HDFC BANK LTD
Form 424B2
July 18, 2007
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered[1]	Proposed Maximum Aggregate Offering Price[2][3]	Amount of Registration Fee
Equity shares, par value Rs. 10 each	$ 698,456,928	$ 21,443

1. American depositary shares evidenced by American depositary receipts issuable upon deposit of the equity shares registered hereby are registered pursuant to a separate registration statement on Form F-6. Each American depositary share represents three equity shares.

2. Includes 2,967,528 equity shares represented by 989,176 American depositary shares that the underwriters have the option to purchase to cover over-allotments if any.

3. Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(r) under the Securities Act.

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Filed pursuant to Rule 424(b)(2)
Registration No. 333-144461

Prospectus Supplement

(to Prospectus dated July 10, 2007)

6,594,504 American Depositary Shares

Representing 19,783,512 Equity Shares

HDFC Bank Limited is offering 19,783,512 equity shares in the form of American Depositary Shares or ADSs. Each American Depositary Share represents three equity shares of HDFC Bank Limited.

Our American Depositary Shares are listed on the New York Stock Exchange under the symbol HDB. On July 17, 2007, the closing price of an ADS on the New York Stock Exchange was U.S.$92.26.

PRICE U.S.$92.10 PER AMERICAN DEPOSITARY SHARE

Investing in our American Depositary Shares involves risks. See Risk Factors beginning on page S-9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us
Per ADS	U.S.$ 92.10	U.S.$ 1.889	U.S.$ 90.211
Total	U.S.$ 607,353,818	U.S.$ 12,456,827	U.S.$ 594,896,991

Neither the Securities and Exchange Commission nor any state or foreign securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters the right to purchase up to an additional 989,176 American Depositary Shares at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments.

The underwriters expect to deliver the ADSs to purchasers on or about July 23, 2007.

Global Coordinators and Joint Bookrunners

(listed alphabetically)

Merrill Lynch International	**UBS Investment Bank**

Joint Bookrunners

Credit Suisse	**JPMorgan**	**Morgan Stanley**	**Nomura Securities**

Deutsche Bank Securities

The date of this prospectus is July 17, 2007

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of ADSs representing our equity shares. It also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, on the other hand, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. No person is authorized to provide you with different information. Neither we nor any of the underwriters are making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus. It is important for you to read and consider all the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision.

The offered ADSs may not be offered or sold, directly or indirectly, in India or to any resident of India, except as permitted by applicable Indian laws and regulations.

You must comply with all applicable laws and regulations in force in any applicable jurisdiction and you must obtain any consent, approval or permission required by you for the purchase of the ADSs under the laws and regulations in force in the jurisdiction to which you are subject or in which you make your purchase, and neither we nor the underwriters will have any responsibility therefor.

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EXCHANGE RATES AND CERTAIN DEFINED TERMS

In this document, all references to we, us, our, HDFC Bank or the Bank shall mean HDFC Bank Limited or where the context requires also t subsidiaries whose financials are consolidated for accounting purposes. References to the U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to $ or US$ or dollars or U.S. dollars to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India.

Our financial statements are presented in Indian rupees and in some cases translated into U.S. dollars. The financial statements included in the accompanying prospectus and all other financial data included in this prospectus supplement and the accompanying prospectus, except as otherwise noted, are prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

We generally prepare and publish our financial statements in accordance with Indian generally accepted accounting principles, or Indian GAAP, except for purposes of the financial statements contained in our Annual Report on Form 20-F which we file with the Securities and Exchange Commission, or the SEC, and for reconciliations of certain information contained in our Reports on Form 6-K as of and for six-month periods ended September 30, which are prepared in accordance with U.S. GAAP.

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the equity shares on the Indian stock exchanges and, as a result, will affect the market price of our American Depositary Shares (ADSs) in the United States. These fluctuations will also affect the conversion into U.S. dollars by the depositary of any cash dividends paid in Indian rupees on the equity shares represented by ADSs.

From 1980 until fiscal 2003, the rupee consistently depreciated against the dollar. In fiscal 2004 and 2005 the Indian rupee appreciated compared to fiscal 2003. However, in 2006 the rupee depreciated against the US dollar. During fiscal 2007 and fiscal 2008 (through June 30, 2007), the rupee again appreciated against the US dollar.

The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in the city of New York for cable transfers of Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal Year	Period End(1)	Average(1)(2)	High	Low
2003	47.53	48.36	49.07	47.53
2004	43.40	45.78	47.46	43.40
2005	43.62	44.87	46.45	43.27
2006	44.48	44.17	46.26	43.05
2007	43.10	45.11	46.83	42.78

(1) The noon buying rate at each period end and the average rate for each period differed from the exchange rates used in the preparation of our financial statements.

(2) Represents the average of the noon buying rate for all days during the period.

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The following table sets forth the high and low noon buying rate for the Indian rupee for each of the previous six months:

Month	Period End	Average	High	Low
January 2007	44.07	44.21	44.49	44.07
February 2007	44.08	44.00	44.21	43.87
March 2007	43.10	43.81	44.43	42.78
April 2007	41.04	42.02	43.05	40.56
May 2007	40.36	40.54	41.04	40.14
June 2007	40.58	40.58	40.90	40.27

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US$ 1.00 = Rs. 43.10 on March 30, 2007. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 17, 2007 was Rs. 40.23 per US$1.00.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in the ADSs representing our equity shares. You should read the entire prospectus supplement and the accompanying prospectus carefully, including our audited financial statements and the notes to those financial statements, which are included in the accompanying prospectus, Risk Factors and the other information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Overview of Business

We are a leading private sector bank and financial services company in India. Our goal is to be the preferred provider of financial services to upper- and middle- income individuals and leading corporations in India. We have experienced significant growth while maintaining strong asset quality and a low-cost funding structure.

Our strategy is to provide a wide range of financial products and services to our customers through multiple distribution channels with high quality service and superior execution. For fiscal 2007, we had net income of Rs. 11.0 billion. As of March 31, 2007, we had total assets of Rs. 1,013.2 billion.

We have three principal business activities:

Retail banking. We strive to be a one-stop shop that meets the financial needs of our retail customers by offering a variety of deposit products as well as loans, credit cards, debit cards, third party mutual funds and insurance products, investment advisory services, bill payment services and other services. We aim to provide our customers with high quality service on an anytime, anywhere, anyhow basis through our multiple distribution channels, which included a network of 684 branches (including 22 extension counters) and 1,605 ATMs as of March 31, 2007. As of June 30, 2007, our network of branches and ATMs increased to 753 and 1,716, respectively in 320 cities. As of March 31, 2007, we had approximately 10.0 million customers and approximately 4.1 million debit card holders. We are also a leading provider of retail depositary services for holding securities.

Wholesale banking. We provide loans, bill discounting, credit substitutes, deposit products, documentary credits (primarily letters of credit), guarantees and foreign exchange and derivative products primarily to the top end of the Indian corporate sector and small and medium sized enterprises meeting our credit requirements. We also provide a broad range of transactional banking services to a wide variety of corporations and financial institutions. Through our cash management services, we provide our clients with physical and electronic payment and collection mechanisms that are faster and more cost effective than traditional Indian payment and clearing systems. We also provide clearing and cash settlement services to the major stock exchanges in India. In addition, we provide custody services to Indian mutual funds and correspondent banking services to foreign banks and cooperative banks. We were also the first private sector bank to be appointed by the government of India to collect direct taxes on its behalf.

Treasury operations. Our treasury group manages our balance sheet and provides foreign exchange and derivatives products to our clients. Our proprietary securities trading is limited principally to Indian government securities and our proprietary derivatives trading is limited primarily to rupee-based interest rate swaps.

Since we commenced operations, we have made substantial investments in our technology platform and distribution capabilities. In addition to our growing branch and ATM network, we offer telephone banking in 217 cities, as well as internet banking and banking services by mobile telephone. These and other resources give us the capability to deliver a broad selection of banking products through multiple delivery channels that are convenient for our customers. We believe this positions us well to grow as the Indian financial services industry evolves.

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Our business has expanded rapidly over the past several years. Net income has grown at a compound annual rate of 32.4% since fiscal 2004 and we have extended our market and geographical penetration from 4.6 million customers in 163 cities as of March 31, 2004 to 10.0 million customers in 316 cities as of March 31, 2007. Our total assets have grown from Rs. 426.8 billion as of March 31, 2004, to Rs. 1,013.2 billion as of March 31, 2007. While our business has grown quickly, we have maintained a disciplined growth strategy and a strong balance sheet. As of March 31, 2007, customer deposits represented 67.3% of our total liabilities and shareholders equity and we had an average cost of funds including equity (calculated under Indian GAAP), for fiscal 2007 of 3.7%. Our cost of funds of 3.1% for fiscal 2006 was one of the lowest for all domestic banks in India (such comparative data is not yet available for 2007). As of March 31, 2007, our net non-performing assets constituted 0.4% of our net customer assets as per Indian GAAP.

Our Competitive Strengths

We attribute our growth and success to the following competitive strengths:

We are a leader among Indian banks in our use of technology. Since our inception, we have made substantial investments in our technology platform and systems. We have built multiple distribution channels, including an electronically linked branch network, automated telephone banking, internet banking and banking by mobile phone, to offer customers convenient access to our products. Our technology platform has also driven the development of innovative new products and reduced our operating costs.

We deliver high quality service with superior execution. Through intensive training of our staff and the use of our technology platform, we deliver efficient service with rapid response times. Our focus on knowledgeable and personalized service draws customers to our products and increases existing customer loyalty.

We offer a wide range of products to our clients to service their banking needs. Whether in retail or wholesale banking, we consider ourselves a one-stop shop for our customers banking needs. Our broad array of products creates multiple cross-selling opportunities for us and improves our customer retention rates.

We have an experienced management team. Many members of our senior management team have been with us since our inception, have substantial experience in multinational banking and share our common vision of excellence in execution. We believe this team is well suited to leverage the competitive strengths we have already developed as well as create new opportunities for our business.

Market Opportunity

India has had average real GDP growth of 6.8% per annum over the last decade and has liberalized many sectors of its economy. India is also witnessing a favorable shift in its demographic profile, with the upper and middle class constituting an expanding share of the population. We believe that banking in India remains an under-penetrated market with substantial growth opportunities, particularly for a private sector bank in a market traditionally dominated by large public sector banks.

Our Business Strategies

Our business strategy emphasizes the following elements:

Increase our market share in India s expanding banking and financial services industry. In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing our focus on our competitive strengths. We also aim to increase geographical and market penetration by expanding our branch and ATM network and increasing our efforts to cross-sell our products.

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Maintain strong asset quality through disciplined credit risk management. We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. We believe we can maintain strong asset quality appropriate to the loan portfolio composition, while achieving growth.

Maintain a low cost of funds. We believe we can maintain a relatively low-cost funding base as compared to our competitors, by expanding our base of retail deposits and increasing the free float generated by transaction services such as cash management and stock exchange clearing.

Focus on high earnings growth with low volatility. We intend to maintain our focus on steady earnings growth through conservative risk management techniques and low cost funding. In addition, we intend not to rely heavily on revenue derived from trading so as to limit volatility.

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The Offering

ADSs offered	6,594,504 ADSs.
ADS/equity share ratio	One ADS represents three equity shares, par value Rs. 10 per share.
Equity shares outstanding after this offering	352,755,120 equity shares, not including the equity shares to be issued in the event the underwriters over-allotment option is exercised in full. If the underwriters exercise their over-allotment option in full, 355,722,648 equity shares will be outstanding after this offering.
Use of proceeds	The net proceeds from the offering will be used for funding future growth by strengthening our capital base.
Depositary	JPMorgan Chase Bank, N.A.
Voting rights	The ADSs will have no voting rights. Under the deposit agreement, the depositary will abstain from voting the equity shares. See Description of the American Depositary Shares Voting Rights in the accompanying prospectus.

Corporate Information

We were incorporated in August 1994 as a public limited company under the laws of India. Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India, our telephone number is 91-22-6652-1000 and our website address is www.hdfcbank.com. Our registered agent in the United States is Depositary Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022, 212-319-7600. The information on our website is not a part of this prospectus supplement or the accompanying prospectus.

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RISK FACTORS

This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this prospectus supplement and the accompanying prospectus. The following risk factors should be considered carefully in evaluating us and our business before purchasing the offered ADSs.

Risks Relating to Our Business

If we are unable to manage our rapid growth, our business could be adversely affected.

Our asset growth rate has been significantly higher than India s gross domestic product (GDP) growth rate as well as the growth rate in the Indian banking industry over the last three fiscal years. For example, our total assets in the three-year period ended March 31, 2007 grew at a compounded annual growth rate of 33.4%. Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls such as:

- recruiting, training and retaining sufficient skilled personnel;
- upgrading and expanding our technology platform;
- developing and improving our products and delivery channels;
- preserving our asset quality as our geographical presence increases and customer profile changes;
- complying with regulatory requirements such as the Know Your Customer (KYC) norms; and
- maintaining high levels of customer satisfaction.

An inability to manage our growth effectively could have a material adverse effect on our business, our future financial performance and the price of our equity shares and ADSs.

Our business is vulnerable to volatility in interest rates.

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2007, net interest revenue after allowances for credit losses represented 65.6% of our net revenue. Changes in market interest rates could affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. This difference could result in an increase in interest expense relative to interest revenue, leading to a reduction in our net interest revenue and net interest margin. In addition, a rise in interest rates could negatively affect demand for our loans and other products.

Interest rates are highly sensitive to many factors beyond our control, including the monetary policies of the Reserve Bank of India (RBI), deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Yields on the Indian government s ten-year bonds were 6.7%, 7.5% and 8.0% as of March 31, 2005, March 31, 2006 and March 31, 2007, respectively. Any volatility in interest rates could adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

If the level of non-performing loans in our portfolio increases, then our business could suffer.

Our gross non-performing loans and impaired credit substitutes represented 1.2% of our gross customer assets as of March 31, 2007. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.4% of our net customer assets portfolio as of March 31, 2007. As of March 31, 2007, we had provided for 128.1% of our total non-performing loans. We cannot assure you that our provisions will be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a relatively young bank and we have not experienced a significant and prolonged downturn in the economy.

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A number of factors outside of our control could affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, movements in global commodity markets, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to regulations requiring us to lend to certain sectors identified by the RBI, or the government of India. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. If our non-performing loans increase, we may be required to increase our provisions, which may affect our earnings and may result in us being unable to execute our business plan as expected, which could adversely affect the price of our equity shares and ADSs.

We have high concentrations of customer exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected.

We calculate customer and industry exposure in accordance with the policies established by Indian GAAP and the RBI. In the case of customer exposures, we aggregate the higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds and equity shares). As of March 31, 2007, our largest single customer exposure as of that date was Rs. 14.82 billion, representing approximately 17.3% of our capital funds valuation, and our 10 largest customer exposures totaled approximately Rs. 65.81 billion, representing approximately 77.0% of our capital funds valuation, in each case as per RBI guidelines based on Indian GAAP figures. In accordance with RBI regulations, we received approval from our board of directors for the fact that our largest single customer exposure exceeded the RBI prescribed limit of 15.0% of our capital funds. None of the 10 largest customer exposures were classified as non-performing as on March 31, 2007 based on Indian GAAP figures. However, if any of our 10 largest customer exposures were to become non-performing, the quality of our portfolio and our business could be adversely affected.

We monitor concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2007, our largest industry concentrations in each case based on Indian GAAP figures, were as follows: transport (10.7%), banks and financial institutions (5.5%), agriculture (4.7%), trading (4.5%), and automobiles and auto ancillaries (4.5%). In addition, as of that date, approximately 44.1% of the concentration of our exposure was retail (except where otherwise included in the above classification). As of that date, our total non-performing loans and investments were concentrated in the following industries: automobiles and auto ancillaries (10.3%), transport (4.3%), textiles (3.5%) and engineering (2.8%).

Industry-specific difficulties in these or other sectors could increase our level of non-performing customer assets and adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

We face greater credit risks than banks in more developed countries.

One of our principal activities is providing financing to our customers, almost all of whom are based in India. We are subject to the credit risk that our borrowers may not pay us in a timely fashion or at all. The credit risk of all our borrowers is higher than in other developed countries due to the higher uncertainty in our regulatory, political and economic environment. Higher credit risk may expose us to greater potential losses, which would adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

We may be unable to foreclose on collateral when borrowers default on their obligations to us, which may result in failure to recover the expected value of collateral security.

Although we typically lend on a cash-flow basis, we take collateral for a large proportion of our loans, consisting of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets such as real property, movable assets such as vehicles, and financial assets such as marketable securities.

Although there has been recent legislation which may strengthen the rights of creditors and lead to faster realization of collateral in the event of default, we cannot guarantee that we will be able to realize the full value of our collateral, due to, among other things, delays on our part in taking immediate action, delays in bankruptcy foreclosure proceedings, stock market downturns, defects in the perfection of collateral and fraudulent transfers by borrowers. In the event a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed.

In addition, the RBI has set forth guidelines on corporate debt restructuring. The guidelines envisage that for debt amounts of Rs. 1 billion and above, 60% of the creditors by number in addition to support of 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining creditors. In situations where we own 20% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt, in preference to foreclosure of security or a one-time settlement, which has generally been our practice.

Our success depends in large part upon our management team and skilled personnel and our ability to attract and retain such persons.

We are highly dependent on our management team, including the continued efforts of our Chairman, our Managing Director and members of our senior management. Our future performance will be affected by the continued service of these persons. We also face a continuing challenge to recruit and retain a sufficient number of skilled personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may have a material adverse effect on our business, results of operations, financial condition and ability to grow.

In order to sustain our growth, we will need to maintain a minimum capital adequacy ratio. There is no assurance that we will be able to access the capital markets when necessary to do so.

The RBI requires a minimum capital adequacy ratio of 9% to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our continuous growth. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 13.08% on March 31, 2007. The RBI has come out with the final guidelines based on the Basel II capital adequacy standards applicable effective from March 31, 2008 for banks with international operations and from March 31, 2009 for banks without international operations. These guidelines would also result in a decline in our capital adequacy ratio. Our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to or have difficulty accessing the capital markets.

Material changes in Indian banking regulations could harm our business.

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending, reserve requirements and other areas. For example, the RBI could change its methods of enforcing directed lending standards so as to require more lending to certain sectors, which could require us to change certain aspects of our business. In addition, we could be subject to other changes in laws and regulations, such as those affecting the extent to which we can engage in specific businesses or those affecting foreign investment in the banking industry, as well as changes in other governmental policies and enforcement decisions, income tax laws, foreign investment laws and accounting principles. We cannot assure you that laws and regulations governing the banking sector will not change in the future or that any changes will not adversely affect our business, our future financial performance and the price of our equity shares and ADSs. For example, the RBI recently revised its regulations pertaining to capital market exposure and as a result our capital market exposure exceeds the new limits. See Because of our many transactions with stock market participants, our business could suffer if there is a prolonged or significant downturn on the Indian stock exchanges.

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We compete directly with banks that are much larger than we are.

We face strong competition in all areas of our business, and many of our competitors are much larger than we are. We compete directly with the large public sector banks, which generally have much larger customer and deposit bases, larger branch networks and more capital than we do. These banks will become more competitive as they improve their customer services and technology. One of the other private sector banks in India is also larger than we are, based on such measurements. In addition, we compete directly with foreign banks, which include some of the largest multinational financial companies in the world. Due to competitive pressures, we may be unable to execute our growth strategy successfully and offer products and services that generate reasonable returns, which may impact our business and our future financial performance.

Consolidation in the banking industry could adversely affect us.

The Indian banking industry may experience greater consolidation. The government has indicated its desire to consolidate certain public sector banks. In addition, there may be mergers and consolidations among private banks. We may face more competition from larger banks as a result of any such consolidation.

Our funding is primarily short- and medium-term, and if depositors do not roll over deposited funds upon maturity our business could be adversely affected.

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. However, a portion of our assets have long-term maturities, creating a potential for funding mismatches. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position could be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which could have a material adverse effect on our business.

We could be subject to volatility in revenue from our treasury operations.

Treasury revenue is vulnerable to volatility in the market caused by changes in interest rates, exchange rates, equity prices, commodity prices and other factors. Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and may have an adverse effect on our net revenue. Any decrease in our income due to volatility in revenue from these activities could have a material adverse effect on the price of our equity shares and ADSs.

We could be adversely affected by the development of a nationwide inter-bank settlement system.

Currently, there is no nationwide payment system in India, and checks must generally be returned to the city from which they were written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, check collections can be slow and unpredictable. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we effectively provide a nationwide collection and disbursement system for our corporate clients. We enjoy cash float and earn fees from these services. In 2005, the RBI introduced the Real Time Gross Settlement (RTGS) inter-bank settlement system which facilitates real time settlements primarily between banks. Although we believe our services offer advantages not offered by the RTGS system, the RTGS system could have an adverse impact on the cash float and fees we have enjoyed from some of our cash management services and therefore could adversely affect our future financial performance and the price of our equity shares and ADSs.

Because of our many transactions with stock market participants, our business could suffer if we fail to meet certain regulatory limits or if there is a prolonged or significant downturn on the Indian stock exchanges.

We provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares and initial public offering finance for retail customers, stock exchange clearing services and depositary accounts.

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As of March 31, 2007, our capital market exposure was Rs. 15.6 billion on a non-consolidated basis. At 4.4% of advances (computed in accordance with RBI norms), this was within the ceiling approved by the RBI as of March 31, 2007. This exposure is comprised primarily of investments in equity shares, loans to share brokers and financial guarantees issued to stock exchanges on behalf of share brokers. On a consolidated basis (which included HDFC Securities Limited (HSL)), as of March 31, 2007, our capital market exposure was Rs. 15.7 billion. This was 2.1% of total assets which exceeded the RBI ceiling of 2.0% of total assets.

With effect from April 1, 2007, the RBI has added other components to the calculation of capital market exposure and has changed the limits for banks, which is now linked to the net worth of the Bank. The new norms require that a bank s capital market exposure be limited to 40% of its net worth, both on a consolidated and non-consolidated basis. Based on the new norms the Bank s capital market exposure as of May 31, 2007, was Rs. 34.1 billion or 54.3% of our net worth as of the previous year on a non-consolidated basis. Since we prepare consolidated financial statements on a half-yearly basis, our consolidated capital market exposure data will be available only in September 2007. As of May 31, 2007, we estimate that our capital market exposure on a consolidated basis was slightly higher than our capital market exposure on a non-consolidated basis. We have requested time from the RBI, until March 31, 2008, to comply with the new norms. The RBI has not yet indicated whether they have accepted our proposal.

If the RBI does not accept our proposal or if we fail to meet the norms before March 31, 2008, we will have difficulty in getting other regulatory approvals necessary to do business in the normal course which could have a material adverse effect on our business and the price of our equity shares and ADSs. In addition, as a result of our exposure to this industry, a significant or prolonged downturn on the Indian stock exchanges could have a material adverse effect on our business and cause the price of equity shares and ADSs to go down.

Significant fraud, system failure or calamities could adversely impact our business.

We seek to protect our computer systems and network infrastructure from physical break-ins as well as fraud and system failures. Computer break-ins and power and communication disruptions could affect the security of information stored in and transmitted through our computer systems and network infrastructure. We employ security systems, including firewalls and password encryption, designed to minimize the risk of security breaches. Although we intend to continue to implement security technology and establish operational procedures to prevent fraud, break-ins, damage and failures, there can be no assurance that these security measures will be adequate. A significant failure of security measures or operational procedures could have a material adverse effect on our business and our future financial performance.

In addition, both our centralized data center and our back-up systems are separately located in the greater Mumbai area. In the event of a regional disaster, such as an earthquake, it is possible that both systems could be simultaneously damaged or destroyed. Although we have established a remote disaster recovery site at Bangalore that replicates our network and certain applications currently based in Mumbai, and believe that we will be able to retrieve critical applications within an optimal time frame, it would still take some time to make the system fully operational in the event of a disaster.

HDFC Limited controls a significant percentage of our share capital and exercises substantial influence over board decisions.

Our principal shareholder, Housing Development and Finance Corporation Limited (HDFC Limited), and its subsidiaries owned 24.74% of our equity as of June 30, 2007. So long as HDFC Limited and its subsidiaries hold at least a 20.0% equity stake in us, HDFC Limited is entitled to nominate the two directors who are not required to retire by rotation to our board, including the Chairman and our Managing Director, subject to RBI approval. Accordingly, HDFC Limited may be able to exercise substantial control over our board and over matters subject to a shareholder vote.

There have been reports in the Indian media suggesting that we may merge with HDFC Limited. We consider business combination opportunities as they arise. At present, we are not actively considering a business combination with HDFC Limited or any other company. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals. Were such combination to occur, we cannot predict the impact it would have on our business, growth prospects or the prices of our equity shares and ADSs.

We may face potential conflicts of interest relating to our principal shareholder, HDFC Limited.

Although we currently have no agreements with HDFC Limited or any other HDFC group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC group companies or may effectively prevent us from taking advantage of business opportunities. As a result, any conflicts of interest between HDFC Limited and us or any other HDFC group companies and us could adversely affect our business and the price of our equity shares and ADSs.

RBI guidelines relating to ownership in private banks could discourage or prevent a change of control or other business combination involving us.

The RBI has issued guidelines concerning ownership in private sector banks. The guidelines state that no entity or group of related entities will be permitted to own or control, directly or indirectly, more than 10% of the paid up capital of a private sector bank without RBI approval. The implementation of such a restriction will discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. Further RBI approval is required before we can register the transfer of 5% or more of our shares (paid up capital) to an individual or group. The RBI has approved HDFC Limited s recent subscription to our shares which resulted in it owning 24.74% of our equity.

We may face increased competition as a result of revised guidelines that relax restrictions on the presence of foreign banks in India.

In March 2004, the Ministry of Commerce and Industry of India revised guidelines on foreign investors in the Indian banking sector. The revised guidelines permit up to 74% of the paid-up capital of a bank to be held by foreign investors and allow foreign banks to operate in India through branches, wholly owned subsidiaries or subsidiaries that hold an aggregate foreign investment of up to 74% in a private bank. Implementation of the revised guidelines will take place in two phases. From March 2005 to March 2009, foreign banks will be permitted to establish a presence in India only through wholly owned subsidiaries that meet certain criteria, and the acquisition of holdings in private sector Indian banks will be permitted only with respect to banks identified by the RBI for restructuring. The second phase of implementation of the revised guidelines will commence in April 2009 after a review of the first phase. Any growth in the presence of foreign banks or in foreign investments in Indian banks may increase the competition that we face and could have a material adverse effect on our business.

We need to obtain prior RBI approval for opening new branches to increase our infrastructure and expand our reach into different geographical segments. Delay in getting approval for branches could have a negative impact on our future financial performance.

The RBI introduced a liberalized branch licensing policy in September 2005. We have applied for branches under the policy in the past and obtained approvals for opening branches under the policy. We are in the process of making applications for the current fiscal year. Any prolonged delay on the receipt of such documents could adversely affect our future financial performance.

If we fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002, our reputation and the value of our securities may be adversely affected.

Section 404 of the Sarbanes Oxley Act of 2002 (Section 404) requires us to include in our Annual Report on Form 20-F management s assessment of the effectiveness of our internal controls over financial reporting, together with an attestation report from our auditors. Section 404 applies to us as of March 31, 2007. While we have complied with Section 404 in a timely manner so far, there is no assurance that we will continue to be able to do so in the future.

Risks Relating to Investments in Indian Companies

A slowdown in economic growth in India could cause our business to suffer.

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. A slowdown in the Indian economy could adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. In particular, because India depends significantly on imported oil for its energy needs, the Indian economy could be adversely affected by the continuing high oil prices. India s economy could also be adversely affected by a general rise in interest rates, weather conditions adversely affecting agriculture or other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising, while that of the industrial, manufacturing and agricultural sectors is declining. Finally, India faces major challenges in sustaining its growth, which include the need for substantial infrastructure development and improving access to healthcare and education. It is difficult to gauge the impact of these fundamental economic changes on our business.

Political instability or changes in the government in India could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which could impact our financial results and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators have remained significant. The leadership of India has changed many times since 1996. The current coalition-led central government, which came to power in May 2004, has announced policies and taken initiatives that support the economic liberalization policies that have been pursued by previous central governments. However, we cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in our securities could change as well. Any significant change in India s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

Terrorist attacks, civil unrest and other acts of violence or war involving India and other countries could adversely affect the financial markets and our business.

Terrorist attacks and other acts of violence or war may negatively affect the Indian markets on which our equity shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect our business. In addition, any deterioration in relations between India and Pakistan might result in investor concern about stability in the region, which could adversely affect the price of our equity shares and ADSs.

India has also witnessed civil disturbances in recent years and it is possible that future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Such incidents could also create a greater perception that investment in Indian companies involves a higher degree of risk and could have an adverse impact on our business and the price of our equity shares and ADSs.

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Natural calamities could have a negative impact on the Indian economy and cause our business to suffer.

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determine their impact on the Indian economy. For example, as a result of drought conditions in the country during fiscal 2003, the agricultural sector recorded a negative growth of 5.2%. Further prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business and the price of our equity shares and ADSs.

Any downgrade of India s debt rating by an international rating agency could have a negative impact on our business.

Any adverse revisions to India s credit ratings for domestic and international debt by international rating agencies may adversely impact our ability to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. This could have an adverse effect on our business and future financial performance and our ability to obtain financing and fund our growth.

Risks Relating to the ADSs and Equity Shares

Historically, our ADSs have traded at a premium to the trading prices of our underlying equity shares, a situation which may not continue.

Historically, our ADSs have traded on the New York Stock Exchange (NYSE) at a premium to the trading prices of our underlying equity shares on the Indian stock exchanges, although this premium has declined in recent years. See Price Range of Our American Depositary Shares and Equity Shares in our annual report on Form 20-F incorporated by reference in the accompanying prospectus for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization previously represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for investors to trade dollar-denominated securities. Over time some of the restrictions on issuance of ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. It is possible that in the future our ADSs will not trade at any premium to our equity shares and could even trade at a discount to our equity shares.

You will not be able to vote.

Investors in ADSs will have no voting rights, unlike holders of the equity shares. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the equity shares underlying the ADSs and seek to vote (subject to Indian restrictions on foreign ownership) the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays and you may not be able to redeposit the equity shares. For a discussion of the legal restrictions triggered by a withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see Restrictions on Foreign Ownership of Indian Securities in the accompanying prospectus.

Your ability to withdraw equity shares from the depositary facility is uncertain and may be subject to delays.

India s restrictions on foreign ownership of Indian companies limit the number of equity shares that may be owned by foreign investors and generally require government approval for foreign investments. Investors who withdraw equity shares from the ADS depositary facility for the purpose of selling such equity shares will be subject to Indian regulatory restrictions on foreign ownership upon withdrawal. It is possible that this withdrawal process may be subject to delays. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see Restrictions on Foreign Ownership of Indian Securities in the accompanying prospectus.

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There is a limited market for the ADSs.

Although our ADSs are listed and traded on the NYSE, we cannot be certain that any trading market for our ADSs will be sustained, or that the present price will correspond to the future price at which our ADSs will trade in the public market. Indian legal restrictions may also limit the supply of ADSs. The only way to add to the supply of ADSs would be through an additional issuance. We cannot guarantee that a market for the ADSs will continue.

Conditions in the Indian securities market may affect the price or liquidity of our equity shares and ADSs.

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. The governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Future fluctuations could have a material adverse affect on the price of our equity shares and ADSs.

Settlement of trades of equity shares on Indian stock exchanges may be subject to delays.

The equity shares represented by our ADSs are listed on the National Stock Exchange and Bombay Stock Exchange Limited. Settlement on these stock exchanges may be subject to delays and an investor in equity shares withdrawn from the depositary facility upon surrender of ADSs may not be able to settle trades on these stock exchanges in a timely manner.

You may be unable to exercise preemptive rights available to other shareholders.

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for our equity shares underlying our ADSs unless a registration statement under the U.S. Securities Act of 1933 (the Securities Act) is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We do not commit to filing a registration statement under those circumstances. If we issue any securities in the future, these securities may be issued to the depositary, which may sell these securities in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurance as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

Because the equity shares underlying our ADSs are quoted in rupees in India, you may be subject to potential losses arising out of exchange rate risk on the Indian rupee and risks associated with the conversion of rupee proceeds into foreign currency.

Fluctuations in the exchange rate between the U.S. dollar and the Indian rupee may affect the value of your investment in our ADSs. Specifically, if the relative value of the Indian rupee to the U.S. dollar declines, each of the following values will also decline:

- the U.S. dollar equivalent of the Indian rupee trading price of our equity shares in India and, indirectly, the U.S. dollar trading price of our ADSs in the United States;

- the U.S. dollar equivalent of the proceeds that you would receive upon the sale in India of any equity shares that you withdraw from the depositary; and

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the U.S. dollar equivalent of cash dividends, if any, paid in Indian rupees on the equity shares represented by our ADSs.

Financial instability in other countries, particularly emerging market countries, could disrupt our business and affect the price of our equity shares and ADSs.

Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in Indian financial markets and indirectly in the Indian economy in general. Any worldwide financial instability could also have a negative impact on the Indian economy, including the movement of exchange rates and interest rates in India, which could adversely affect the Indian financial sector, including us. Any financial disruption could have an adverse effect on our business, our future financial performance, our shareholders equity and the price of our equity shares and ADSs.

You may not be able to enforce a judgment of a foreign court against us.

We are a limited liability company incorporated under the laws of India. All of our directors and members of our senior management and some of the experts named in this prospectus supplement or the accompanying prospectus are residents of India and almost all of our assets and the assets of these persons are located in India. It may not be possible for investors in our ADSs to effect service of process outside India upon us or our directors and members of our senior management and experts named in the prospectus supplement or the accompanying prospectus that are residents of India or to enforce judgments obtained against us or these persons in foreign courts predicated upon the liability provisions of foreign countries, including the civil liability provisions of the federal securities laws of the United States. Moreover, it is unlikely that a court in India would award damages on the same basis as a foreign court if an action were brought in India or that an Indian court would enforce foreign judgments if it viewed the amount of damages as excessive or inconsistent with Indian practice.

There may be less company information available on Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. The Securities and Exchange Board of India (SEBI) and the stock exchanges are responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

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BUSINESS

Overview

We are a leading private sector bank and financial services company in India. Our goal is to be the preferred provider of financial services to upper- and middle-income individuals and leading corporations in India. Our strategy is to provide a comprehensive range of financial products and services for our customers through multiple distribution channels, with high quality service and superior execution. We have three principal business activities: retail banking, wholesale banking and treasury operations.

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2007, we expanded our operations from 171 branches and 479 ATMs in 77 cities to 684 branches and 1,605 ATMs in 316 cities. During the same five years, our customer base grew from 2.1 million customers to 10.0 million customers. As our geographical reach and market penetration have expanded, so too have our assets, which grew from Rs.243.0 billion as of March 31, 2002 to Rs.1,013.2 billion as of March 31, 2007. Our net income has increased from Rs.3.0 billion for fiscal 2002 to Rs.11.0 billion for fiscal 2007 at a compounded annual growth rate of 30.1%. As of June 30, 2007, our network of branches and ATMs increased to 753 and 1,716, respectively in 320 cities.

Notwithstanding our pace of growth, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2007, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.4% of net customer assets as per Indian GAAP. In addition, our net customer assets represented 79.6% of our deposits and customer deposits represented 67.3% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest savings accounts represented 52.7% of total deposits for fiscal 2007. These low-cost deposits, which include the cash float associated with our transactional services, led to an average cost of funds including equity (calculated under Indian GAAP) for fiscal 2007 of 3.7 %. Our cost of funds of 3.1% for fiscal 2006 was one of the lowest for all domestic banks in India (such comparative data is not yet available for 2007).

We are part of the HDFC group of companies founded by our principal shareholder, HDFC Limited, a public limited company established under the laws of India. HDFC Limited and its subsidiaries owned approximately 24.74% of our outstanding equity shares as of June 30, 2007. See also Principal Shareholders.

We currently have one subsidiary, HSL which provides brokerage services through the Internet and other channels. We intend to acquire a majority stake in our affiliate, Atlas Documentary Facilitators Company Private Ltd. (ADFC) which provides back office transaction processing services, subject to obtaining the necessary approval from the RBI. We have consolidated the accounts of ADFC in our U.S. GAAP financial statements for fiscal 2007. In addition, we recently received RBI approval to set up a non-banking financial subsidiary.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States is Depositary Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022.

Our Competitive Strengths

We attribute our growth and continuing success to the following competitive strengths:

We are a leader among Indian banks in our use of technology

Since our inception, we have made substantial investments in our technology platform and systems. We have built multiple distribution channels, including an electronically linked branch network, automated telephone banking, Internet banking and banking by mobile phone, to offer customers convenient access to our products. Our technology platform has also driven the development of innovative products and reduced our operating costs.

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We deliver high quality service with superior execution

Through intensive training of our staff and the use of our technology platform, we deliver efficient service with rapid response time. Our focus on knowledgeable and personalized service draws customers to our products and increases existing customer loyalty.

We offer a wide range of products to our clients in order to service their banking needs

Whether in retail or wholesale banking, we consider ourselves a one-stop shop for our customers banking needs. Our wide range of products creates multiple cross-selling opportunities for us and improves our customer retention rates.

We have an experienced management team

Many members of our senior management team have been with us since inception. They have substantial experience in multinational banking and share our common vision of excellence in execution. We believe this team is well suited to leverage the competitive strengths we have already developed as well as to create new opportunities for our business.

Our Business Strategy

Our business strategy emphasizes the following elements:

Increase our market share of India s expanding banking and financial services industry

In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths. We also aim to increase geographic and market penetration by expanding our branch and ATM networks and increasing our efforts to cross-sell our products.

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. Our ratio of gross non-performing assets to customer assets was 1.2% as of March 31, 2007 and our net non-performing assets amounted to 0.4% of net customer assets as per Indian GAAP. We believe we can maintain strong asset quality appropriate to the loan portfolio composition, while achieving growth.

Maintain a low cost of funds

As of March 31, 2007, our average cost of funds excluding equity was 4.0%. We believe we can maintain a relatively low-cost funding base as compared to our competitors, by expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing.

Focus on high earnings growth with low volatility

Our aggregate earnings have grown at a compound average rate of 30.1% per year during the five-year period ending March 31, 2007 and our basic earnings per share grew from Rs.29.45 for fiscal 2006 to Rs.35.10 for fiscal 2007. We intend to maintain our focus on steady earnings growth through conservative risk management techniques and low cost funding. In addition, we aim not to rely heavily on revenue derived from trading so as to limit earnings volatility.

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Our Principal Business Activities

Our principal business activities consist of retail banking, wholesale banking and treasury operations. The following table sets forth our net revenues attributable to each area for the last three years.

	Year ended March 31			
	2005	2006	2007	2007
	(in millions, except percentages)			
Retail banking	Rs. 13,037.0	Rs. 23,293.2	Rs. 30,542.1	69.9%
Wholesale banking	7,192.4	8,256.0	11,808.1	27.1%
Treasury operations	919.6	(527.1)	1,315.7	3.0%
Net revenue	Rs. 21,149.0	Rs. 31,022.1	Rs. 43,665.9	100.0%

Retail Banking

Overview

We consider ourselves a one-stop shop for the financial needs of upper- and middle-income individuals. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. We offer high quality service and greater convenience by leveraging our technology platforms and multiple distribution channels. Our goal is to provide banking and financial services to our retail customers on an anytime, anywhere, anyhow basis.

We market our services aggressively through our branches and direct sales associates, as well as through our relationships with automobile dealers and corporate clients. We seek to establish a relationship with a retail customer and then expand it by offering more products and expanding our distribution channels so as to make it easier for the customer to do business with us. We believe this strategy, together with the general growth of the Indian economy and the Indian upper and middle classes, affords us significant opportunities for growth. We consider upper- and middle-income individuals to be those with Rs.100,000 or more per year in income.

As of March 31, 2007, we had 684 branches, including 22 extension counters, and 1,605 ATMs in 316 cities. We also provide telephone banking in 217 cities as well as Internet and mobile banking. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to receiving regulatory approvals.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two wheeler loans, credit cards and loans against securities. Our retail loans were 58.5% of our gross loans as of March 31, 2007. Apart from our branches we use our ATM screens and the Internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analyses of the borrowers and the value of the collateral. See Risk Management Credit Risk Retail Credit Risk. We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain irrevocable instructions to debit the customer s account directly for the making of payments.

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The following table shows the value and share of our retail credit products:

	As of March 31, 2007			
	Number of Loans (in thousands)	Value (in millions)		% of Total Value
Retail Loans:				
Auto loans (1)	333	Rs. 87,701.2	US$ 2,034.8	24.8%
Personal loans	617	57,370.6	1,331.1	16.2%
Retail business banking	22	54,374.4	1,261.6	15.4%
Commercial vehicles and construction equipment finance (1)	125	52,070.6	1,208.1	14.7%
Two wheeler loans	1,057	22,340.1	518.3	6.3%
Credit cards	2,913(2)	20,104.9	466.5	5.7%
Loans against securities	28	12,720.3	295.1	3.6%
Other retail loans	268	11,924.0	276.8	3.4%
Total retail loans	5,364	318,606.1	7,392.2	90.1%
Mortgage-backed securities (home loans) (3)		14,714.4	341.4	4.2%
Asset-backed securities (3)		20,138.9	467.3	5.7%
Total retail assets		Rs. 353,459.4	US$ 8,200.9	100.0%

(1) Net of receivables securitized.
(2) Number of cards in force.
(3) Reflected at fair value.

Auto Loans. We offer secured loans at fixed interest rates for financing new and used automobile purchases. In addition to our general marketing efforts for retail loans, we market this product through our relationships with car dealers, corporate packages and joint promotion programs with automobile manufacturers.

Personal Loans. We offer unsecured personal loans at fixed rates to specific customer segments, including salaried individuals and self-employed professionals. In addition, we offer unsecured personal loans to small businesses and individuals.

Retail Business Banking. We address the borrowing needs of the community of small businessmen near our bank branches by offering facilities such as credit lines, term loans for expansion or addition of facilities and discounting of credit card receivables. We classify these business banking loans as a retail product. Such lending is typically secured with current assets as well as immovable property and fixed assets in some cases. We also offer letters of credit, guarantees and other basic trade finance products and cash management services to such businesses.

Commercial Vehicles and Construction Equipment Finance. We provide secured financing for commercial vehicles and provide working capital, bank guarantees and trade advances to customers who are transportation operators. In addition to funding domestic assets, we also finance imported assets for which we open foreign letters of credit and offer treasury services such as forward exchange cover. We coordinate with manufacturers to jointly promote our financing options to their clients. Prior to fiscal 2004, these loans were classified as part of our wholesale banking division.

Two Wheeler Loans. We offer loans for financing the purchase of scooters or motorcycles. We market this product in ways similar to our marketing of auto loans.

Credit Cards. We offer credit cards from the VISA and MasterCard stable including gold, silver, corporate, platinum and titanium credit cards. We had approximately 2.9 million cards outstanding as of March 31, 2007 as against 2.4 million as of March 31, 2006.

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Loans against Securities. We offer loans against equity shares, mutual fund units, bonds issued by the RBI and other securities that are on our approved list. We limit our loans against equity shares to Rs.2.0 million per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first priority security interests. The minimum margin for lending against shares is prescribed by the RBI.

Other Retail Loans. Such loans primarily include overdrafts against time deposits, health care equipment financing loans, loans against gold and ornaments and small loans to farmers.

Mortgage-backed Securities (Home Loans). In fiscal 2003 we entered the home loan business through an arrangement with HDFC Limited. Under this arrangement, we sell home loans provided by HDFC Limited, which approves and disburses the loans. The loans are booked in the books of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, HDFC Limited is obligated to offer us up to 70% of the fully disbursed home loans sourced under the arrangement through the issue of mortgage-backed pass-through certificates (PTCs). We have the option to purchase the mortgage-backed PTCs at the underlying home loan yields less a spread of 1.25% payable towards the administration and servicing of the loans. A part of the home loans also qualifies for our directed lending requirement. In fiscal 2006 and 2007 we waived the requirement for HDFC Limited to offer us up to 70% of the fully disbursed home loans. Instead, HDFC Limited paid us an additional sourcing commission for those periods.

We also invest in mortgage-backed securities of other originators. Most of these securities also qualify toward our directed lending obligations.

Asset-backed Securities. We invest in auto, two wheeler, commercial vehicle and other asset-backed securities, represented by PTCs. These securities are normally credit-enhanced and sometimes qualify for our directed lending requirements.

Loan Assignments. We purchase loan portfolios from other banks, financial institutions and financial companies, which are similar to asset-backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations. Such loans are included within the categories described above based on underlying exposures.

Sale/Transfer of Receivables

We securitize our retail loan receivables through independent special purpose vehicles (SPVs) from time to time. In respect of these transactions, we provide credit enhancements generally in the form of cash collaterals/guarantees/interest spreads and/or by subordination of cash flows to senior PTCs. We also enter into sale transactions, which are similar to asset-backed securitization transactions through the SPV structure, except that such portfolios of retail loan receivables are assigned directly to the purchaser and are not represented by PTCs. During fiscal 2006 and 2007, we securitized retail loans with carrying values of Rs.19.8 billion and Rs.6.5 billion, respectively. Until January 2006, in respect of some of the PTCs, we provided options to investors, exercisable within a limited time frame, to sell them to us at par. As of March 31, 2007, the principal outstanding on these PTCs was Rs.21.2 million.

Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented 64.2% of our total deposits as of March 31, 2007. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

	At March 31, 2007				
	Value (in millions)		% of total	Number of accounts (in thousands)	% of total
Savings	Rs. 184,904.6	US$ 4,290.1	42.2%	4,649	77.5%
Current	91,202.1	2,116.1	20.8%	621	10.3%
Time	162,260.8	3,764.8	37.0%	732	12.2%
Total	Rs. 438,367.5	US$ 10,171.0	100.0%	6,002	100.0%

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Our individual retail account holders have access to the benefits of a wide range of direct banking services, including debit and ATM cards, access to our growing branch and ATM network, access to our other distribution channels and eligibility for utility bill payments and other services. Our retail deposit products include the following:

- Savings accounts, which are demand deposits in checking accounts designed primarily for individuals and trusts. These accrue interest at a fixed rate set by the RBI (currently 3.5% per annum).

- Current accounts, which are non-interest bearing checking accounts designed primarily for small businesses. Customers have a choice of regular and premium product offerings with different minimum average quarterly account balance requirements.

- Time deposits, which pay a fixed return over a predetermined time period.

We also offer special value-added accounts, which offer our customers added value and convenience. These include a time deposit account that allows for automatic transfers from a time deposit account to a savings account, as well as a time deposit account with an automatic overdraft facility of generally up to 90% of the balance in the account. E-Broking accounts are offered as current accounts to customers of stock brokers where all transactions are routed electronically between the broker and beneficiaries.

Other Retail Services and Products

Debit Cards. Our debit cards may be used with more than 345,000 merchant point-of-sale machines, of which 51,000 have been deployed by us and over 20,000 ATMs in India and more than 26.0 million merchant outlets and 1.0 million ATMs worldwide. We were the first in India to issue international Visa Electron debit cards on a nationwide basis and currently issue both Visa and MasterCard debit cards.

Individual Depositary Accounts. We provide depositary accounts to individual retail customers for holding debt and equity instruments. Securities traded on the Indian exchanges are generally not held through a broker s account or in street name. Instead, an individual will have his own account with a depositary participant for the particular exchange. Depositary participants, including us, provide services through the major depositaries established by the two major stock exchanges. Depositary participants record ownership details and effectuate transfers in book-entry form on behalf of the buyers and sellers of securities. We provide a complete package of services, including account opening, registration of transfers and other transactions and information reporting.

Mutual Fund Sales. We offer our retail customers units in most of the large and reputable mutual funds in India. We earn front-end commissions for new sales and in some cases additional fees in subsequent years. We distribute mutual fund products primarily through our branches and our private banking advisors.

Insurance. We have arrangements with HDFC Standard Life Insurance Company and Bajaj Allianz General to distribute their life insurance products and general insurance products to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years while the policy is still in force.

Precious Metals. We import gold bars for sale to our retail customers through our branch network.

Investment Advice. We offer our customers a broad range of investment advice including advice regarding the purchase of Indian debt, equity shares, and mutual funds. We provide our high net worth private banking customers with a personal investment advisor who can consult with them on their individual investment needs.

Bill Payment Services. We offer our customers utility bill payment services for leading utility companies including electricity, telephone, mobile telephone and Internet service providers. Customers can also review and access their bill details through our direct banking channels. This service is valuable to customers because utility bills must otherwise be paid in person in India. We offer these services to customers through multiple distribution channels ATMs, telephone banking, Internet banking and mobile telephone banking.

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Corporate Salary Accounts. We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees individual accounts, and offer them preferred services, such as preferential loan rates, and in some cases lower minimum balance requirements. As of March 31, 2007, these accounts constituted approximately 47.4% of our total retail savings accounts by number and approximately 33.8% of our retail savings deposits by value.

Non-Resident Indian Services. Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs.47.2 billion as of March 31, 2007.

Retail Foreign Exchange

We purchase foreign currency from and sell foreign currency to retail customers in the form of cash, traveler s checks, demand drafts and other remittances. We also carry out foreign currency check collections.

Customers and Marketing

Our target market for our retail services comprises upper- and middle-income persons and high net worth customers. We also target small businesses, trusts and non-profit corporations. As of March 31, 2007, 10.6% of our retail deposit customers contributed approximately 57.7% of our retail deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

Additionally, we obtain new customers through joint marketing efforts with our wholesale banking department, such as our Corporate Salary Account package. We cross-sell many of our retail products to our customers. We also market our auto loan and two wheeler loan products through joint efforts with relevant manufacturers and distributors.

We have programs that target other particular segments of the retail market. For example, our private and preferred banking programs provide customized financial planning to high net worth individuals in order to preserve and enhance their wealth. Private banking customers receive a personal investment advisor who serves as their single-point HDFC Bank contact, and who compiles personalized portfolio tracking products, including mutual fund and equity tracking statements. Our private banking program also offers equity investment advisory products. While not as service-intensive as our private banking program, preferred banking offers similar services to a slightly broader target segment. Top revenue-generating customers of our preferred banking program are channeled into our private banking program.

Wholesale Banking

Overview

We provide our corporate and institutional clients a wide array of commercial banking products and transactional services with an emphasis on high quality customer service and relationship management.

Our principal commercial banking products include a range of financing products, documentary credits (primarily letters of credit) and bank guarantees, foreign exchange and derivative products and corporate deposit products. Our financing products include loans, bill discounting and credit substitutes, such as commercial paper, debentures and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

For our commercial banking products, we target the top end of the Indian corporate sector, including companies that are part of private sector business houses, public sector enterprises and multinational corporations, as well as leading small and mid-sized businesses. We also target suppliers and distributors of top-end corporations as part of a supply chain initiative for both our commercial banking products and

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transactional services whereby we provide credit facilities to these suppliers and distributors and thereby establish relationships with them. We aim to provide our corporate customers with high quality customized service. We have relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

Wholesale banking also includes microfinance lending to very small businesses in rural India. Toward this end, we have partnered with micro-finance institutions and non-governmental organizations involved in rural lending.

Our principal transactional services include cash management services, capital markets transactional services and correspondent banking services. We provide physical and electronic payment and collection mechanisms to a range of corporations, financial institutions and government entities. Our capital markets transactional services include custodial services for mutual funds and clearing bank services for the major Indian stock exchanges and commodity exchanges. In addition, we provide correspondent banking services, including cash management services and funds transfers, to foreign banks and cooperative banks.

Commercial Banking Products

Commercial Loan Products and Credit Substitutes. Our principal financing products are working capital facilities and term loans. Working capital facilities primarily consist of cash credit facilities and bill discounting. Cash credit facilities are revolving credits provided to our customers that are secured by working capital such as inventory and accounts receivable. Bill discounting consists of short term loans which are secured by bills of exchange that have been accepted by our customers or drawn on another bank. In many cases, we provide a package of working capital financing that may consist of loans and a cash credit facility as well as documentary credits or bank guarantees. Term loans consist of short and medium-term loans which are typically loans of up to five years in duration. More than 90% of our loans are denominated in rupees with the balance being denominated in various foreign currencies, principally the U.S. dollar. All of our commercial loans have been made to customers in India.

We also purchase credit substitutes, which are typically comprised of commercial paper, debentures and preference shares issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and we bear the same customer risk as we do for loans extended to these customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer. Our credit substitutes have declined over the last three years primarily due to our customers increased preference for loans which may have resulted from regulations that require the listing and rating of corporate paper.

The following table sets forth the asset allocation of our commercial loans and financing products by asset type. For accounting purposes, we classify cash credit facilities and bill discounting as working capital loans, and commercial paper, debentures and preference shares as credit substitutes (which in turn are classified as investments).

	As of March 31			
	2005	**2006**	**2007**	**2007**
	(in millions)			
Gross commercial loans:				
Working capital	Rs. 72,397.6	Rs. 78,693.4	Rs. 76,421.6	US$ 1,773.1
Term loans	76,861.8	92,932.8	149,717.7	3,473.8
Total commercial loans	Rs. 149,259.4	Rs. 171,626.2	Rs. 226,139.3	US$ 5,246.9
Credit substitutes:				
Commercial paper	Rs. 1,297.3	Rs.	Rs. 99.4	US$ 2.3
Non-convertible debentures	12,018.7	9,308.1	6,382.4	148.1
Preference shares	564.9	443.2	277.2	6.4
Total credit substitutes	Rs. 13,880.9	Rs. 9,751.3	Rs. 6,759.0	US$ 156.8
Customer assets	Rs. 163,140.3	Rs. 181,377.5	Rs. 232,898.3	US$ 5,403.7

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While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See Risk Management Credit Risk Wholesale Credit Risk.

We price our loans based on a combination of our own cost of funds, market rates, our rating of the customer and the overall revenues from the customer. An individual loan is priced on a fixed or floating rate based on a margin that depends on the credit assessment of the borrower.

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see Supervision and Regulation Regulations Relating to Making Loans Directed Lending in our annual report on Form 20-F incorporated by reference in the accompanying prospectus.

Bill Collection, Documentary Credits and Guarantees. We provide bill collection, documentary credit facilities and bank guarantees for our corporate customers. Documentary credits and bank guarantees are typically provided on a revolving basis. The following table sets forth, for the periods indicated, the value of transactions processed with respect to our bill collection, documentary credits and bank guarantees:

	As of March 31			
	2005	**2006**	**2007**	**2007**
	(in millions)			
Bill collection	Rs. 359,609.0	Rs. 381,657.9	Rs. 443,458.6	US$ 10,289.1
Documentary credits	56,702.9	46,106.1	67,116.4	1,557.2
Bank guarantees	14,518.2	21,949.0	22,368.6	519.0
Total	Rs. 430,830.1	Rs. 449,713.0	Rs. 532,943.6	US$ 12,365.3

Bill collection. We provide bill collection services for our corporate clients in which we collect bills on behalf of a corporate client from the bank of our client s customer. We do not advance funds to our client until receipt of payment.

Documentary credits. We issue documentary credit facilities on behalf of our customers for trade financing, sourcing of raw materials and capital equipment purchases.

Bank guarantees. We provide bank guarantees on behalf of our customers to guarantee their payment or performance obligations. A large part of our guarantee portfolio consists of margin guarantees to brokers issued in favor of stock exchanges.

Foreign Exchange and Derivatives. We offer our corporate customers foreign exchange and derivative products including spot and forward foreign exchange contracts, interest rate swaps, currency swaps, currency options and other derivatives. We are a leading participant in many of these markets in India and believe we are among a few Indian banks with significant expertise in derivatives, a market currently dominated by foreign banks.

Precious Metals. We are in the business of importing gold and silver bullion to leverage our distribution and servicing strengths and cater to the domestic bullion trader segment. We generally import bullion on a consignment basis so as to minimize price risk.

Wholesale Deposit Products. As of March 31, 2007, we had wholesale deposits totaling Rs.244.0 billion, which represented 35.8% of our total deposits and 24.1% of our total liabilities, including shareholders equity. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs.1.5 million) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity. See Selected Statistical Information for further information about our total deposits.

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Transactional Services

Cash Management Services. We are a leading provider of cash management services in India. Our services make it easier for our corporate customers to expedite inter-city check collections, make payments to their suppliers more efficiently, optimize liquidity and reduce interest costs. In addition to benefiting from the cash float, which reduces our overall cost of funds, we also earn commissions for these services.

Our primary cash management service is check collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payment system in India, and checks must generally be returned to the city from which written, in order to be cleared. Because of mail delivery delays and the variations in city-based inter-bank clearing practices, check collections can be slow and unpredictable, and can lead to uncertainty and inefficiencies in cash management. We believe we have a strong position in this area relative to most other participants in this market. Although the public sector banks have extensive branch networks, many of their branches typically are still not electronically linked. The foreign banks are also restricted in their ability to expand their branch network.

As of March 31, 2007, over 7,000 wholesale banking clients used our cash management services. These clients include leading Indian private sector companies, public sector undertakings and multinational companies. We also provide these services to most Indian insurance companies, many mutual funds, brokers, financial institutions and various government entities.

We have also implemented a straight through processing solution to link our wholesale banking and retail banking systems. This has led to reduced manual intervention in transferring funds between the corporate accounts which are in the wholesale banking system and beneficiary accounts residing in retail banking systems. This initiative will help in reducing transaction costs.

We have a large number of commercial clients using our corporate Internet banking for financial transactions with their vendors, dealers and employees who bank with us.

In 2005, the RBI introduced an inter-bank settlement system called the RTGS system. The RTGS system facilitates real time settlements primarily between banks and therefore could have an adverse impact on our cash management services. However, we believe our cash management services offer certain advantages not present in RTGS, including the provision of greater information to our clients regarding the source and identity of payments. In addition, through our cash management services our clients receive checks from their customers, which we believe many of our clients prefer because the issuance of a bad check is a criminal offense in India. See Risk Factors Risks Relating to Our Business We could be adversely affected by the development of a nationwide inter-bank settlement system.

Clearing Bank Services for Stock and Commodity Exchanges. We serve as a cash-clearing bank for major stock exchanges in India, including the National Stock Exchange and the Bombay Stock Exchange Limited. As a clearing bank, we provide the exchanges or their clearing corporations with a means for collecting cash payments due to them from their members or custodians and a means of making payments to these institutions. We make payments once the broker or custodian deposits the funds with us. In addition to benefiting from the cash float, which reduces our cost of funds, in certain cases we also earn commissions on such services.

Custodial Services. We provide custodial services principally to Indian mutual funds, as well as to domestic and international financial institutions. These services include safekeeping of securities and collection of dividend and interest payments on securities. Most of the securities under our custody are in book-entry (dematerialized) form, although we provide custody for securities in physical form as well for our wholesale banking clients. We earn revenue from these services based on the value of assets under safekeeping and the value of transactions handled.

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Correspondent Banking Services. We act as a correspondent bank for cooperative banks, cooperative societies and foreign banks. We provide cash management services, funds transfers and services such as letters of credit, foreign exchange transactions and foreign check collection. We earn revenue on a fee-for-service basis and benefit from the cash float, which reduces our cost of funds.

We are well positioned to offer this service to cooperative banks and foreign banks in light of the structure of the Indian banking industry and our position within it. Cooperative banks are generally restricted to a particular state, and foreign banks have limited branch networks. The customers of these banks frequently need services in other areas of the country that their own banks cannot provide. Because of our technology platforms, geographical reach and the electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers. By contrast, although the public sector banks have extensive branch networks and also provide correspondent banking services, many of them have not yet created electronically connected networks and their branches typically operate independently of one another.

Tax Collections. We were the first private sector bank to be appointed by the government of India to collect direct taxes. In fiscal 2007, we collected more than Rs.365.5 billion of direct taxes for the government of India. We are also appointed to collect sales, excise and service tax within certain jurisdictions in India. In fiscal 2007, we collected more than Rs.73.5 billion of such indirect taxes for the government of India and relevant state governments. We earn a fee from each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

Treasury

Our Treasury Group manages our balance sheet, including our maintenance of reserve requirements and our management of market and liquidity risk. Our Treasury Group also provides advice and execution services to our corporate and institutional customers with respect to their foreign exchange and derivatives transactions. In addition, our Treasury Group seeks to optimize profits from our proprietary trading, which is principally concentrated on Indian government securities.

Our client-based activities consist primarily of advising corporate and institutional customers and transacting spot and forward foreign exchange contracts and derivatives. Our primary customers are multinational corporations, large- and medium-sized domestic corporations, financial institutions, banks and public sector undertakings. We also advise and enter into foreign exchange contracts with some small companies and non-resident Indians.

The following describes our activities in the foreign exchange and derivatives markets, domestic money markets and equities market. See also Risk Management for a discussion of our management of market risk including liquidity risk, interest rate risk and foreign exchange risk.

Foreign Exchange

We trade spot and forward foreign exchange contracts, primarily with maturities of up to three years, with our customers. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We believe we are a market maker in the dollar-rupee segments. Although spreads are very narrow, our total volume of trading is significant with US$ 432.8 billion in foreign exchange traded in fiscal 2007.

Derivatives

We believe we are among the few Indian banks that are significant participants in the derivatives market, which is dominated by foreign banks. We offer rupee-based interest rate swaps, cross-currency swaps, forward rate agreements, options and other products. We also engage in proprietary trades of rupee-based interest rate swaps and use them as part of our asset liability management.

Domestic Money Market and Debt Securities Desk

Our principal activity in the domestic money market and debt securities market is to ensure that we comply with our reserve requirements. These consist of a cash reserve ratio, which we meet by maintaining balances with the RBI, and a statutory liquidity ratio, which we meet by purchasing Indian government securities. See also Supervision and Regulation Legal Reserve Requirements in our annual report on Form 20-F incorporated by reference in the accompanying prospectus. Our local currency desk primarily trades Indian government securities for our own account. We also participate in the inter-bank call deposit market and engage in limited trading of other debt instruments.

Equities Market

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2007, we had an internal approved limit of Rs.300 million for secondary market purchases and Rs.100 million for primary purchases of equity investments for proprietary trading. Our exposure as of March 31, 2007 was approximately Rs.85.7 million. We set limits on the amount invested in any individual company as well as stop-loss limits.

Distribution Channels

We deliver our products and services through a variety of distribution channels, including branches, ATMs, telephone and mobile telephone banking and internet banking.

Branch Network

As of March 31, 2007, we had an aggregate of 684 branches, including 22 extension counters. Our branch network covers 316 cities in India, with 182 branches concentrated in the four largest cities, Mumbai, Delhi, Chennai and Kolkata (Calcutta). We centralize our processing of transactions and back office operations in Mumbai and Chennai. This structure enables the branch staff to focus on customer service and selling our products. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

Almost all of our branches focus exclusively on providing retail services and products, though a few also provide wholesale services. The range of products and services available at each branch depends in part on the size and location of the branch. Our extension counters typically are small offices, primarily within office buildings, that provide specific commercial and retail banking services.

As part of its branch licensing conditions, the RBI requires that at least 25% of our branches (not including extension counters) be located in semi-urban or rural areas. A semi-urban area is defined as a center with a population of greater than 10,000 but less than 100,000 people. A rural area is defined as a center with a population of less than 10,000 people. These population figures relate to the 2001 census conducted by the government of India. As of March 31, 2007, a total of 195 of our branches (not including extension counters) were in such semi-urban or rural areas.

We offer various banking services to our customers through our arrangements with correspondent banks and exchange houses in overseas locations. We have a representative office in the United Arab Emirates, and are currently exploring opportunities to establish branches and/or representative offices in countries having a high concentration of Indians and/ or business interests of Indian corporates.

Automated Teller Machines

As of March 31, 2007, we had a total of 1,605 ATMs, of which 833 were located at our branches or extension counters and 772 were located off-site, including at large residential developments, or on major roads in metropolitan areas.

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Customers can use our ATMs for a variety of functions including withdrawing cash, monitoring bank balances and, at most of our ATMs, ordering demand drafts and paying utility bills. Customers can access their accounts from any of our ATMs. Our ATM cards cannot be used in non-HDFC Bank ATMs, although our debit cards can be. ATM cards issued by other banks in the Plus, Cirrus and Amex networks can be used in our ATMs and we receive a fee for each transaction.

Telephone Banking Call Centers

We provide telephone banking services to our customers in 217 cities. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, inquire as to balances and order stop payments. In select cities, customers can also engage in financial transactions (such as cash transfers, opening deposits and ordering demand drafts). In certain cities, we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers.

Internet Banking

Through our Net Banking channel, customers can access account information, track transactions, transfer funds between accounts and to third parties who maintain accounts with us, make fixed deposits, give instructions for the purchase and sale of units in mutual funds, pay bills, request stop payments and make demand draft requests. We encourage use of our internet banking service by offering some key services for free or at a lower cost.

Mobile Telephone Banking

We launched mobile telephone banking services in January 2000, making us the first bank to do so in India. Customers in certain locations are eligible to sign up for mobile telephone banking, which allows them to access their accounts on their mobile telephone screens and to conduct a variety of banking transactions including balance inquiries, stop payment orders and utility bill payments.

Risk Management

Risk is inherent in our business and sound risk management is critical to our success. The major types of risk we face are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. We have developed and implemented comprehensive policies and procedures to identify, monitor and manage risk throughout the Bank.

Credit Risk

Credit risk is the possibility of loss due to the failure of any counterparty to abide by the terms and conditions of any financial contract with us. We identify and manage this risk through (a) our target market definitions, (b) our credit approval process, (c) our post-disbursement monitoring, and (d) our remedial management procedures.

Wholesale Credit Risk. For our commercial banking products, we target the top end of the Indian corporate sector, including companies that are part of the private sector business houses, public sector enterprises, and multinational corporations and leading small and mid-sized enterprises (SME). As a result, a large part of our wholesale lending is generally concentrated among highly rated customers. In addition to market targeting, the principal means of managing credit risk is the credit approval process. We have policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For our wholesale clients, we have a risk assessment and grading system that is applied to each corporate counterparty on an annual basis. We also have limits for funded exposure to individual industries. In addition, we have limits for exposure to borrowers and groups of borrowers for funded and non-funded exposures. Our credit risk policies for

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loans also apply to credit substitutes. We also have a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

Our risk assessment and grading system is based on rating models specific to each wholesale credit segment such as large corporates, SME-manufacturing and SME-services. Each model assesses overall risk in four major categories of industry risk, business risk, management risk and financial risk. Each customer or counterparty is assigned a numerical grade which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

We are subject to RBI policies that limit our exposure to particular counterparties and with respect to particular instruments. The RBI provides that not more than 15% of our capital funds (as defined by RBI and calculated under Indian GAAP) may be extended as credit exposure to an individual borrower, and not more than 40% of our capital funds may be extended as credit exposure to a group of companies under the same management. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and 10% in respect of group borrowers. The RBI has stated that banks may, in exceptional circumstances and with the approval of their boards of directors, consider enhancement of the exposure to a borrower by a further 5% of the capital funds. See Supervision and Regulation Regulations Relating to Making Loans Credit Exposure Limits in our annual report on Form 20-F incorporated by reference in the accompanying prospectus. During fiscal 2007, the bank s credit exposures to single borrowers and group borrowers were within the limits prescribed by the RBI.

The RBI prohibits loans to companies with which we have any directors in common. The RBI also requires that a portion of our lending activities be directed to specific priority sectors. See Supervision and Regulation Regulations Relating to Making Loans Directed Lending in our annual report on Form 20-F incorporated by reference in the accompanying prospectus.

We follow a policy of portfolio diversification by industry. As of March 31, 2007, our funded exposures in any single industry did not exceed 12% of our total funded exposures.

While we make our lending decisions largely on a cash-flow basis, we also take collateral for a large number of our loans. Our short- and medium-term loans are typically secured by a first charge over inventory and receivables, and in some cases are further supported by a second charge over fixed assets. Longer term loans are usually secured by a charge over fixed assets. For some loans, we also require guarantees or letters of support from corporate parents. Although we take collateral, we may not always be able to realize its value in a default situation. See Risk Factors Risks Relating to Our Business. We may be unable to foreclose on our collateral when borrowers default on their obligations to us which may result in failure to recover the expected value of collateral security.

Our credit approval process for wholesale loans requires three officers to approve the credit. Although the particular level of approval varies depending on the size of the loan and the borrower risk grading, no wholesale loan can be made without all three approvals. All working capital loans are subject to review at annual or shorter intervals.

Once a loan is made, we undertake ongoing credit analysis and monitoring at several levels. Our policies are designed to promote early detection of exposures that require special monitoring. If a borrower wishes to renew or roll over the loan, we apply substantially the same standards as we would to granting a new loan except that we do not usually perform an entirely new credit review. Typically, we perform an annual credit review of each loan customer and update the review during the course of the year as circumstances warrant. We generally rely on such reviews in connection with a rollover or renewal.

See Selected Statistical Information for a discussion of our policies regarding classification of loans and advances as non-performing, our policies regarding provisioning for loans and information concerning our non-performing assets and allowance for credit losses.

Retail Credit Risk. Our retail credit policy and approval process are designed for the fact that we have high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, our credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. We monitor our own and industry experience to determine and periodically revise product terms and desired customer profiles. We then verify that an individual customer meets our lending criteria. Our retail loans are generally either secured or made against direct debit instructions or delivery of post-dated checks to cover all payments. It is a criminal offense in India to issue a bad check. In the case of most automobile and other vehicle loans as well as unsecured personal loans, we require that the borrower provide post-dated checks for a certain number of payments on the loan at the time the loan is made. Automobile and commercial vehicle loans, two wheeler loans and other vehicle loans, as well as loans against securities are all secured loans. We will generally lend up to 50% of the market value of securities in the case of loans against equity shares, 90% of the value of the automobile in case of automobile loans and 85% of the value of the two wheeler in the case of two wheeler loans.

Foreign Exchange, Derivatives and Trading Activities. The credit risk of our foreign exchange and derivative transactions is managed the same way as we manage our wholesale lending risk. We apply our risk assessment and grading system to our corporate counterparties and set individual counterparty limits. With respect to debt securities, we primarily trade Indian government securities for our own account.

Market Risk

Market risk refers to potential losses arising from volatility in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk arises with respect to all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity instruments and derivative instruments, as well as from balance sheet gaps. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments.

Our board of directors reviews and approves the policies for the management of market risks and dealing with authorities and limits. The Risk Monitoring Committee of the board of directors monitors market risk policies and procedures and reviews market risk limits. The board of directors has delegated the responsibility for ongoing balance sheet market risk management to the Asset Liability Committee. This committee, which is chaired by the Managing Director and includes the heads of our business groups, meets every alternate week and more often when conditions require. The Asset Liability Committee reviews our product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates our interest rate view and decides on future business strategy with respect to interest rates. It reviews and sets funding policy and also reviews developments in the markets and the economy and their impact on our balance sheet and business. Finally, it ensures adherence to market risk limits and decides on our inter-segment transfer pricing policy. The Market Risk Department specifies risk valuation methodology of various treasury products, formulates procedures for portfolio risk valuation, assesses market risk factors and assists in monitoring market risks for various treasury desks. Our treasury mid-office is responsible for reporting market risks of the treasury desks.

The Financial Control Department is responsible for collecting data, preparing regulatory and analytical reports and monitoring whether the interest rate and other policies and limits established by the Asset Liability Committee are being observed. Our Treasury Group also assists in implementing asset liability strategy and in providing information to the Asset Liability Committee.

The following briefly describes our policies and procedures with respect to asset liability management, liquidity risk, price risk and other risks such as foreign exchange and equities risks.

Asset Liability Management. We fund core customer assets, consisting of loans and credit substitutes, with core customer liabilities, consisting principally of deposits. We also borrow in the inter-bank market and use such borrowings principally for funding certain short-term assets and for managing short-term maturity mismatches. Most of our liabilities and assets are short and medium term.

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We maintain a substantial portfolio of liquid, high-quality Indian government securities. We prepare regular maturity gap analyses to review our liquidity position, and must submit a monthly analysis to the RBI.

We measure our exposure to fluctuations in interest rates primarily by way of a gap analysis. We classify all rate sensitive assets and liabilities into various time period categories according to contracted residual maturities or anticipated repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category gives us an indication of the extent to which we are exposed to the risk of potential changes in the margins on new or repriced assets and liabilities. We place limits on the gap between the assets and liabilities that may be reset in any particular period.

Our Asset Liability Committee addresses the two principal aspects of our asset liability management program as follows:

First, the Asset Liability Committee monitors the liquidity gap and, at the corporate level, recommends appropriate financing or asset deployment strategies depending on whether the gap is a net asset position or a net liability position, respectively. Operationally, in the short term, our Treasury Group implements these recommendations through transactions in the money market.

Second, the Asset Liability Committee monitors our interest rate gap and, at the corporate level, recommends repricing of our asset or liability portfolios. Operationally, in the short term, our Treasury Group implements these recommendations by entering into transactions in the money market and interest rate swaps market.

In the longer term, our wholesale banking and retail banking groups implement these recommendations through changes in the interest rates offered by us for different time period categories to either attract or discourage deposits and loans in those time period categories.

See Selected Statistical Information for information on our asset-liability gap and the sensitivity of our assets and liabilities to changes in interest rates.

Liquidity Risk. The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitments and to capitalize on opportunities for business expansion. This includes our ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the Treasury Group under the direction of the Asset Liability Committee. The Treasury Group is responsible for ensuring that we have adequate liquidity, ensuring that our funding mix is appropriate so as to avoid maturity mismatches and price and reinvestment rate risk in case of a maturity gap, and monitoring local markets for the adequacy of funding liquidity.

Price Risk. Price risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates and exchange rates. Our Treasury Group is responsible for implementing the price risk management process within the limits approved by the board of directors. These limits are independently monitored by the treasury operations group. We measure price risk through a three-stage process, the first part of which is to estimate the sensitivity of the value of a position to changes in market factors to which our business is exposed. We then estimate the volatility of market factors. Finally, we aggregate portfolio risk. We manage price risk principally by establishing limits set by our board of directors for our money market activities, foreign exchange activities, interest rate and equities and derivatives activities. In addition, certain limits are also prescribed by the RBI.

We monitor and manage our exchange rate risk through a variety of limits on our foreign exchange activities. The RBI also limits the extent to which we can deviate from a near square position at the end of the day (where sales and purchases of each currency are matched). Our own policies set limits on maximum open positions in any currency during the course of the day as well as on overnight positions. We also have gap limits

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that address the matching of forward positions in various maturities and for different currencies. In addition, the RBI approves the aggregate gap limit for us. This limit is applied to all currencies. We also have stop-loss limits that require our traders to realize and restrict losses. We evaluate our risk on foreign exchange gap positions on a daily basis using a Value at Risk model applied to all of our outstanding foreign exchange instruments.

We impose position limits on our trading portfolio of marketable securities. These limits, which vary by tenor, restrict the holding of marketable securities of all kinds depending on our expectations about the yield curve. We also impose trading limits such as stop-loss limits and aggregate contract limits, which require that trading losses be kept below prescribed limits and as a result may require the realization of losses and elimination of positions.

The day-to-day monitoring and reporting of market risk and counterparty risk limits is carried out independently by the treasury mid-office department. The treasury mid-office department is independent of the treasury department and has a separate reporting line to the Managing Director through the head of credit and market risk.

Our derivatives risk is managed by the fact that we do not enter into or maintain unmatched positions with respect to non-rupee-based derivatives. Our proprietary derivatives trading is primarily limited to rupee-based interest rate swaps and rupee currency options.

Operational Risk

Operational risks are risks arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss. Our Internal Audit and Compliance Department plays an essential role in monitoring and limiting our operational risk. The primary focus of the Audit Department is:

- to independently evaluate the adequacy of all internal controls;
- to ensure adherence to the operating guidelines, including regulatory and legal requirements; and
- to recommend operation process improvements.

The Department also performs special investigations and ad hoc reviews. In addition, our Internal Audit and Compliance Department liaises with statutory auditors, central bank authorities and other regulatory bodies.

In order to ensure total independence, the Internal Audit and Compliance Department reports directly to the Chairman of the board of directors and the Audit and Compliance Committee of the board of directors as well as indirectly to the Managing Director. The Audit and Compliance Committee meets at least once per quarter to review all procedures, the effectiveness of the controls and compliance with RBI regulations. In addition, the committee conducts a semiannual review of the performance of the department itself.

Pursuant to RBI guidelines, some activities are required to be audited continuously. More than half of our business, measured by transaction volume, is subject to concurrent auditing, including foreign exchange, derivatives, equities, securities transactions, depositary services, retail liability operations, reversals to the profit and loss account and monitoring of inter-branch routing accounts. All other lines of business, our information technology department, branches, services and products are audited on a set schedule, which is usually quarterly or half-yearly. Our information technology is also subject to audit review and certification of all software, including application software and system controls.

We are also subject to inspections conducted by the RBI under the Indian Banking Regulation Act. The RBI has adopted the global practice of subjecting banks to examination on the basis of the CAMELS model, a model that assigns confidential ratings to banks based on their capital adequacy, asset quality, management, earnings, liquidity and systems.

In 2006, the SEBI investigated whether certain persons had submitted, in violation of SEBI rules, multiple applications for allocations of shares in certain initial public offerings. Based on these investigations, SEBI found

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that a number of depositary participants, including the Bank, had failed to adhere to the KYC norms laid down by SEBI in connection with the opening of certain dematerialized accounts, and that this contributed to certain persons being able to open multiple accounts in certain cases. Also in 2006, in connection with the same matters, the RBI investigated whether various banks had followed RBI directions and guidelines regarding savings account opening procedures and related matters. The RBI reported that prudent banking practices were not followed by the Bank, resulting in the Bank failing to comply with certain RBI directions and guidelines in respect of account openings, KYC norms and the monitoring of large transactions. We believe, and we advised SEBI and the RBI accordingly, that we obtained in a timely manner the documents required by the applicable RBI and SEBI rules. However, we acknowledged that certain employees had not exercised the required degree of prudence in that they had failed to go beyond the documents and make inquiries beyond what was technically required. In connection with these matters, the RBI levied a penalty of Rs. 3 million (or approximately U.S.$70,000) on the Bank, which the Bank has paid. In April 2006, SEBI issued an interim order against 12 depository participants, including the Bank, directing them to cease opening fresh dematerialized accounts until further directions were issued. This ban on the opening of new dematerialized accounts was lifted in November 2006 and the Bank resumed opening such accounts. SEBI also issued an order directing the depositories and some of the depository participants (including the Bank) to disgorge an amount of Rs. 900.18 million. The Bank s share of such amount was 1.82% or Rs.16.4 million (or approximately U.S.$381,000). We appealed the order to the Securities Appellate Tribunal, which passed an interim order staying SEBI s disgorgement order. In order to avoid similar problems in the future, we further tightened our internal control processes and instituted additional measures to ensure strict adherence to the KYC guidelines and other anti-money laundering requirement. We also took disciplinary action against certain employees, including dismissals in some cases.

Competition

We face strong competition in all of our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions.

Retail Banking

In retail banking, our principal competitors are the large public sector banks, which have much larger deposit bases and branch networks, other new private sector banks and foreign banks in the case of retail loan products. The retail deposit share of the foreign banks is quite small by comparison to the public sector banks, and has also declined in the last few years, which we attribute principally to competition from new private sector banks. However, some of the foreign banks have a significant presence among non-resident Indians and also compete for non-branch-based products such as auto loans and credit cards.

We face significant competition primarily from foreign banks in the debit and credit card segment. In mutual fund sales and other investment related products, our principal competitors are brokers, foreign banks and new private sector banks.

Wholesale Banking

Our principal competitors in wholesale banking are public and new private sector banks as well as foreign banks. The large public sector banks have traditionally been the market leaders in commercial lending. Foreign banks have focused primarily on serving the needs of multinational companies and Indian corporations with cross-border financing requirements including trade and transactional services, foreign exchange products and derivatives, while the large public sector banks have extensive branch networks and large local currency funding capabilities.

Treasury

In our treasury advisory services for corporate clients, we compete principally with foreign banks in foreign exchange and derivatives, as well as public sector banks and new private sector banks in the foreign exchange and money markets business.

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Employees

Our number of employees increased from 14,878 as of March 31, 2006 to 21,477 as of March 31, 2007, primarily as a result of us directly employing staff to perform activities that were formerly outsourced to third parties, including our affiliate, HBL Global Private Limited (HBL), in order to have more control over the marketing of our products and facilitate compliance with the KYC norms. Our overall expense did not increase because the fees we previously paid to HBL were reduced. See Related Party Transactions. Headcount also increased due to general growth in our business. The increase in our number of employees also resulted from the expansion of our branch network, an increase in the territories we cover and substantial growth in our retail business, particularly in the credit card market. Almost all our employees are located in India. As of March 31, 2007, approximately 16% of our employees were managers or senior managers, and 4% were assistant vice presidents, vice presidents or group heads. More than 99% of our employees have university degrees.

We consider our relations with our employees to be good. Our employees do not belong to any union.

We use incentives in structuring compensation packages and have established a performance-based bonus scheme under which permanent employees have a variable pay component of their salary.

In addition to basic compensation, employees are eligible to participate in our provident fund and other employee benefit plans. The provident fund, to which both we and our employees contribute, is a savings scheme, required by government regulation, under which the fund is required to pay to employees a minimum annual return, which at present is 8.5%. If the return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the fund. We have also set up a superannuation fund to which we contribute defined amounts. In addition, we contribute specified amounts to a gratuity fund set up pursuant to Indian statutory requirements.

We focus on training our employees on a continuous basis. We have a training center in Mumbai, where we conduct regular training programs for our employees. Management and executive trainees generally undergo up to eight week training modules covering every aspect of banking. We offer courses conducted by both internal and external faculty. In addition to ongoing on-the-job training, we provide employees courses in specific areas or specialized operations on an as-needed basis.

Properties

Our registered office and corporate headquarters is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. These premises were established during the third quarter of fiscal 2004.

Close to the corporate headquarters is the administrative center at Kamala Mills Compound in Lower Parel, Mumbai. We own over 150,000 square foot operations, training and information technology centers in Chandivili, Mumbai. As of March 31, 2007, we had a network consisting of 684 branches, including 22 extension counters, and 1,605 ATMs, including 772 at non-branch locations. These facilities are located throughout India. 19 of these branches are located on properties owned by us; the remaining facilities are located on leased properties. The net book value of all our owned properties, including branches, administrative offices and residential premises as of March 31, 2007 was Rs.2.21 billion. We also rent property in Bangalore to house our disaster recovery site, which we would use to replicate our core banking and transaction systems in the event of a regional calamity in Mumbai.

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business. However, we are currently not a party to any proceedings which, if adversely determined, might have a material adverse effect on our financial condition or results of operations.

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USE OF PROCEEDS

The net proceeds to us from the offering will be approximately U.S.$595 million (U.S.$684 million if the underwriters over-allotment option is exercised in full). The net proceeds from the offering will be used for funding future growth. In particular, by strengthening our capital base, the net proceeds will enhance our ability to make loans and investments and provide other financing products to our customers. In the short term, the net proceeds will reduce our use of overnight call borrowings as a funding source.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007 prepared in accordance with U.S. GAAP in Indian rupees and, for convenience, in U.S. dollars:

on an actual basis; and

on an as adjusted basis to give effect to:

(i) the subscription on June 29, 2007, for 13,582,000 shares by HDFC Limited, pursuant to a preferential offer made by us to HDFC Limited, at a price of Rs. 1,023.49 per share, which is the price determined in accordance with the SEBI (Disclosure and Investor Protection) Guidelines 2000; and

(ii) this offering (assuming no exercise of the underwriters over-allotment option).

You should read this capitalization table together with Selected Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Selected Statistical Information and our audited financial statements and related notes included in the accompanying prospectus. Other than as disclosed in this prospectus supplement, there has been no material change in our capitalization and indebtedness since March 31, 2007:

	As of March 31, 2007			
	Actual		As Adjusted	
	(In millions)			
Indebtedness				
Deposits[1]	Rs. 682,348.0	U.S.$ 15,831.7	Rs. 682,348.0	U.S.$ 15,831.7
Securities sold under repurchase agreements[1]	10,500.0	243.6	10,500.0	243.6
Short-term borrowings[1]	95,472.4	2,215.1	95,472.4	2,215.1
Subordinated debt	32,826.0	761.6	32,826.0	761.6
Other long-term debt	775.5	18.0	775.5	18.0
Total indebtedness	821,921.9	19,070.0	821,921.9	19,070.0
Shareholders equity				
Equity shares[2]	3,193.9	74.1	3,527.6	81.8
Additional paid-in capital [3]	30,226.6	701.3	67,726.7	1,571.4
Retained earnings	24,503.3	568.5	24,503.3	568.5
Statutory reserve[4]	11,218.2	260.3	11,218.2	260.3
Accumulated other comprehensive income[5]	(3,633.9)	(84.3)	(3,633.9)	(84.3)
Total shareholders equity	65,508.1	1,519.9	103,341.9	2,397.7
Total capitalization	Rs. 887,430.0	U.S.$ 20,589.9	Rs. 925,263.8	U.S.$ 21,467.7

1) Deposits and short-term borrowings as of June 30, 2007 were Rs. 816,044.8 million and Rs. 67,017.9 million, respectively. These changes were in the normal course of banking operations.

2) Rs. 10 par value; 450 million shares authorized, 319,389,608 shares issued and outstanding; 352,755,120 shares issued and outstanding, as adjusted. The number of equity shares issued and outstanding as adjusted gives effect to 13,582,000 equity shares issued to HDFC Limited

on June 29, 2007 at a price of Rs. 1023.49 per share in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000. However, it does not give effect to equity shares issued after March 31, 2007 in respect of options exercised and paid for prior to March 31, 2007 or equity shares that are subject to options granted under our stock option plan.

3) Estimated underwriting discounts and commissions and offering expenses payable by us of U.S.$12.5 million, have been deducted from the gross proceeds of the sale of ADSs pursuant to the offering. Net proceeds from the offering have been converted into rupees at Rs. 40.23 to U.S. $1.00, the exchange rate in effect on the offering date. Convenience translations of amounts in the table above are at the March 30, 2007 rate of Rs. 43.10 to U.S. $1.00.

4) Represents the amounts that are required under Indian law to be appropriated from net income computed as per Indian GAAP and transferred to a statutory reserve, which may not be distributed via dividends.

5) Primarily represents unrealized gains and losses on investments available for sale, net of applicable income taxes.

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DILUTION

If you invest in the ADSs offered by us in this offering, your interest will be diluted to the extent of the difference between the offering price per ADS set forth on the cover of this prospectus supplement and the net tangible book value per ADS upon the completion of this offering. Dilution results from the fact that the per share offering price of our ADSs is in excess of the book value per ADS attributable to existing shareholders.

As of March 31, 2007, our net tangible book value was Rs. 65.5 billion (U.S.$ 1.5 billion), or U.S.$ 14.28 per ADS. Net tangible book value per ADS represents the book value of our total tangible assets minus our total liabilities, divided by the total number of ADSs that would have been outstanding as of March 31, 2007 if all of our outstanding shares as of such date were represented by ADSs.

After giving effect to:

(i) the sale of the ADSs sold by us in the offering assuming no exercise of the underwriters over-allotment option) and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, and

(ii) the subscription on June 29, 2007, for 13,852,000 shares by HDFC Limited, pursuant to a preferential offer made by us to HDFC Limited, at a price of Rs. 1,023.49 per share, which is the price determined in accordance with the SEBI (Disclosure and Investor Protection) Guidelines 2000,

but without taking into account any other changes in such tangible book value after March 31, 2007, our net tangible book value per ADS (based on an exchange rate as of July 17, 2007 of Rs. 40.23 = $ 1.00), would increase to U.S.$21.85 per ADS. This represents an immediate increase of U.S.$4.07 per ADS in net tangible book value to holders of our shares outstanding as of March 31, 2007 and an immediate dilution of U.S.$70.25 per ADS in net tangible book value to investors purchasing ADSs in this offering at the offering price.

The following table illustrates such dilution on the basis of U.S. GAAP:

	U.S.$
Offering price per ADS	92.10
Net tangible book value per ADS as of March 31, 2007, as adjusted as described in the preceding paragraph	17.78
Increase in net tangible book value per ADS attributable to the offering	4.07
Adjusted net tangible book value per ADS after the offering	21.85
Dilution in net tangible book value per ADS to new investors	70.25

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SELECTED FINANCIAL AND OTHER DATA

The following table sets forth our selected financial and operating data. Our selected income statement data for the fiscal years ended March 31, 2005, 2006 and 2007 and the selected balance sheet data as of March 31, 2006 and 2007 are derived from our audited financial statements included in the accompanying prospectus. Our selected balance sheet data as of March 31, 2003, March 31, 2004, March 31, 2005 and selected income data for the years ended March 31, 2003 and March 31, 2004 are derived from our audited financial statements not included in this prospectus supplement. For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2007 have been translated into U.S. dollars at the rate on such date of Rs.43.10 per US$1.00.

You should read the following data with the more detailed information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements. Footnotes to the following data appear below the final table.

	Year ended March 31					
	2003	2004	2005	2006	2007	2007
	(in millions, except per equity share data and ADS data)					
Selected income statement data:						
Interest and dividend revenue	Rs. 19,424.8	Rs. 24,591.5	Rs. 29,209.4	Rs. 43,528.0	Rs. 70,061.6	US$ 1,625.3
Interest expense	11,779.2	11,983.1	13,223.7	19,621.8	33,145.1	769.1
Net interest revenue	7,645.6	12,608.4	15,985.7	23,906.2	36,916.5	856.2
Provisions for credit losses, net	741.5	2,343.4	3,048.2	5,032.0	8,250.3	191.4
Net interest revenue after provisions for credit losses	6,904.1	10,265.0	12,937.5	18,874.2	28,666.2	664.8
Non-interest revenue, net	4,397.3	4,697.6	8,211.5	12,147.9	14,999.7	348.1
Net revenue	11,301.4	14,962.6	21,149.0	31,022.1	43,665.9	1,012.9
Non-interest expense	6,057.9	8,369.3	11,413.9	17,846.8	27,426.1	636.2
Income before income tax expense	5,243.5	6,593.3	9,735.1	13,175.3	16,239.8	376.7
Income tax expense	1,729.7	1,838.8	3,125.4	3,965.7	5,142.9	119.3
Net income before minority interest	3,513.8	4,754.5	6,609.7	9,209.6	11,096.9	257.4
Minority interest				22.5	57.2	1.3
Net income	Rs. 3,513.8	Rs. 4,754.5	Rs. 6,609.7	Rs. 9,187.1	Rs. 11,039.7	US$ 256.1
Per equity share data:						
Earnings per equity share, basic	Rs. 12.57	Rs. 16.87	Rs. 22.78	Rs. 29.45	Rs. 35.10	US$ 0.81
Earnings per equity share, diluted	12.51	16.70	22.60	29.08	34.60	0.80
Dividends per share	3.00	3.50	4.50	5.50	7.00	0.16
Book value (1)	93.36	110.36	159.22	176.49	205.10	4.76
Equity share data:						
Equity shares outstanding at end of period	279.7	282.8	309.9	313.1	319.4	319.4
Weighted average equity shares outstanding basic	279.6	281.9	290.1	311.9	314.6	314.6
Weighted average equity shares outstanding diluted	281.4	284.7	292.5	315.9	319.1	319.1
ADS data (where 1 ADS represents 3 shares):						
Earnings per ADS basic	37.71	50.61	68.34	88.36	105.30	2.44
Earnings per ADS diluted	37.53	50.10	67.80	87.24	103.80	2.41

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	As of March 31					
	2003	2004	2005	2006	2007	2007
	(in millions)					
Selected balance sheet data:						
Cash and cash equivalents	Rs. 23,944.9	Rs. 33,010.4	Rs. 37,575.8	Rs. 61,194.3	Rs. 80,546.4	US$ 1,868.8
Term placements(2)	7,747.4	3,565.2	8,699.6	10,243.7	12,815.8	297.4
Loans, net of allowance	118,299.9	177,681.1	256,486.9	395,274.3	536,730.9	12,453.2
Investments:						
Investments held for trading	3,976.1	6,233.8	1,278.5	2,945.6	4,284.1	99.4
Investments available for sale	98,929.2	133,274.6	204,292.8	273,457.0	304,241.1	7,059.0
Investments held to maturity(3)	38,426.7	36,368.4				
Total	141,332.0	175,876.8	205,571.3	276,402.6	308,525.2	7,158.4
Total assets	Rs. 311,840.7	Rs. 426,835.6	Rs. 535,544.2	Rs. 790,969.4	Rs. 1,013,185.9	US$ 23,507.7
Long-term debt	2,116.0	6,086.0	5,028.1	17,899.9	33,601.5	779.6
Short-term borrowings	21,579.6	24,064.2	62,079.1	74,805.4	95,472.4	2,215.1
Total deposits	223,760.0	304,062.0	363,542.5	557,305.4	682,348.0	15,831.7
Of which:						
Interest-bearing deposits	174,250.4	215,710.8	257,237.9	410,181.2	484,542.9	11,242.3
Non-interest bearing deposits	49,509.6	88,351.2	106,304.6	147,124.2	197,805.1	4,589.4
Total liabilities	285,727.6	395,619.8	486,206.2	735,476.6	947,356.2	21,980.3
Minority interest				225.3	321.6	7.5
Total Shareholders equity	26,113.1	31,215.8	49,338.0	55,267.5	65,508.1	1,519.9
Total liabilities and shareholders equity	Rs. 311,840.7	Rs. 426,835.6	Rs. 535,544.2	Rs. 790,969.4	Rs. 1,013,185.9	US$ 23,507.7

	Year ended March 31					
	2003	2004	2005	2006	2007	2007
	(in millions)					
Period average (4)						
Interest-earning assets	Rs. 230,451.9	Rs. 327,523.4	Rs. 424,620.1	Rs. 589,311.1	Rs. 841,352.1	US$ 19,520.9
Loans, net of allowance	82,461.2	136,527.4	204,919.0	323,709.9	467,362.5	10,843.7
Total assets	257,020.8	357,123.8	448,029.6	621,249.5	885,171.5	20,537.6
Interest-bearing deposits	157,955.4	200,904.4	250,310.9	338,085.5	491,948.4	11,411.1
Non-interest bearing deposits	28,892.3	61,803.3	92,382.6	125,616.3	170,468.2	3,955.1
Total deposits	186,847.7	262,707.7	342,693.5	463,701.8	662,416.6	15,369.3
Interest-bearing liabilities	175,598.6	236,551.0	298,276.8	419,000.5	594,152.0	13,783.2
Long-term debt	2,280.3	2,605.9	5,371.3	6,669.7	26,812.5	622.1
Short-term borrowings	15,362.9	33,040.7	42,594.6	74,245.3	75,391.1	1,749.2
Total liabilities	232,933.8	328,458.9	407,265.5	572,893.7	826,187.9	19,169.1
Shareholders equity	24,087.0	28,664.9	40,764.1	48,355.8	58,983.6	1,368.5

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	As of or for the year ended March 31				
	2003	2004	2005 (in percentage)	2006	2007
Profitability:					
Net income (after minority interest) as a percentage of:					
Average total assets	1.4	1.3	1.5	1.5	1.2
Average shareholders equity	14.6	16.6	16.2	19.0	18.7
Dividend payout ratio (5)	24.2	21.0	21.2	18.7	20.3
Spread(6)	2.7	3.5	3.5	3.8	4.0
Net interest margin (7)	3.3	3.8	3.8	4.1	4.4
Cost-to-net revenue ratio (8)	53.6	55.9	54.0	57.5	62.8
Cost-to-average assets ratio (9)	2.4	2.3	2.5	2.9	3.1
Capital:					
Total capital adequacy ratio (10)	11.12	11.66	12.16	11.41	13.08
Tier 1 capital adequacy ratio (10)	9.49	8.03	9.60	8.55	8.57
Tier 2 capital adequacy ratio (10)	1.63	3.63	2.56	2.86	4.51
Average shareholders equity as a percentage of average total assets	9.4	8.0	9.1	7.8	6.7
Asset quality:					
Gross non-performing customer assets as a percentage of gross customer assets (11)	1.6	1.6	1.5	1.2	1.2
Net non-performing customer assets as a percentage of net customer assets (11)	0.5	0.2	0.2	0.4	0.4
Total allowance for credit losses as a percentage of gross non-performing credit assets	78.8	116.8	133.2	118.2	128.1

1) Represents the difference between total assets and total liabilities, divided by the number of shares outstanding at the end of each reporting period.
2) Includes placements with banks and financial institutions with original maturities of greater than three months.
3) During fiscal 2005 we transferred certain securities classified as held to maturity to the available for sale category for reasons not permitted under U.S. GAAP. As a result we were required to transfer all remaining securities to the available for sale category and we are prevented from establishing a held to maturity portfolio until after March 31, 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations.
4) Average balances are the average of daily outstanding amounts. Average figures are unaudited.
5) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends of each year are typically paid in the following fiscal year. See Dividend Policy.
6) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts and cash floats from transactional services.
7) Represents the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than the spread.
8) Represents the ratio of non-interest expense to the sum of net interest revenue and non-interest revenue.
9) Represents the ratio of non-interest expense to average total assets.
10) Tier 1 and Tier 2 capital adequacy ratios are computed in accordance with the guidelines of the RBI, based on the financial statements prepared in accordance with the Indian GAAP. See Supervision and Regulation in our annual report on Form 20-F incorporated by reference in the accompanying prospectus.
11) Customer assets consist of loans and credit substitutes.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements included in the accompanying prospectus. The following discussion is based on our audited financial statements, which have been prepared in accordance with U.S. GAAP, and on information publicly available from the RBI and other sources.

Introduction

Overview

We are a leading private sector bank and financial services company in India. Our principal business activities are retail banking, wholesale banking and treasury operations. Our retail banking division provides a variety of deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Through our wholesale banking operations we provide loans, deposit products, documentary credits, guarantees, bullion trading and foreign exchange and derivative products. We also provide cash management services, clearing and settlement services for stock exchanges, tax and other collections for the government, custody services for mutual funds and correspondent banking services. Our Treasury Group manages our balance sheet and our foreign exchange and derivative products.

Since fiscal 2002, we have experienced significant growth in our customer and geographical base, expanding from 2.1 million customers in 77 cities as of March 31, 2002 to 10.0 million customers in 316 cities as of March 31, 2007. In line with this increase, we have increased our loans to customers from Rs.73,134.8 million in fiscal 2002 to Rs.544,745.4 million in fiscal 2007, which comprised of increases of Rs.304,304.8 million in retail loans and Rs.167,305.8 million in wholesale loans.

Our revenue consists of interest and dividend revenue as well as non-interest revenue. Our interest and dividend revenue is primarily generated by interest on loans, dividends from securities and other activities. We offer a wide range of loans to retail customers and offer working capital and term loans to corporate customers. The primary components of our securities portfolio are statutory liquidity ratio investments, credit substitutes and other investments. Statutory liquidity ratio investments principally consist of government of India treasury securities. Credit substitutes, principally consisting of our investments in commercial paper, debentures and preference shares issued by corporations, are part of the financing products we provide to our customers. Other investments include investment grade bonds issued by public sector undertakings and public financial institutions principally to meet RBI directed lending requirements, asset backed securities, mortgage-backed securities as well as equity securities and units of mutual funds. Interest revenue from other activities consists primarily of interest from inter-bank loans and interest paid by the RBI on cash deposits to meet our statutory cash reserve ratio requirements. Effective March 31, 2007 the RBI has discontinued the practice of paying interest on deposits to meet the cash reserve ratio.

Two important measures of our results of operations are net interest revenue, which is equal to our interest and dividend revenue net of interest expense, and net interest revenue after allowance for credit losses. Interest expense includes interest on deposits as well as on borrowings. Our interest revenue and expense are affected by fluctuations in interest rates as well as volume of activity. Our interest expense is also affected by the extent to which we fund our activities with low-interest or non-interest bearing deposits (including the float on transactional services), and the extent to which we rely on borrowings. Our allowance for credit losses includes our loan loss provision. Impairments of credit substitutes are not included in our loan-loss provision, but are included as realized losses on securities.

We also use net interest margin and spread to measure our results. Net interest margin represents the ratio of net interest revenue to average interest-earning assets. Spread represents the difference between yields on average interest-earning assets and cost of average interest-bearing liabilities including current accounts which are non-interest bearing.

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Our non-interest revenue includes fee and commission income, realized gains and losses on sales of securities and spread from foreign exchange and derivative transactions and profit on securitization of assets. Our principal sources of fee and commission revenue are retail banking services, retail asset fees and charges, credit card fees, cash management services, documentary credits and bank guarantees, distribution of third party mutual funds and insurance products and capital market services.

Our non-interest expense includes expenses for salaries and staff benefits, premises and equipment, depreciation and amortization, and administrative and other expenses. The costs of outsourcing back office and other functions are included in administrative and other expenses.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. The Indian economy has grown steadily over the past three years. GDP growth was 8.5% in fiscal 2005, 9.0% in fiscal 2006 and is estimated at 9.2% in fiscal 2007.

In addition, interest rates have generally been rising during the past few years in line with global trends. During fiscal 2007, the RBI increased the benchmark reverse repo rates upwards by 50 basis points to 6.0%. In addition, the RBI increased the cash reserve ratio from 5.0% in fiscal 2006 to 6.0% in the course of fiscal 2007. This reduction in liquidity may have contributed to an increase in the term structure of yields by over 100 basis points.

Critical Accounting Policies

We have set forth below some of our critical accounting policies under U.S. GAAP. Readers should keep in mind that we prepare our general purpose financial statements in accordance with Indian GAAP and also report to the RBI and the Indian stock exchanges in accordance with Indian GAAP. In certain circumstances, we may take action that is required or permitted by Indian banking regulations which may have different consequences under Indian and U.S. GAAP.

Allowance for Loan Losses

Our allowance for credit losses is based on our best estimate of losses inherent in our loan portfolio and consists of our allowances for retail loans and wholesale loans.

Retail Loans

We establish specific and unallocated allowances for our retail loans. The Bank establishes a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan to value ratios. The loans are charged off against allowances at defined delinquency levels. We also establish unallocated allowances for each of our retail loan products. See Selected Statistical Information Non-Performing Loans Retail Loans.

Wholesale

We establish specific allowances for our wholesale loans. We evaluate our wholesale loan portfolio on a periodic basis and grade our accounts considering both qualitative and quantitative criteria. Although we believe our grading and surveillance process is comprehensive, it is inherently subjective as it is based on information we have available and requires us to exercise judgment in determining a borrower s grading and therefore may not be correct in all cases. Our grading is subject to revision as more information becomes available.

We consider wholesale loans to be impaired when it is probable that we will be unable to collect scheduled payments of principal or interest when due. In arriving at our estimate, we consider the borrower s payment status, financial condition and the value of collateral we hold.

We establish specific allowances for our wholesale loans for each non-performing wholesale loan customer in the aggregate for all funded exposures. This allowance is based on either the present value of expected future cash flows discounted at the loan s effective interest rate or the net realizable value of any collateral we hold. Our estimate of future cash flows from a borrower is inherently subjective as it is based on our expectations of the probability and timing of default. Our estimate of the net realizable value of any collateral we hold is also subjective, as the collateral we hold is generally working capital such as book debt or inventory.

We establish unallocated allowances for wholesale loans based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

For more information on the methodologies we have used to establish our allowance for credit losses, see Selected Statistical Information Non-Performing Loans Recognition of Non-Performing Loans.

Interest Accrual and Revenue Recognition

Interest income from loans is recognized on an accrual basis when earned except with respect to loans placed on non-accrual status, for which interest income is recognized when received. Beginning in fiscal 2004, loans have been placed on non-accrual status when they are past due for more than one quarter. Prior to that time, loans were generally placed on non-accrual status when they were past due for more than two quarters. We generally do not charge up-front loan origination fees. Nominal application fees are charged, which offset the related costs incurred.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment, provided the amounts are collectible.

Dividends from investments are recognized when declared.

Realized gains and losses on sales of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided.

Valuation of Investments

Investments consist of securities purchased as part of our treasury operations, such as government securities and other debt and equity securities, investments purchased as part of our wholesale banking operations, such as credit substitute securities issued by our wholesale banking customers, which include commercial paper, short term debentures and preference shares and asset and mortgage backed securities.

Securities that are held principally for resale in the near term are classified as held for trading (HFT), with changes in fair value recorded in earnings.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity (HTM).

Securities with fair values that are not classified as held to maturity or held for trading are classified as available for sale (AFS). Unrealized gains and losses on such securities, net of applicable taxes, are reported in accumulated other comprehensive income (loss), a separate component of shareholders equity.

We generally report our investments in debt and equity securities at fair value, except for debt securities classified as HTM securities, which are reported at amortized cost. Fair values are based on market quotations where a market quotation is available and otherwise based on present values at current interest rates for such investments.

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For HTM and AFS securities, other than temporary declines in fair values that are below cost will be reflected in earnings as realized losses. We identify other than temporary declines based on an evaluation of all significant factors, including the length of time and extent to which fair value is less than cost and the financial condition and economic prospects of the issuer. We do not recognize impairment for debt securities if the cause of the decline is related solely to interest rate increases and where we have the ability and intent to hold the security until the fair value is recovered. Estimates of any other than temporary declines in the fair values of credit substitute securities are measured on a case by case basis together with loans under the overall exposure to those customers and recognized as realized losses. As our exposures in respect of such securities are similar to our exposures on the borrower s loan portfolio, additional disclosures have been provided on impairment status in Note 8 and on concentrations of credit risk in Note 12 of our audited financial statements included in the accompanying prospectus.

Recently issued accounting pronouncements not yet effective

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155 Accounting for Certain Hybrid Instruments which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative and would otherwise require bifurcation in accordance with SFAS 133. The statement is effective as of April 1, 2007. The adoption of SFAS No. 155 is not expected to have a material impact on our future financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment to FASB Statement No. 140, which permits but does not require an entity to account for one or more classes of servicing rights at fair value, with changes in fair value recorded in our consolidated statement of income. The statement is effective April 1, 2007. We do not expect that the adoption of the above mentioned new accounting pronouncement will have a material impact on our future financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement is effective November 2007. We are currently evaluating this standard to determine whether it will have a material effect on our future financial position or results of operations.

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on several other similar issues. This interpretation is effective for the fiscal year commencing after December 31, 2006. The Bank does not expect the adoption of FIN No.48 to have a material impact on the Bank s future financial position or results of operations.

In February 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities (including an amendment of FASB Statement No. 115). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The unrealized gains and losses on items for which the fair value option has been elected is to be reported in earnings. SFAS 159 is effective from an entity s first year beginning after November 15, 2007.

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Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Net Interest Revenue after Allowance for Credit Losses

Our net interest revenue after allowances for credit losses increased by 51.9% from Rs.18.9 billion in fiscal 2006 to Rs.28.7 billion in fiscal 2007. Our net interest margin increased from 4.1% in fiscal 2006 to 4.4% in fiscal 2007. The following table sets out the components of net interest revenue after allowance for credit losses:

	Year ended March 31			
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Interest on loans	Rs. 28,853.8	Rs. 46,823.5	Rs. 17,969.7	62.3%
Interest on securities, including dividends	13,165.2	20,556.2	7,391.0	56.1
Other interest revenue	1,509.0	2,681.9	1,172.9	77.7
Total interest and dividend revenue	43,528.0	70,061.6	26,533.6	61.0
Interest on deposits	15,590.1	26,175.9	10,585.8	67.9
Interest on short term borrowings	3,469.7	4,800.4	1,330.7	38.4
Interest on long term debt	562.0	2,164.8	1,602.8	285.2
Other Interest Expense	0.0	4.0	4.0	
Total interest expense	19,621.8	33,145.1	13,523.3	68.9
Net interest revenue	Rs. 23,906.2	Rs. 36,916.5	Rs. 13,010.3	54.4
Allowance for credit losses:				
Retail	4,956.0	8,386.9	3,430.8	69.2
Wholesale	76.0	(136.6)	(212.5)	(279.6)
Total	Rs. 5,032.0	Rs. 8,250.3	Rs. 3,218.3	64.0%
Net interest revenue after allowance for credit losses	Rs. 18,874.2	Rs. 28,666.2	Rs. 9,792.0	51.9%

Interest and Dividend Revenue

Interest on loans increased as average volume of loans increased by 44.4% from Rs.323.7 billion in fiscal 2006 to Rs.467.3 billion in fiscal 2007. Our average volume of retail loans increased by 59.5% from Rs.157.3 billion in fiscal 2006 to Rs.250.8 billion in fiscal 2007. The key retail loan products that contributed to our retail loan growth were auto loans, business banking loans, personal loans and credit card receivables. Our average volume of wholesale loans increased by 30.1% from Rs.166.4 billion in fiscal 2006 to Rs.216.5 billion in fiscal 2007 due to increased lending to existing customers as well as new customer acquisitions. These volume increases were also matched by a corresponding increase in yields. Yields on our loans increased from an average of 8.9% in fiscal 2006 to 10.0% in fiscal 2007. Loan yields increased as a result of the general increase in the interest rates in the banking system and an increase in our proportion of higher yielding retail loans. This increase was partially offset by the effect of our consolidation of HBL, which resulted in certain fees paid to HBL related to the acquisition of new loans being expensed instead of amortized over the loan period.

Interest on securities, including dividends increased by 56.1% from Rs.13.2 billion in fiscal 2006 to Rs.20.6 billion in fiscal 2007 due to increases in yields and in the volume of overall investments.

Other interest revenue increased by 77.7% for fiscal 2007 compared to fiscal 2006 mainly due to an increase in earnings from interbank and term placements.

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Interest Expense

Our interest expense on deposits increased by 67.9% from Rs.15.6 billion in fiscal 2006 to Rs.26.2 billion in fiscal 2007. Our average cost of deposits increased from 3.4% in fiscal 2006 to 4.0% in fiscal 2007 as a result of an increase in the average cost of time deposits from 6.0% in fiscal 2006 to 6.8% in fiscal 2007 and a decline in the proportion of average current and savings account balances to average total deposits from 57.0% to 52.7%. Our interest expense on short-term borrowings increased by 38.4% as a result of an increase in borrowing in inter-bank call money market. Our average cost of short-term borrowing also increased from 4.8% in fiscal 2006 to 6.4% in fiscal 2007. Our interest expense on long-term debt increased by 285.2% primarily due to the issuance of Rs.16.95 billion of bonds qualifying as Upper Tier 2 and Lower Tier 2 capital and innovative perpetual debt instruments qualifying as hybrid Tier 1 capital in fiscal 2007.

Allowance for Credit Losses

Allowances for credit losses increased by 64.0% for fiscal 2007 compared to fiscal 2006. This was primarily due to an increase in allowances for credit losses on retail loans from Rs.5.0 billion to Rs.8.4 billion which included unallocated loss allowance of Rs.1.4 billion in fiscal 2007 as against Rs.200.8 million in fiscal 2006. Such increase resulted from increases in prior years in the volume of retail loans and changes in the composition of our retail loans, including higher proportions of two wheeler loans and unsecured loans. We establish a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan to value ratios. The loans are charged off against allowances at defined delinquency levels. The credit losses for the wholesale segment decreased due to recoveries in non-performing loans during fiscal 2007 compared to fiscal 2006 and a release in unallocated loss provision.

Non- Interest Revenue

Our non-interest revenue increased by 23.5% from Rs.12.1 billion in fiscal 2006 to Rs.15.0 billion in fiscal 2007. The following table sets forth the components of our non-interest revenue:

	Year ended March 31			
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Fees and commissions	Rs. 10,949.6	Rs. 13,371.9	Rs. 2,422.3	22.1%
Realized gains (losses) on sales of AFS securities	420.3	(456.9)	(877.2)	(208.7)
Realized gains (losses) on sales of HFT securities	(44.8)	(134.7)	(89.9)	(200.7)
Foreign exchange	994.0	1,903.5	909.5	91.5
Derivative transactions	(402.9)	165.1	568.0	*
Other	231.7	150.8	(80.9)	(34.9)
Total non-interest revenue	Rs. 12,147.9	Rs. 14,999.7	Rs. 2,851.8	23.5%

* Not meaningful

Fees and commissions increased primarily because of growth in service and processing fees and charges on retail asset products. Such fees and charges were primarily comprised of processing fees on new loans, foreclosure charges and charges on bouncing of checks. There was a large increase in credit card fees due to higher late payment charges on account of higher volumes and rates. There was also an increase in ATM fees and debit card charges due to increased volume of ATM and debit card transactions. In addition, our fees from the distribution of third party mutual funds and insurance products increased considerably. Fees and commissions we earned from our wholesale business also increased on account of higher trade, cash management and tax collection volumes. This increase in fees and commissions was partially offset due to lower charges on customers maintaining insufficient minimum balances. Such lower charges resulted from a reduction in the number of such accounts.

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Revenue from foreign exchange increased primarily due to an increase in the volume of foreign exchange transactions with retail and wholesale customers.

Revenue from derivative transactions increased due to higher customer volumes on derivative transactions as well as an increase in fair values on the interest rate swaps due to changes in interest rates. We had overall net paid positions on the fixed leg of the swaps which resulted in the fair values increasing with increases in interest rates. The decrease in other non-interest revenue resulted from a decline in sales of portfolios of automobile loans, commercial vehicle loans and personal loans.

Non- Interest Expense

Our non-interest expense was comprised of the following:

	Year ended March 31					
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)	2006 % of net revenues	2007 % of net revenues
	(in millions, except percentages)					
Salaries and staff benefits	Rs. 5,420.9	Rs. 11,430.6	Rs. 6,009.7	110.9%	17.5%	26.2%
Premises and equipment	3,125.9	4,130.5	1,004.6	32.1	10.1	9.5
Depreciation and amortization	1,812.1	2,273.3	461.2	25.5	5.8	5.2
Administrative and other	7,487.9	9,591.7	2,103.8	28.1	24.1	22.0
Total non-interest expense	Rs. 17,846.8	Rs. 27,426.1	Rs. 9,579.3	53.7%	57.5%	62.8%

Total non-interest expense increased by 53.7% from Rs.17.8 billion in fiscal 2006 to Rs.27.4 billion in fiscal 2007. This was primarily due to increased salaries and staff benefits, infrastructure costs related to the expansion of our branch and ATM networks and geographical coverage and higher volumes for our retail loan products. As a percentage of our net revenues, non-interest expense increased to 62.8% in fiscal 2007 compared to 57.5% in fiscal 2006.

Salaries and staff benefits rose in absolute terms and as a percentage of revenue principally due to increased headcount to support our future growth. Our headcount increased from 14,878 employees as of March 31, 2006 to 21,477 employees as of March 31, 2007 primarily as a result of us directly employing staff to perform activities that were formerly outsourced to third parties, including our affiliate, HBL, in order to have more control over the marketing of our products and facilitate compliance with the KYC norms. Our overall expense did not increase because the fees we previously paid to HBL were reduced. See Related Party Transactions. Headcount also increased due to general growth in our business. The Bank also adopted SFAS 123 (R) which resulted in additional expense of Rs.976.3 million for fiscal 2007. Our premises and equipment expense increased because we expanded our distribution network from 535 branches and 1,323 ATMs as of March 31, 2006 to 684 branches and 1,605 ATMs as of March 31, 2007. Depreciation and amortization and administrative and other expenses increased primarily due to an expansion of our branch and ATM networks and higher spending on technology and infrastructure to support growth.

Income Tax

Our income tax expense increased by 29.7% from Rs.4.0 billion in fiscal 2006 to Rs.5.1 billion in fiscal 2007. Our effective tax rate increased from 30.1% in fiscal 2006 to 31.7% in fiscal 2007, principally due to higher disallowances on stock based compensation due to the adoption of SFAS 123 (R) in fiscal 2007.

Net Income

As a result of the foregoing factors, our net income after taxes increased by 20.2% from Rs.9.2 billion in fiscal 2006 to Rs.11.0 billion in fiscal 2007.

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Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Net Interest Revenue After Allowance For Credit Losses

Our net interest revenue after allowances for credit losses increased by 45.9% from Rs.12.9 billion in fiscal 2005 to Rs.18.9 billion in fiscal 2006. Our net interest margin increased from 3.9% in fiscal 2005 to 4.0% in fiscal 2006. The following table sets out the components of net interest revenue after allowance for credit losses:

	Year ended March 31			
	2005	2006	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Interest on loans	Rs. 16,431.4	Rs. 28,853.8	Rs. 12,422.4	75.6%
Interest on securities, including dividends	11,543.5	13,165.2	1,621.7	14.1
Other interest revenue	1,234.5	1,509.0	274.5	22.2
Total interest and dividend revenue	29,209.4	43,528.0	14,318.6	49.0
Interest on deposits	11,074.1	15,590.1	4,516.0	40.8
Interest on short term borrowings	1,759.4	3,469.7	1,710.3	97.2
Interest on long term debt	390.2	562.0	171.8	44.0
Total interest expense	13,223.7	19,621.8	6,398.1	48.4
Net interest revenue	15,985.7	23,906.2	7,920.5	49.6
Allowance for credit losses				
Retail	2,925.5	4,956.0	2,030.5	69.4
Wholesale	122.7	76.0	(46.7)	(38.1)
Total	3,048.2	5,032.0	1,983.8	65.1
Net interest revenue after allowance for credit losses	Rs. 12,937.5	Rs. 18,874.2	Rs. 5,936.7	45.9%

Interest and Dividend Revenue

Interest on loans increased as average volume of loans increased by 58.0% from Rs.204.9 billion in fiscal 2005 to Rs.323.7 billion in fiscal 2006. Our average volume of retail loans increased by 66.6% from Rs.94.4 billion in fiscal 2005 to Rs.157.3 billion in fiscal 2006 primarily due to higher penetration of our retail loan products in existing markets and our expansion into new geographical areas. Our average volume of wholesale loans increased by 50.6% from Rs.110.5 billion in fiscal 2005 to Rs.166.4 billion in fiscal 2006 due to increased lending to existing customers as well as new customer acquisitions. These volume increases were also matched by a corresponding increase in yields. Yields on our loans increased from an average of 8.0% in fiscal 2005 to 8.9% in fiscal 2006. Loan yields increased as a result of the general increase in the interest rates.

Although yields on overall investments fell, interest on securities, including dividends increased by 14.1%. This was primarily due to an increase in statutory liquid ratio securities and higher receipts on dividends on mutual fund units.

Other interest revenue increased by 22.2% for fiscal 2006 compared to fiscal 2005 mainly due to an increase in earnings from interbank and term placements.

Interest Expense

Our interest expense on deposits increased by 40.8% from Rs.11.1 billion in fiscal 2005 to Rs.15.6 billion in fiscal 2006. Our average cost of deposits increased from 3.2% in fiscal 2005 to 3.4% in fiscal 2006 primarily as a result of an increase in the average cost of time deposits from 5.6% in fiscal 2005 to 6.0% in fiscal 2006. The proportion of average savings account balances to average total deposits increased from 55.3% to 57.0%. Our interest expense on short-term borrowings increased by 97.2% as a result of an increase in borrowing in the inter bank call money market. Our average cost of short-term borrowing also increased from 4.1% in fiscal 2005 to 4.8% in fiscal 2006. Our interest expense on long-term debt increased by 44.0% primarily due to Rs.12.0 billion of subordinated debt issued in fiscal 2006.

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Allowance for Credit Losses

Allowances for credit losses increased by 65.1% for fiscal 2006 compared to fiscal 2005. During the same period, allowances for credit losses for retail loans increased by 69.4% from Rs.2,925.5 million to Rs.4,956.0 million, at a lower rate than our retail loan book which grew by 104.0% from Rs.112.7 billion to Rs.229.3 billion. The Bank establishes a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan to value ratios. The loans are charged off against allowances at defined delinquency levels. The credit losses for the wholesale segment decreased by 38.1%, primarily due to large recoveries in non-performing loans during fiscal 2006 compared to fiscal 2005.

Non- Interest Revenue

Our non-interest revenue increased by 47.9% from Rs.8.2 billion in fiscal 2005 to Rs.12.1 billion in fiscal 2006. The following table sets out the components of our non-interest revenue:

	Year ended March 31			
	2005	2006	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Fees and commissions	Rs. 6,124.4	Rs. 10,949.6	Rs. 4,825.2	78.8%
Realized gains (losses) on sales of AFS securities	194.3	420.3	226.0	116.3
Realized gains (losses) on sales of HFT securities	(39.3)	(44.8)	(5.5)	(14.0)
Foreign exchange	911.7	994.0	82.3	9.0
Derivative transactions	204.0	(402.9)	(606.9)	(297.5)
Other	816.4	231.7	(584.7)	(71.6)
Total non-interest revenue	Rs. 8,211.5	Rs. 12,147.9	Rs. 3,936.4	47.9%

Fees and commissions increased primarily because of growth in service and processing fee income related to retail banking services, which was due largely to an increased volume of ATM, credit card and debit card transactions, third party distribution earnings and other retail loans, and an increase in the standard rates for fees on retail transactions. In addition, our fees from the distribution of third party mutual funds and insurance increased considerably.

Revenue from foreign exchange increased primarily due to an increase in the volume of foreign exchange transactions with retail and wholesale customers.

Revenue from derivatives declined primarily due to lower customer volumes on derivatives as well as a decline in fair values on interest rate swaps due to changes in interest rates.

The decrease in other non-interest revenue resulted from a decline in sales of portfolios of automobile loans, commercial vehicle loans and personal loans.

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Non-Interest Expense

Our non-interest expense was comprised of the following:

	Year ended March 31					
	2005	2006	Increase/ (decrease)	% Increase/ (decrease)	2005 % of net revenues	2006 % of net revenues
	(in millions, except percentages)					
Salaries and staff benefits	Rs. 3,249.9	Rs. 5,420.9	Rs. 2,171.0	66.8%	15.4%	17.5%
Premises and equipment	2,260.8	3,125.9	865.1	38.3	10.7	10.1
Depreciation and amortization	1,440.7	1,812.1	371.4	25.8	6.8	5.8
Administrative and other	4,462.5	7,487.9	3,025.4	67.8	21.1	24.1
Total non-interest expense	Rs. 11,413.9	Rs. 17,846.8	Rs. 6,432.9	56.4%	54.0%	57.5%

Total non-interest expense increased by 56.4% from Rs.11.4 billion in fiscal 2005 to Rs.17.8 billion in fiscal 2006. This was primarily due to increased infrastructure costs related to the expansion of our branch and ATM networks and geographical coverage and higher volumes for our retail loan products. As a percentage of our net revenues, non-interest expense increased to 57.5% in fiscal 2006 compared to 54.0% in fiscal 2005.

Salaries and staff benefits rose in absolute terms and as a percentage of revenue principally due to increased headcount to support our future growth. Our headcount increased from 9,030 employees as of March 31, 2005 to 14,878 employees as of March 31, 2006. Our premises and equipment expense increased because we expanded our distribution network from 467 branches and 1,147 ATMs as of March 31, 2005 to 535 branches and 1,323 ATMs as of March 31, 2006. In addition there were over 120 branches which were awaiting RBI approval to commence business. Depreciation and amortization expense and administrative and other expenses increased primarily due to an expansion of our branch and ATM networks and higher spending on technology and infrastructure to support growth in our retail loans and credit card business.

Income Tax

Our income tax expense increased by 26.9% from Rs.3.1 billion in fiscal 2005 to Rs.4.0 billion in fiscal 2006. Our effective tax rate decreased from 32.1% in fiscal 2005 to 30.1% in fiscal 2006, principally due to higher tax exempt income in fiscal 2006. Tax-exempt income consists principally of dividends and investment income from tax-exempt investments such as preference shares, mutual fund units and infrastructure bonds.

Net Income

As a result of the foregoing factors, our net income after taxes increased by 39.3% from Rs.6.6 billion in fiscal 2005 to Rs.9.2 billion in fiscal 2006.

Liquidity and Capital Resources

Our growth over the last three years has been financed by a combination of cash generated from operations, increases in our customer deposits, borrowings and new issuances of equity capital and other securities qualifying as Tier 1 or Tier 2 capital.

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The following table sets forth our cash flows from operating activities, investing activities and financing activities in a condensed format. We have aggregated certain line items set forth in the cash flow statement that is part of our financial statements included in the accompanying prospectus in order to facilitate understanding of significant trends in our business.

	Year ended March 31		
	2005	2006 (in millions)	2007
Cash Flows from Operating Activities:			
Net income	Rs. 6,609.7	Rs. 9,187.1	Rs. 11,039.7
Non cash adjustments to net income	8,289.9	11,654.2	16,993.3
Net change in other assets and liabilities	(13,154.9)	11,774.8	5,796.1
Net cash provided/(used) by operating activities	1,744.7	32,616.1	33,829.1
Cash Flows from Investing Activities:			
Net change in term placements	(5,134.3)	(1,544.2)	(2,572.1)
Net change in investments	(17,516.4)	(78,453.7)	(21,010.1)
Purchase of subsidiary		155.8	
Proceeds from loans securitized	48,234.6	19,733.3	6,535.8
Loans purchased net of repayments	(1,688.6)	(3,736.3)	(8,899.3)
Increase in loans originated, net of principal collections	(127,777.5)	(159,840.8)	(147,290.9)
Additions to property and equipment	(2,433.3)	(3,701.4)	(3,224.4)
Net cash used in investing activities	(106,315.5)	(227,387.3)	(176,461.0)
Cash Flows from Financing Activities:			
Net increase in deposits	59,480.5	193,762.9	125,042.6
Net increase/(decrease) in short-term borrowings	38,014.9	13,597.6	20,667.0
Net increase/(decrease) in long-term debt	(1,057.9)	12,000.5	15,701.6
Proceeds from issuance of equity shares for options exercised	659.1	625.8	2,540.2
Proceeds from issuance of ADSs	12,747.6		0.0
Proceeds from applications received for shares pending allotment	423.3		0.0
Payment of dividends and dividend tax	(1,131.3)	(1,597.1)	(1,967.4)
Net cash provided by financing activities	109,136.2	218,389.7	161,984.0
Net change in cash and cash equivalents	4,565.4	23,618.5	19,352.1
Cash and cash equivalents, beginning of year	33,010.4	37,575.8	61,194.3
Cash and cash equivalents, end of year	Rs. 37,575.8	Rs. 61,194.3	Rs. 80,546.4

Cash Flows from Operations

Our net cash from operations reflects our net income, adjustments for tax and non-cash charges such as depreciation and amortization, as well as changes in other assets and liabilities. Our net cash provided by operating activities increased during fiscal 2007 from Rs.32.6 billion to Rs.33.8 billion. This increase was primarily due to an increase in our net income from Rs.9.2 billion to Rs.11.0 billion.

Cash Flows from Financing Activities

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Deposits have increased over time as our business has expanded. Our total deposits increased by 22.4% from

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Rs.557.3 billion in fiscal 2006 to Rs.682.3 billion in fiscal 2007. Savings account deposits at Rs.195.8 billion and current account deposits at Rs.197.8 billion together accounted for approximately 57.7% of total deposits as of March 31, 2007. There has been a 16.3% increase in our time deposits from Rs.248.3 billion in fiscal 2006 to Rs.288.7 billion in fiscal 2007, which contributed to the significant overall increase in deposits.

The short-term borrowings are utilized for our treasury operations. In fiscal 2007, our short-term borrowings increased by 27.6% from Rs.74.8 billion in fiscal 2006 to Rs.95.5 billion in fiscal 2007. We increased our use of inter bank participation certificates which are short-term borrowings secured against loan assets in the inter bank market.

In fiscal 2007 we raised Rs.16.95 billion long term debt including Upper Tier 2 debt, Lower Tier 2 debt and innovative perpetual debt at an annualized coupon between 8.45% to 9.92%. Subordinated debt qualifies for Tier 2 capital. We repaid Rs.1.0 billion of subordinated debt which matured during fiscal 2007.

Cash Flows from Investing Activities

We used our cash from operations and financing activities primarily to invest in our retail loan book. Our growth in investments reflected primarily an increase in statutory liquidity ratio investments that was required as our business expanded. The net change in investment at March 31, 2007 was an increase of Rs.21.0 billion. This was primarily due to an increase in investments required to meet our statutory liquidity ratio during the year, offset in part by a decrease in credit substitutes. Our statutory liquidity ratio investments increased from Rs. 188.1 billion in fiscal 2006 to Rs.229.6 billion in fiscal 2007. The increase in loans originated and purchased, net of principal collections and repayments was Rs.163.6 billion in fiscal 2006 and Rs.156.2 billion in fiscal 2007. The lower increase was mainly due to a lower growth rate in retail loans in fiscal 2007.

During fiscal 2005, the RBI issued guidelines on securitization transactions in its circular dated February 1, 2006. These guidelines increased the capital costs of securitizations and contributed to a sharp decrease in volumes in the securitization market. As a result, our sales of receivables declined from Rs.19.7 billion in fiscal 2006 to Rs.6.5 billion in fiscal 2007.

Financial Condition

Assets

The following table sets forth the principal components of our assets as of March 31, 2006 and March 31, 2007:

	As of March 31			
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)
	(in millions except percentages)			
Cash and cash equivalents	Rs. 61,194.3	Rs. 80,546.4	Rs. 19,352.1	31.6%
Term placements	10,243.7	12,815.8	2,572.1	25.1
Investments held for trading	2,945.6	4,284.1	1,338.5	45.4
Investments available for sale	273,457.0	304,241.1	30,784.1	11.3
Investments held to maturity		0.0		
Securities purchased under agreements to resell	4,200.0	0.0	(4,200.0)	(100.0)
Loans, net	395,274.3	536,730.9	141,456.6	35.8
Accrued interest receivable	8,662.7	15,742.9	7,080.2	81.7
Property and equipment	8,714.6	10,397.6	1,683.0	19.3
Other assets	26,277.2	48,427.1	22,149.9	84.3
Total assets	Rs. 790,969.4	Rs. 1,013,185.9	Rs. 222,216.5	28.1%

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Our total assets increased by 28.1% to Rs.1,013.2 billion in fiscal 2007 from Rs.791.0 billion in fiscal 2006.

Cash and cash equivalents increased by 31.6% primarily due to an increase in balances with the RBI and balances with banks at call and short notice.

There was an 11.3% increase in AFS securities primarily on account of a rise in our statutory liquidity ratio requirements during the year.

Net loans increased due to increases in both our retail and wholesale products. Our retail loan volume increased by 38.9% from Rs.229.3 billion in fiscal 2006 to Rs.318.6 billion in fiscal 2007. The key drivers in the retail loan increase were auto loans, personal loans, credit card receivables and business banking loans. This was complemented by an increase in wholesale loans of 31.8% from Rs.171.6 billion to Rs.226.1 billion due to increased lending to existing customers as well as new customer loans.

Our property and equipment increased as we expanded our distribution network from 535 branches and 1,323 ATMs as of March 31, 2006 to 684 branches and 1,605 ATMs as of March 31, 2007 and invested in other infrastructure to support our growth. In addition, at March 31, 2007, there were 70 branches which were awaiting RBI approval for commencing business in anticipation of which we had invested in infrastructure to support those branches. As of June 30, 2007, we have received RBI approval for these 70 branches of which 69 branches have been commissioned.

Liabilities and Shareholders Equity

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2006 and March 31, 2007:

	As of March 31			
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Liabilities				
Interest bearing deposits	Rs. 410,181.2	Rs. 484,542.9	Rs. 74,361.7	18.1%
Non-interest bearing deposits	147,124.2	197,805.1	50,680.9	34.4
Total deposits	557,305.4	682,348.0	125,042.6	22.4
Securities sold under repurchase agreements	0.0	10,500.0	10,500.0	
Short-term borrowings	74,805.4	95,472.4	20,667.0	27.6
Accrued interest payable	8,264.1	17,035.7	8,771.6	106.1
Long-term debt	17,899.9	33,601.5	15,701.6	87.7
Accrued expenses and other liabilities	77,201.8	108,398.6	31,196.8	40.4
Total liabilities	735,476.6	947,356.2	211,879.6	28.8
Minority Interest	225.3	321.6	96.3	42.7
Shareholders equity	55,267.5	65,508.1	10,240.6	18.5
Total liabilities and shareholders equity	Rs. 790,969.4	Rs. 1,013,185.9	Rs. 222,216.5	28.1%

Our total liabilities increased by 28.8% from Rs.735.5 billion in fiscal 2006 to Rs.947.4 billion in fiscal 2007. With the growth in our loans, we sought to increase deposits to fund the same. We changed our deposit pricing structure to generally remain competitive in the market. The increase in our interest bearing deposits was principally due to new customers acquired as we expanded our branch network and achieved greater penetration of our customer base through cross sales of our products. Of our total deposits as of March 31, 2007 retail deposits accounted for 64.2% amounting to Rs.438.4 billion and wholesale deposits accounted for the balance.

Accrued expenses and other liabilities increased principally because of an increase in bills payable and a change in the fair value of derivatives as of March 31, 2007 compared to March 31, 2006.

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Most of our funding requirements are met through short- term and medium- term funding sources. Of our total non-equity sources of funding as of March 31, 2007, deposits accounted for approximately 72.0% with short term borrowings accounting for approximately 10.1% and long-term debt accounting for approximately 3.5%. In our experience, a substantial portion of our deposits are rolled over upon maturity and are, over time, a stable source of funding. However, the continuation of our deposit base could be adversely affected in the event of deterioration in the economy or if the interest rates offered by us differ significantly from those offered by our competitors. Our short-term borrowings, which are comprised primarily of money-market borrowings, increased by 27.6%. During fiscal 2007, we also issued Upper Tier 2 Capital, Lower Tier 2 Capital and innovative perpetual debt of Rs.16.95 billion at interest rates between 8.45% to 9.92%.

Shareholders equity increased primarily due to an increase in our retained earnings and additional paid- in capital on account of exercise of stock options by employees. As of March 31, 2007 our shareholders equity included Rs.3.6 billion of unrealized loss on available for sale securities.

Capital

We are subject to the capital adequacy requirements of the RBI, which are primarily based on the capital adequacy accord reached by the Basel Committee of the Bank of International Settlements in 1988. For a description of the RBI s capital adequacy guidelines, see Supervision and Regulation Capital Adequacy Requirements in our annual report on Form 20-F incorporated by reference in the accompanying prospectus. We are required to maintain a minimum ratio of total capital to risk adjusted assets as determined by a specified formula of 9.0%, at least half of which must be Tier 1 capital, which is generally shareholders equity.

Our regulatory capital and capital adequacy ratios as measured in accordance with Indian GAAP are as follows:

	As of March 31	
	2006	**2007**
	(in millions, except percentages)	
Tier 1 capital	Rs. 51,499.1	Rs. 63,527.1
Tier 2 capital	17,207.1	33,399.9
Total capital	68,706.2	96,927.0
Total risk weighted assets and contingents	Rs. 602,176.2	Rs. 740,819.2
Capital ratios:		
Tier 1	8.55%	8.57%
Total capital	11.41%	13.08%
Minimum capital ratios required by the RBI:		
Tier 1	4.50%	4.50%
Total capital	9.00%	9.00%

Our Indian GAAP financial statements include general provisions (comprising unallocated allowances, provisions for country risk and floating provision) of Rs.1.9 billion and Rs.3.5 billion as of March 31, 2006 and March 31, 2007, respectively, which qualify for Tier 2 capital subject to a ceiling of risk weighted assets.

The risk weights have been increased recently by the RBI in respect of certain items such as exposure to capital markets to 125.0%, exposures to commercial real estate and venture capital funds to 150.0%, consumer credit including personal loans and credit cards to 125.0% and investment in mortgage backed securities of residential assets of housing finance companies satisfying certain conditions to 75.0%. The aggregate risk weighted assets are taken into account for determining the capital adequacy ratio.

Pursuant to the issuance of securitization guidelines by the RBI in fiscal 2006, we are required to give the following treatment to credit enhancements provided to an investor or a SPV:

50% of each of the first and second loss credit enhancement is deducted from Tier 1 and Tier 2 capital respectively.

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Commitment to provide liquidity facility, to the extent not drawn, is considered an off-balance sheet item and is given conversion factor as well as 100% risk weight.

For transactions prior to the issuance of these securitization guidelines, credit enhancements that reduced Tier 1 and Tier 2 capital were generally in the form of cash collateral. See Supervision and Regulation Capital Adequacy Requirements in our annual report on Form 20-F incorporated by reference in the accompanying prospectus.

The RBI has also issued final guidelines in April 2007, for implementation of the new capital adequacy framework. See Supervision and Regulation Capital Adequacy Requirements in our annual report on Form 20-F incorporated by reference in the accompanying prospectus. The Bank is currently evaluating the impact of this new frame work.

Capital Expenditure

Our capital expenditures consist principally of expenditures relating to our branch network expansion, as well as investments in our technology and communications infrastructure. We have current plans for aggregate capital expenditures of approximately Rs.4.6 billion in fiscal 2008, of which we have entered into commitments for Rs.670.3 million as of March 31, 2007. We have no commitments for the balance. These budgeted amounts include Rs.1.7 billion to expand our branch and back office network, Rs.390.0 million to expand our ATM network, Rs.50.0 million to expand our Electronic Data Capture terminal network and Rs.2.4 billion to upgrade and expand our hardware, data center, network and other systems. We may use these budgeted amounts for other purposes depending on the business environment prevailing at the time we seek to utilize these budgeted amounts.

Financial Instruments and Off-Balance Sheet Arrangements

Foreign Exchange and Derivatives

We enter into foreign exchange and derivative transactions for our customers and for our own account. Our foreign exchange contracts include forward exchange contracts, currency swaps and currency options. Our derivative contracts include rupee-based interest rate swaps, forward rate agreements and cross-currency derivatives primarily for corporate customers. We enter into transactions with our customers and typically lay off exposures in the inter-bank market. We also trade rupee-based interest rate swaps for our own account and enter into foreign exchange contracts to cover our own exposures. We earn profit on customer transactions by way of a margin as a mark-up over the inter-bank exchange or interest rate. We earn profit on inter-bank transactions by way of a spread between the purchase rate and the sale rate. These profits are recorded as income from foreign exchange and derivative transactions. The RBI imposes limits on our ability to hold overnight positions in foreign exchange and derivatives. See Business Treasury Derivatives.

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts as of March 31, 2006 and March 31, 2007, together with the related fair value, which is the mark-to-market impact of the derivative and foreign exchange products on the reporting date. We do not net exposures to the same counter party in calculating these amounts.

	As of March 31			
	2006		**2007**	
	Notional	**Fair Value**	**Notional**	**Fair Value**
	(in millions)			
Interest rate swaps and forward rate agreements	Rs. 1,209,102.8	Rs. (593.1)	Rs. 1,794,090.4	Rs. (27.9)
Forward exchange contracts, currency swaps and currency options	Rs. 845,329.3	Rs. 1,025.8	Rs. 1,377,440.9	Rs. 2,591.4

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Our trading activities for the above derivative instruments are carried out in the inter-bank market, which is a non-exchange informal market. However, these markets generally either provide price discovery or sufficient data to reliably estimate fair values of financial instruments.

Guarantees and Documentary Credits

As a part of our commercial banking activities, we issue documentary credits and guarantees. Documentary credits, such as letters of credit, enhance the credit standing of our customers. Guarantees generally represent irrevocable assurances that we will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment toward a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The nominal values of guarantees and documentary credits for the dates set forth below were as follows:

	As of March 31	
	2006	2007
	(in millions)	
Bank guarantees:		
Financial guarantees	Rs. 21,141.0	Rs. 23,631.4
Performance guarantees	12,940.9	20,330.7
Documentary credits	24,103.7	26,050.5
Total	Rs. 58,185.6	Rs. 70,012.6

Guarantees and documentary credits outstanding increased by 20.3% to Rs.70.0 billion as of March 31, 2007, principally due to general growth in our wholesale banking business.

Loan Sanction Letters

In some cases we issue sanction letters to customers, indicating our intent to provide new loans. The amount of loans referred to in these letters that have not yet been made increased from Rs.110.8 billion as of March 31, 2006 to Rs.165.8 billion as of March 31, 2007. If requested, we make these loans subject to the customer s credit worthiness at that time and at interest rates in effect on the date the loans are made. We are not obligated to make these loans, and the sanctions are subject to periodic review. See also Note 22 to our audited financial statements included in the accompanying prospectus.

Contractual Obligations and Commercial Commitments

Contractual Obligations

	Payments due by period, as of March 31, 2007				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
			(in millions)		
Subordinated debt	Rs. 32,826.0	Rs.	Rs.	Rs.	Rs. 32,826.0
Other long term debt(a)	775.5	289.8	191.2	294.5	
Operating leases(b)	15,838.6	1,561.3	5,082.0	3,643.2	5,552.1
Unconditional purchase obligations(c)	670.3	670.3			
Total contractual cash obligations	Rs. 50,110.4	Rs. 2,521.4	Rs. 5,273.2	Rs. 3,937.7	Rs. 38,378.1

(a)

Other long term debt includes a loan of Rs.5.1 million from the Indian Renewable Energy Development Authority used to finance solar equipment.

(b) Operating leases are principally for the lease of office, branch and ATM premises, and residential premises for executives.

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(c) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2007. See Capital Expenditure.

Commercial Commitments

Our commercial commitments consist principally of letters of credit, guarantees, foreign exchange contracts and derivative contracts.

We have recognized a liability of Rs. 248.8 million as of March 31, 2007 as required by FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Based on historical trends and as required by Statement of Financial Accounting Standards No. 5, Accounting For Contingencies, the Bank has recognized a liability of Rs. 287.7 million as of March 31, 2007.

As part of our risk management activities, we continuously monitor the creditworthiness of customers as well as guarantee exposures. However, if a customer fails to perform a specified obligation to a beneficiary, the beneficiary may draw upon the guarantee by presenting documents that are in compliance with the guarantee. In that event, we make payment to the beneficiary on account of the indebtedness of the customer or make payment on account of the default by the customer in the performance of an obligation, up to the full notional amount of the guarantee. The customer is obligated to reimburse us for any such payment. If the customer fails to pay, we would, as applicable, liquidate collateral and/or set off accounts. The residual maturities of the above obligations as of March 31, 2007 are set forth in the following table:

		Amount of commitment expiration per period			
	Total amounts committed	Less than 1 year	1-3 years	3-5 years	Over 5 years
			(in millions)		
Documentary Credits	Rs. 26,050.5	Rs. 24,373.3	Rs. 1,676.5	Rs. 0.8	Rs.
Guarantees	43,962.1	27,108.7	11,472.8	4,627.0	753.6
Forward exchange contracts	1,234,164.6	1,220,892.9	13,049.9	221.8	
Derivative contracts*	1,937,366.3	788,498.4	709,735.0	414,896.7	24,236.2
Total contractual cash obligations	Rs. 3,241,543.5	Rs. 2,060,873.3	Rs. 735,934.1	Rs. 419,746.2	Rs. 24,989.8

* Denotes notional principal amounts.

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SELECTED STATISTICAL INFORMATION

The following information should be read together with our financial statements included in the accompanying prospectus as well as Management s Discussion and Analysis of Financial Condition and Results of Operations. All amounts presented in this section are in accordance with U.S. GAAP, other than capital adequacy ratios, and are audited, except for average amounts. Footnotes appear at the end of each related section of tables.

Average Balance Sheet

The table below presents the average balances for interest-earning assets and interest-bearing liabilities together with the related interest revenue and expense amounts, resulting in the presentation of the average yields and cost for each period. The average balance is the daily average of balances outstanding. The average yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. The average balances of loans include non-performing loans and are net of allowance for credit losses. We have not recalculated tax-exempt income on a tax-equivalent basis.

	Year ended March 31								
	2005			2006			2007		
	Average Balance	Interest revenue/ expense	Average yield/ cost	Average Balance	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense	Average Yield/ cost
	(in millions, except percentages)								
Assets:									
Interest-earning assets:									
Cash equivalents	Rs. 30,541.2	Rs. 835.9	2.7%	Rs. 36,720.2	Rs. 860.2	2.3%	Rs. 65,221.9	Rs. 1,891.1	2.9%
Term placements	6,132.4	398.6	6.5	9,471.6	648.8	6.9	10,993.8	790.8	7.2
Investments available for sale:									
Tax free(1)	19,486.5	926.9	4.8	10,856.0	598.4	5.5	14,920.8	1,109.3	7.4
Taxable	151,689.8	9,678.8	6.4	205,220.9	12,371.2	6.0	264,519.6	18,298.7	6.9
Investments held to maturity	10,001.0	793.4	7.9						
Investments held for trading	1,850.2	144.4	7.8	3,332.4	195.6	5.9	18,333.5	1,148.2	6.3
Loans, net:									
Retail loans	94,398.6	8,304.8	8.8	157,272.2	14,864.4	9.5	250,818.9	29,662.0	11.8
Wholesale loans	110,520.4	8,126.6	7.4	166,437.7	13,989.4	8.4	216,543.6	17,161.5	7.9
Total interest-earning assets:	Rs. 424,620.1	Rs. 29,209.4	6.9%	Rs. 589,311.0	Rs. 43,528.0	7.4%	Rs. 841,352.1	Rs. 70,061.6	8.3%
Non-interest-earning assets:									
Cash	2,732.5			5,116.5			4,854.2		
Property and equipment	6,251.2			7,416.5			9,556.1		
Other assets	14,425.8			19,405.5			29,409.1		
Total non-interest earning assets	23,409.5			31,938.5			43,819.4		
Total assets	Rs. 448,029.6	Rs. 29,209.4	6.5%	Rs. 621,249.5	Rs. 43,528.0	7.0%	Rs. 885,171.5	Rs. 70,061.6	7.9%

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	Year ended March 31		
	2005	2006	2007
Average			