- ICRA Limited (ICRA)
- Fitch India
- Credit Analysis and Research Limited (CARE)

Currently, the securitisation exposures for which these ratings are used cover:

a. Securitised Debt Instruments / Pass through Certificates (PTCs).

b. Second Loss Credit Enhancement Facility.

c. Liquidity Facility.

d) i) **Total outstanding principal securitized by exposure type as on March 31, 2009:**

(Rs. lacs)

Exposure Type*	Amount
Auto loan	557,63
Commercial vehicle loan	173,72
Two Wheeler loan	1,18
Loan against property	385,10
Housing loan	967,20
Loan against rent receivables	45,99
Total	**2,130,82**

*Amounts are in respect of exposures which the Bank has originally sourced and continues to service.

ii) **Deals done during the year:**

(Rs. lacs)

Exposure Type*	Where the Bank has retained interests	Where the Bank does not have retained interests
Auto loan	-	391,34
Commercial vehicle loan	-	168,75
Loan against property	-	387,98
Housing loan	-	967,20
Loan against rent receivables	-	46,27
Total	**-**	**1,961,55**

*Amounts are in respect of exposures which the Bank has originally sourced and continues to service.

e) (i) The amount of impaired/past due assets securitised is Rs 84,07 lacs.

(ii) There are no losses during the year on account of write offs/provisions/write down of I/Os strips and other residual interests.

f) **Aggregate amount of Securitization exposures retained or purchased as on March 31, 2009 :**

(Rs. lacs)

Particulars	Amount
1. Retained	
Mixed Asset*	23,56
2. Purchased (excluding loan assignments)	
Auto loan	145,52
Commercial vehicle loan	55,25
Hire Purchase Receivables	18,82
Housing loan	873,87
Personal loan	81,90
Two wheeler loan	27,06
3. Credit & Liquidity enhancement/facility**	716,40
4. Other Commitments	-
Total	**1,942,39**

* comprises auto loans, commercial vehicle loans and two wheeler loans.

** includes third party liquidity facility outstanding.

g) (i) **Risk weight wise securitization exposures retained or purchased:**

(Rs. lacs)

Risk Weight bands	Amount
Less than 100%	1,275,14
100%	259,84
More than 100%	-
Total	**1,534,98**

(ii) **Securitization exposures deducted from capital by exposure type:**

(Rs. lacs)

Exposure Type	Exposure deducted entirely from tier I capital capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
Commercial vehicle loan	-	-	44
Housing loan	-	-	164,43
Mixed assets*	-	-	242,53
Total	**-**	**-**	**407,40**

* includes auto, commercial vehicle, two wheeler loans, loan against property, housing loan and loan against rent receivables

h) i) Total number and book value of loan assets securitised – by type of underlying assets:

(Rs. lacs) (except no. of loans securitised)

Particulars Underlying assets securitized during the year	2008-09 Total Book value of securitised	2008-09 Total Number of assets securitised	2007-08 Total Book value of securitised	2007-08 Total Number of assets securitised
Auto loan	391,34	239,16	-	-
Commercial vehicle loan	374,20	166,01	290,06	52,44
Construction Equipment loan	48,41	5,32	-	-
Loan Against Property	387,98	21,14	-	-
Housing loan	967,20	42,27	-	-
Loan against Rent Receivables	46,27	10	-	-
Total	**2,215,40**	**474,00**	**290,06**	**52,44**

(ii) Sale Consideration and gain / loss on sale of securitization:

(Rs. lacs)

Particulars	2008-09	2007-08
Sale consideration received	2,209,28	291,39
Profit/(loss) on sell off*	(6,12)	1,25

* 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 and loss account for the period in which the sale occurs.

ii) Summary of form and quantum of services provided:

(Rs. lacs)

Particulars	2008-09	2007-08
Outstanding credit & liquidity enhancement / facility*	716,40	527,70
- Funded	56,48	136,50
- Non Funded	659,92	391,21
Outstanding servicing liability	1,91	1,04

* includes third party liquidity facility outstanding.

8. Market Risk in Trading Book

a) Market risk management policy

Strategy and Processes:

The Bank has a market risk management process, which consists of, risk identification, limits setting and risk monitoring. The process ensures that the risks assumed by Treasury Desks are within the stipulated risk appetite of the Bank. This risk appetite is handed down as limits in a hierarchical manner within the Treasury. The Treasury limits are a function of budgeted revenues for each desk. The Treasury limits are reviewed and finalized by the Market Risk Unit. The Treasury Mid-Office, as an independent unit, monitors and reports these limits as per laid down procedures regularly.

Structure and Organization:

The market risk process includes the following key participants.

- Treasury Desks such as Foreign Exchange, Money Market, Interest Rate Trading, Equities. These are the basic levels of day to day management of their portfolios and market risk.
- The Investment Committee and Management Committee oversees the investments in equities and equity linked investments.
- The Market Risk Unit, part of the Credit and Market Risk Group, plays its role in the market risk limit approval process, lays down risk assessment and monitoring methods, and periodically evaluates the portfolio in the deliberations of the various committees as well as bilaterally with Treasury Group.
- The Treasury Mid-Office has the role of the day to day monitoring and reporting of market risk controls, valuations etc. It reports limit transgressions, if any to the Senior Management.
- The Risk Monitoring Committee of the Board, inter-alia, monitors the Bank's credit and market risk policies and procedures, approves and reviews dealing authorities/limits for the Bank's treasury operations and reviews the Bank's risk monitoring systems and risk control procedures.

Risk reporting and Measurement Systems:

Limits are control measures which seek to reduce risk within or across the Desks. The objective of a limit is to ensure that the negative earnings impact of price risks are within the risk taking appetite of the Desks and of the Bank.

The nature of limits could typically include position limits, gap limits, tenor and duration limits, PVBP (Present Value of a Basis Point) limits, stop loss limits, VaR (Value-At-Risk) limits. These limits are appropriately selected for the relevant portfolios.

Limits are monitored using various information technology software packages, including STP (straight through processing) software systems.

Policies for hedging and/or mitigating risk:

The derivative book is classified into trading and banking book. When the Bank deals in derivatives on its own account (trading activity) principally for the purpose of generating a profit from short term fluctuations in price or yields, the same is classified as trading book. The trading book is managed within the trading limits approved by the Risk Monitoring Committee of the Board. All other derivative transactions are classified as a part of the banking book.

For derivative contracts designated as hedge, the Bank documents at the inception of the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the effectiveness of the hedge. The assessment is done on an on-going basis to test if the derivative is still effective in offsetting the changes on the fair value of the hedged item.

The banking book includes transactions concluded for the purpose of providing customer structures which are covered with inter-bank counter parties on a back-to-back basis. These transactions are classified under banking –non hedge book. The banking book also consists of transactions to hedge balance sheet assets or liabilities. The hedge may be against a single asset or liability or against a portfolio of asset or liability in specific tenor buckets. The tenor of derivative hedges may be less than or equal to tenor of underlying asset or liability. These derivative transactions are classified as banking –hedge book. If the underlying asset or liability is not marked to market, then the hedge is also not marked to market.

The Bank enters into derivative deals with counter parties based on their, financial strength and understanding of derivative products and its risks. In this regard the Bank has a Customer Suitability and Appropriateness Policy in place.

The Bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallization of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The Bank, at the minimum, conforms to the Reserve Bank of India guidelines with regard to provisioning requirements. On a conservative basis, the Bank may make incremental provisions based on its assessment of impairment of the credit. The bank maintains capital charge for market risk under the standardized approach.

b) Capital requirements:

(Rs. lacs)

Category	**Capital charge**
- Interest rate risk	521,23
- Equity position risk	14,50
- Foreign Exchange risk	27,00
Total	**562,73**

9. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Strategies:

The Bank's Operational Risk Management strategies and policies are developed under the guidance of Board of Directors as well as oversight and review by Risk Monitoring Committee (RMC) and Audit and Compliance Committee. Key aspects towards effective operational risk management include identification, assessment, review, control and reporting of key operational risks.

Process and Measurement:

Some of the key principles ingrained in the Bank's Business operations towards effective Operational Risk Management include segregation of functions, strong management team with vast experience in diverse fields, well defined processes, process manuals and job cards, transactions verification and authorization, distributed processing and staff training .

The Bank is in the process of implementing various principles and guidelines laid out in regards to Operational Risk Management by Basel Committee on Banking Supervision vide Basel II guidelines and by Reserve Bank of India vide their Guidance Note on Operational Risk. The Bank has a robust process of reporting operational losses and issues relating to operational risk, wherein the relevant areas are quickly reviewed and any gaps suitably addressed. This is further being enhanced with the implementation efforts of Basel II framework that has integrated capabilities to monitor losses, evaluate operational key risk indicators and qualitatively evaluate risk-control environments among other sound principles and practices.

The bank has robust information technology with disaster recovery capability for critical components apart from having an integrated Business Continuity Planning (BCP) initiative for all business operations of the bank. A BCP committee oversees strategy and implementation of disaster and business continuity framework of the Bank. The Bank has Information Security Committee which oversees strategy and implementation of information security policies and procedures for the entire bank.

Risk Reporting:

As a part of Bank's overall Operational Risk Management strategy, there is a clear line of reporting at every function which facilitates reporting and monitoring of operational risk events. Further, measurement and reporting is also achieved through various Management Information Systems attached with each operational process which are generated and monitored regularly.

Hedging/mitigating:

The Bank manages its various operational risks by ways of adopting best practices in business processes through checks and balances, embedding monitoring and control mechanisms as part of day-to-day operations and having an effective internal audit process. Various risk mitigants and hedges are monitored regularly and reviewed periodically by the Bank to ensure effective implementation. Control and mitigation guidelines are part of various product, process operation manual and documents of the Bank. The Bank covers risk on account of natural disaster through appropriate insurance.

Operational risk capital:

Currently the Bank is following the 'Basic Indicator Approach' for operational risk capital assessment as mandated by RBI.

10. Interest rate risk in the banking book (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's Banking Book from changes in interest rates. The Banking Book comprises of Assets and Liabilities which are contracted on account of relationship or for steady income and statutory obligations and are generally held till maturity.

The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities, and benchmarks exposing it to risks from changing interest rates. The Asset Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for identification and analysis of balance sheet risks and laying down parameters for efficient management of these risks through the Asset Liability Management Policy of the bank. ALCO periodically monitors and controls the strategic position and the interest rate risk positions arising during the normal course of business and ensures adherence to compliance of internal limits.

Measurement of Interest Rate Risk in the Banking Book:

In measuring Interest Rate Risk, risk arising from maturity and re-pricing mismatches are measured both from an earnings and economic value perspective. The bank uses the following techniques for the quantification of IRRBB:

- Interest Rate Sensitivity using Gap Method: Gap or mismatch risk is monitored by calculating gaps for interest rate sensitive assets, liabilities and off-balance sheet positions in time buckets.
- Earnings at Risk using Gap: Based on the gap report, Earnings at Risk approximates the impact of an interest rate /re-pricing shock for a given change in interest rate on the net interest income (difference between total interest income and total interest expense) over a one year horizon.
- Impact on Economic Value of equity: As against the earnings approach, risk is monitored based on the present value of the bank's expected cash flows. A modified duration approach is used to ascertain the impact on interest rate sensitive assets, liabilities and off-balance sheet positions for a given change in interest rates.
- Stress Testing: The Bank undertakes periodic stress testing for its banking book based on various scenarios. This provides a measure to assess the bank's financial withstanding from extreme but plausible interest rate fluctuations.

Quantification of Interest Rate Risk:

As required under Pillar III norms, the increase / decline in earnings and economic value for an upward / downward rate shock of 200 basis points as on 31st March 2009, broken down by currency is as follows:

- **Earnings Perspective**

(Rs. lacs)

Currency	Impact on Net Interest Income (by applying interest rate shock of 200 basis points)	
	If interest rate were to go down by 200 basis points	If interest rate were to go up by 200 basis points
INR	(271,02)	271,02
USD	(99,47)	99,47
Others	6,89	(6,89)
Total	(363,60)	363,60

- **Economic Value Perspective (Impact on Market Value of Equity):**

(Rs. lacs)

Currency	Impact on Net Interest Income (by applying interest rate shock of 200 basis points)	
	If interest rate were to go down by 200 basis points	If interest rate were to go up by 200 basis points
INR	(397,02)	397,02
USD	(138,16)	138,16
Others	(30,84)	30,84
Total	(566,02)	566,02