

HDFC BANK LTD  
Form 20-F  
September 29, 2008  
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As filed with the Securities and Exchange Commission on September 29, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended March 31, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-15216

## **HDFC BANK LIMITED**

(Exact name of registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**India**

(Jurisdiction of incorporation or organization)

**HDFC Bank House,**

**Senapati Bapat Marg, Lower Parel, Mumbai- 400 013, India**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

**Title of each class**

**Name of each exchange on which registered**

**American Depositary Shares, each representing three**

**equity shares, par value Rs. 10 per share**

**Securities registered pursuant to Section 12(g) of the Act.**

**The New York Stock Exchange**

**Not Applicable**

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(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**Not Applicable**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

354,432,920 Equity **Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If  other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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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 its 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 are 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 and all other financial data included in this report, 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.

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 depository 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 U.S. dollar. During fiscal 2007 and fiscal 2008, the rupee appreciated against the U.S. dollar. Now, since April 2008, we are again witnessing a depreciation of the rupee against the U.S. 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:

<b>Fiscal Year</b>	<b>Period End<sup>(1)</sup></b>	<b>Average<sup>(2)</sup></b>	<b>High</b>	<b>Low</b>
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
2008	40.02	40.13	43.05	38.48

(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:

<b>Month</b>	<b>Period</b>	<b>Average</b>	<b>High</b>	<b>Low</b>
March 2008	40.02	40.15	40.46	39.76
April 2008	40.45	39.97	40.45	39.73
May 2008	42.15	42.00	42.93	40.45
June 2008	42.93	42.76	42.97	42.38
July 2008	42.47	42.70	43.29	41.10
August 2008	43.25	42.91	43.74	42.01

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. 40.02 on March 31, 2008. 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 September 22, 2008 was Rs. 45.30 per US\$1.00.



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FORWARD-LOOKING STATEMENTS

We have included statements in this report which contain words or phrases such as will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, objective, goal, project, should, will pursue and similar expressions, that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy successfully, the market acceptance of and demand for various banking services, future levels of our non-performing loans, our growth and expansion, the adequacy of our allowance for credit and investment losses, technological changes, volatility in investment income, our ability to market new products, cash flow projections, the outcome of any legal, tax or regulatory proceedings in India and in other jurisdictions we are or become a party to, the future impact of new accounting standards, our ability to pay dividends, the impact of changes in banking regulations and other regulatory changes in India and other jurisdictions on us, our ability to roll over our short-term funding sources and our exposure to market and operational risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what may actually occur in the future. As a result, actual future gains, losses or impact on net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions, instability or uncertainty in India and the other countries which have an impact on our business activities or investments, caused by any factor including terrorist attacks in India, the United States or elsewhere, anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, tensions between India and Pakistan related to the Kashmir region, military armament or social unrest in any part of India, the monetary and interest rate policies of the government of India, natural calamities, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in Indian and foreign laws and regulations, including tax, accounting and banking regulations, changes in competition and the pricing environment in India, and regional or general changes in asset valuations. For further discussion on the factors that could cause actual results to differ, see Risk Factors.

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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, 2008, we expanded our operations from 231 branches and 732 ATMs in 122 cities to 761 branches and 1,977 ATMs in 327 cities. During the same five years, our customer base grew from 3.4 million customers to 11.6 million customers. As our geographical reach and market penetration have expanded, so too have our assets, which grew from Rs. 311.8 billion as of March 31, 2003 to Rs. 1,508.0 billion as of March 31, 2008. Our net income has increased from Rs. 3.5 billion for fiscal 2003 to Rs. 13.2 billion for fiscal 2008 at a compounded annual growth rate of 30.2%.

Notwithstanding our pace of growth, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2008, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.4% of net customer assets as per Indian generally accepted accounting principles, or Indian GAAP. In addition, our net customer assets represented 71.6% of our deposits and customer deposits represented 66.7% of our total liabilities and shareholders' equity. The average non-interest bearing current accounts and low-interest savings accounts represented 51.7% of total deposits for fiscal 2008. 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 2008 of 4.1%.

We are part of the HDFC group of companies founded by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a public limited company established under the laws of India. HDFC Limited and its subsidiaries owned approximately 23.3% of our outstanding equity shares as of March 31, 2008. See also **Principal Shareholders**.

The Bank has two subsidiaries: HDFC Securities Limited (HSL) and HDB Financial Services Limited (HDBFS). HSL is primarily in the business of providing brokerage services through the internet and other channels. HDBFS is a non-deposit taking non-bank finance company (NBFC), for the establishment of which the Bank received Reserve Bank of India (RBI) approval during the fiscal 2008. We have consolidated the accounts of Atlas Documentary Facilitators Company Private Ltd. (ADFC), which provides back office transaction processing services, in our U.S. GAAP financial statements.

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 of the 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 1.3% as of March 31, 2008 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, 2008, our average cost of funds excluding equity was 4.5%. 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 30.2% per year during the five-year period ending March 31, 2008 and our basic earnings per share grew from Rs. 35.10 for fiscal 2007 to Rs. 38.24 for fiscal 2008. 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.

**Table of Contents****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,			
	2006	2007	2008	2008
	(in millions, except percentages)			
Retail banking	Rs. 23,293.2	Rs. 30,542.1	Rs. 42,342.8	68.5%
Wholesale banking	8,256.0	11,808.1	18,040.4	29.2%
Treasury operations	(527.1)	1,315.7	1,431.4	2.3%
Net revenue	Rs. 31,022.1	Rs. 43,665.9	Rs. 61,814.6	100%

**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, 2008, we had 761 branches, including 22 extension counters, and 1,977 ATMs in 327 cities. We also provide telephone banking in 292 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 60.6% of our gross loans as of March 31, 2008. 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:

	Number of Loans (in thousands)	As of March 31, 2008		% of Total Value
		Value (in millions)		
<b>Retail Loans:</b>				
Auto loans (1)	513	Rs. 132,145.2	US\$ 3,302.0	28.2%
Personal loans	761	71,900.1	1,796.6	15.3%
Retail business banking	31	86,053.8	2,150.3	18.3%
Commercial vehicles and construction equipment finance (1)	145	67,864.5	1,695.8	14.5%
Two wheeler loans	1,109	18,734.7	468.1	4.0%
Credit cards (2)	3,819	31,566.1	788.8	6.7%
Loans against securities	27	13,355.7	333.7	2.8%
Other retail loans	449	19,692.3	492.1	4.2%
<b>Total retail loans</b>	<b>6,854</b>	<b>441,312.4</b>	<b>11,027.4</b>	<b>94.0%</b>
Mortgage-backed securities (home loans) (3)		11,643.4	290.9	2.5%
Asset-backed securities (3)		15,949.1	398.5	3.5%
<b>Total retail assets</b>		<b>Rs. 468,904.9</b>	<b>US\$ 11,716.8</b>	<b>100.0%</b>

(1) Excludes securitized receivables.

(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.

*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.

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### *Credit Cards*

We offer credit cards from the VISA and MasterCard stable including gold, silver, corporate, platinum and titanium credit cards. We had approximately 3.8 million cards outstanding as of March 31, 2008 as against 2.9 million as of March 31, 2007.

### *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, tractor 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.

We also invest in mortgage-backed securities of other originators. These mortgages are generally in India. 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. The assets are generally in India.

### *Loan Assignments*

We purchase loan portfolios, generally in India, 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 2007 and 2008, we securitized retail loans with carrying values of Rs. 6.5 billion and Rs. 2.9 billion, respectively.

**Table of Contents****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 60.0% of our total deposits as of March 31, 2008 as per Indian GAAP. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

	Value (in millions)		At March 31, 2008		Number of accounts	
	Rs.	US\$	% of total	(in thousands)	% of total	
Savings	245,785.0	6,141.6	40.6%	6,291	74.7%	
Current	112,970.0	2,822.8	18.7%	787	9.3%	
Time	246,277.0	6,153.8	40.7%	1,345	16.0%	
Total	Rs. 605,032.0	US\$ 15,118.2	100.0%	8,423	100.0%	

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. 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 and over 25,000 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 Depository Accounts**

We provide depository 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 depository participant for the particular exchange. Depository participants, including us, provide services through the major depositories established by the two major stock exchanges. Depository 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**



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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.

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### *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.

### *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, 2008, these accounts constituted approximately 50.0% of our total retail savings accounts by number and approximately 38.0% 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. 53.0 billion as of March 31, 2008.

### *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, 2008, 11.8% of our retail deposit customers contributed approximately 58.0% 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.

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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 papers, debentures, preference shares 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 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.



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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).

	2006	As of March 31,		2008
		2007	2008	2008
		(in millions)		
<b>Gross commercial loans:</b>				
Working capital	Rs. 78,693.4	Rs. 76,421.6	Rs. 118,766.9	US\$ 2,967.7
Term loans	92,932.8	149,717.7	168,002.0	4,198.0
<b>Total commercial loans</b>	<b>Rs. 171,626.2</b>	<b>Rs. 226,139.3</b>	<b>Rs. 286,768.9</b>	<b>US\$ 7,165.7</b>
<b>Credit substitutes:</b>				
Commercial paper	Rs. 9,308.1	Rs. 99.4	Rs. 349.8	US\$ 8.7
Non-convertible debentures	443.2	6,382.4	4,645.0	116.1
Preference shares		277.2	52.1	1.3
<b>Total credit substitutes</b>	<b>Rs. 9,751.3</b>	<b>Rs. 6,759.0</b>	<b>Rs. 5,046.9</b>	<b>US\$ 126.1</b>
<b>Customer assets</b>	<b>Rs. 181,377.5</b>	<b>Rs. 232,898.3</b>	<b>Rs. 291,815.8</b>	<b>US\$ 7,291.8</b>

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.

*Bill Collection, Documentary Credits and Bank 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:

	2006	As of March 31,		2008
		2007	2008	2008
		(in millions)		
Bill collection	Rs. 381,657.9	Rs. 443,458.6	Rs. 526,461.8	US\$ 13,155.0
Documentary credits	46,106.1	67,116.4	194,879.8	4,869.6
Bank guarantees	21,949.0	22,368.6	42,578.8	1,063.9
<b>Total</b>	<b>Rs. 449,713.0</b>	<b>Rs. 532,943.6</b>	<b>Rs. 763,920.4</b>	<b>US\$ 19,088.5</b>

*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.

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*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.

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### *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, 2008, we had wholesale deposits totaling Rs. 402.7 billion, which represented 40.0% of our total deposits and 30.2% of our total liabilities, including shareholders' equity as per Indian GAAP. 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.

### *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, 2008, over 10,000 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 reduce 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 Real Time Gross Settlement ( 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 of India Limited ( National Stock Exchange ) and the Bombay Stock Exchange Limited. As a clearing bank, we provide the exchanges or their

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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.

### *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 and fiscal 2008, we collected more than Rs. 365.5 billion and Rs. 610.3 billion, respectively, 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 and fiscal 2008, we collected more than Rs. 73.5 billion and Rs. 127.0 billion, respectively, 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 debt securities desk 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\$ 671.3 billion in foreign exchange traded in fiscal 2008.





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### ***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*. 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, 2008, 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, 2008 was approximately Rs. 91.4 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.

### ***Branches***

As of March 31, 2008, we had an aggregate of 761 branches, including 22 extension counters. Our branch network covers 327 cities in India, with 214 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, 2008, 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 also have recently obtained a Wholesale Branch license to establish a banking branch and commence banking operations in Bahrain. The branch in Bahrain commenced operations in September 2008.

### ***Automated Teller Machines***

As of March 31, 2008, we had a total of 1,977 ATMs, of which 1,026 were located at our branches or extension counters and 951 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***

We provide telephone banking services to our customers in 292 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.

### ***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.

### ***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.

## **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***

The Wholesale Credit Risk team, within the Credit & Market Risk Department, is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of credit risk, approving individual credit exposures and ensuring portfolio composition and quality. In addition to the credit approval process, there is also a framework for review and approval of credit ratings.

For our wholesale banking products, we seek to target the leaders in each of the segments that we operate in. Thus, we target leading private businesses and public sector enterprises in the country, subsidiaries of multinational corporations and leaders in the Small & Medium Enterprises (SME) segment. We also have product specific offerings to entities engaged in the capital markets and commodities businesses.

We consider credit risk of a counter-party comprehensively, and thus, our credit policies and procedures apply to not only credit exposures but also credit substitutes and contingent exposures. The Bank's Credit Policies & Procedure Manual and Credit Programs, ( Credit Policies ) where applicable are central in controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. The Policies/Programs generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms.



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Each credit is evaluated by the business units against the credit standards prescribed in the Credit Policies of the Bank. They are then subjected to a greater degree of risk analysis by the Credit & Market Risk Department's credit risk specialists also based on criteria such as product type and customer profile.

The Bank has in place a process of grading each borrower according to its financial health and the performance of its business, and each borrower is assigned a rating on a scale of 1 to 10 (1 indicating the best and 10 the worst). We have specific models applicable to each significant segment of wholesale credit (e.g. large corporate model, SME manufacturing, SME Services, and NBFC). Each model assesses the overall risk in four major categories – industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

Based on an adequately comprehensive risk assessment, credit exposure limits are set on individual counterparties. These limits take into account the overall potential exposure on the counterparty, be it on balance sheet or off balance sheet, across the banking book and the trading book. These are reviewed in detail at annual or more frequent intervals.

We do not extend credit on the judgment of one officer alone. The credit approval process at the Bank is based on a three initial system that combines credit approval authorities and discretionary powers. The required three initials are provided by Credit Approvers who derive their authority from their credit skills and experience. The level for approval of a credit varies depending upon the grading of the Borrower, the quantum of facilities required and whether we have been dealing with the customer by providing him credit facilities in the past. Thus, initial approvals would typically require a higher level of approval for a borrower with the same grading and for sanctioning the same facility.

To ensure adequate diversification of risk, concentration limits have been set up in terms of:

a) *Borrower / business group* Exposure to a borrower/business group is subject to the general ceilings established by Reserve Bank of India (RBI) from time to time, or specific approval by RBI. The exposure-ceiling limit for a single borrower is 15 percent of the capital funds. This limit may be exceeded by an additional 5 percent (i.e. up to 20 percent) provided the additional credit exposure is on account of infrastructure. The exposure-ceiling limit in the case of a borrower group is 40 percent of the capital funds. This limit may be exceeded by an additional 10 percent (i.e. up to 50 percent) provided the additional credit exposure is on account of extensions of credit for infrastructure projects. In addition to the above exposure limit, the Bank may, in exceptional circumstances, with the approval of the Board, consider increasing its exposure to a borrower up to an additional 5 percent of the capital funds. For certain blue chip clients and reputed groups or in particular for entities whose borrowings / bonds qualify as Priority Sector Lending, the Bank may approach RBI for single/group borrower ceilings higher than the prescribed limits.

b) *Industry* Exposure to any one industry cannot exceed 12 percent of aggregate exposures – for this purpose advances and investments (customer assets) would be aggregated together. Retail advances would be exempt from such ceiling. Further, exposure to banks and state sponsored financial institutions is capped at a higher level of 25 percent.

c) *Risk grading* The Bank may not assume any incremental exposures on borrowers with an internal risk grading of 7 or worse, except on a highly secured basis or as part of a rehabilitation/restructuring plan. Further, the Bank has set quantitative ceilings on aggregate funded exposure (excluding Retail Assets) specific to each rating category.

While we primarily make our credit decisions on a cash flow basis, we also obtain security for a significant portion of credit facilities extended by the Bank as a second potential remedy. This can take the form of a floating charge on the movable assets of the borrower or a (first or residual) charge on the fixed assets and properties owned by him. We may also require guarantees and letter of support from the flagship companies of the group in cases where facilities are granted based on our comfort level or relationship with the parent company.

We have a process for regular monitoring of all accounts at several levels. These include periodic calls to the customer, plant visits, credit reviews and monitoring of secondary data. These are designed to detect any early warning signals of deterioration in credit quality so that we can take timely corrective action.

RBI restricts us from lending to companies with which we have any directors in common. Also, RBI directs a portion of our lending to certain specified sectors ( priority sector lending ). See Supervision and Regulation Regulations Relating to Making Loans Directed Lending .

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### *Retail Credit Risk*

The Bank offers a range of retail products such as auto loans, personal loans, two-wheeler loans, loans against securities, commercial vehicle loans, construction equipment loans, loans to transport operators, etc. 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. There are product programs for each of these products, which define the target markets, credit philosophy, process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps.

For individual customers to be eligible for a loan, minimum credit parameters, so defined, are to be met for each product. Any deviations therefrom need to be approved at the designated levels. The product parameters have been selected based on the perceived risk characteristics specific to the product. The quantitative parameters considered include income, residence stability, nature of employment/business, while the qualitative parameters include accessibility, contactability and profile. Our credit policies/product programs are based on statistical analysis of our own experience and industry data, in combination with the judgment of our senior officers.

The Retail Credit Risk team manages Credit Risk in retail assets and has the following constituents:

*Central Risk Unit:* The Central Risk Unit drives credit risk management centrally for retail assets. It is responsible for formulating policies and evaluates proposals for launch of new products and new geographies. The Central Risk Unit also conducts periodic reviews that cover Portfolio MIS, Credit MIS and Post Approval Reviews. The product risk teams conduct detailed studies on portfolio performance in each customer segment.

*Retail Underwriting:* The unit is primarily responsible for approving individual credit exposures and ensuring portfolio composition and quality. The unit ensures implementation of all policies/procedures, as applicable.

*Risk Intelligence and Control:* This unit is responsible for sampling of documents to ensure prospective borrowers with fraudulent intent are prevented from availing of loans. The unit initiates market reference checks to avoid recurrence of frauds and financial loss to the Bank.

*Retail Collections Unit:* This unit is responsible for remedial management of problem exposures in retail assets. The collections unit uses specific strategies for various segments and products for remedial management.

We mine our borrower account behavior and static data regularly to monitor the portfolio performance of each product segment regularly, and use these as inputs in revising our product programs, target market definitions and credit assessment criteria to meet our twin objectives of combining volume growth and maintenance of asset quality.

Our retail loans are generally either secured by a charge on the asset financed (in two-wheeler, car, commercial vehicle loans and loans against securities), or we obtain direct debit instructions or post-dated checks from the customer (in the case of unsecured personal loans). It is a criminal offence in India to issue a bad check.

*Foreign Exchange, Derivatives and Trading Activities* We consider any contingent exposure that could arise from foreign exchange and derivatives in the same manner as credit exposure of the customer. Thus, any facility approval goes through the same credit assessment process, risk grading and approvals by three credit approvers as any other credit facility granted to a customer. With respect to debt securities, we primarily trade Indian government securities for our own account.

### ***Market Risk***

Market risk refers to the potential loss on account of adverse change in market variables or other risk factors which affect the value of financial instruments which the bank or organization holds. The financial instruments include of investment in money market instruments, equities, bonds and positions in foreign exchange spot, forwards and derivative instruments, interest rates swaps and currency swaps and options. The other major source of exposure arises on account of mismatch in loans and advance book.

The market variables which affect the valuation of these instruments typically include interest rates, equity prices, commodity prices, exchange rates and volatility curves. Any change in the relevant market risk variable has an adverse or favourable





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impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earning from the upside potential, there is always a possibility of downside risk. Thus, one has to constantly review the positions to ensure that the risk of such positions is within the bank's overall risk appetite. The bank's risk appetite is set through pre-approved treasury limit, counterparty exposure limit and ALM limit. The process for monitoring and review of risk exposure is set in the risk management procedural manual and policies.

The 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 the business groups, meets every alternate week and more often when conditions require. The Asset Liability Committee reviews the product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the 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 the balance sheet and business. Finally, it ensures adherence to market risk limits and decides on the inter-segment transfer pricing policy. The Market Risk Department specifies the 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. The 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.

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.

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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 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.

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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, depository 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 Securities Exchange Board of India ( 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 that a number of depository 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 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. We appealed the order to the Securities Appellate Tribunal, which passed an interim order staying SEBI's disgorgement order. Subsequently, Security Appellate Tribunal on 22nd October 2007 has set aside the order of SEBI. 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.

### *Operational Risk Management as per Basel II norms:*

The Bank is developing a detailed Operational Risk Management (ORM) Policy in line with RBI's guidance note on Management of Operational Risk and the Basel II Accord. As a part of this initiative, a comprehensive Operational Risk Management system is being developed along with CRISIL (one of the oldest rating agencies in India whose majority shareholder is Standard & Poor's), and the policies are being revisited to align fully with Basel II / RBI norms.

The Bank has already achieved significant progress in terms of ORM system implementation, and is now working towards implementing the comprehensive set of Basel II/RBI norm-specific Operational Risk Management policies across the bank.

## **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.

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### ***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 and 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.

### **Employees**

Our number of employees increased from 21,477 as of March 31, 2007 to 37,836 as of March 31, 2008, 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, 2008, approximately 14% of our employees were managers or senior managers, and approximately 3% 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.



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Close to the corporate headquarters is the administrative center at Kamala Mills Compound in Lower Parel, Mumbai. As of March 31, 2008, we had a network consisting of 761 branches, including 22 extension counters, and 1,977 ATMs, including 951 at non-branch locations. These facilities are located throughout India. 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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**RISK FACTORS**

You should carefully consider the following risk factors as well as the other information contained in this report in evaluating us and our business.

**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, 2008 grew at a compounded annual growth rate of 41.2%. We also recently acquired Centurion Bank of Punjab and it may be challenging to effectively and expeditiously integrate its operations. See we may not realize possible benefits from the merger of Centurion Bank of Punjab Limited with us. 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 2008, net interest revenue after allowances for credit losses represented 67.1% 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 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 7.5%, 8.0% and 8.0% as of March 31, 2006, March 31, 2007 and March 31, 2008, 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.*



## Edgar Filing: HDFC BANK LTD - Form 20-F

Our gross non-performing loans and impaired credit substitutes represented 1.2% of our gross customer assets as of March 31, 2008. 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, 2008. As of March 31, 2008, we had provided for 144.2% 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.

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

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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, deposit certificates issued by banks and equity shares). As of March 31, 2008, our largest single customer exposure as of that date was Rs. 26.06 billion, representing approximately 19.4% of our capital funds valuation, and our 10 largest customer exposures totaled approximately Rs. 113.42 billion, representing approximately 84.3% 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 top two single customer exposures 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, 2008 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, 2008, our largest industry concentrations, in each case based on Indian GAAP figures, were as follows: automobiles and auto ancillaries (7.0%), transport (6.9%), trading (5.5%), banks and financial institutions (4.2%) and agriculture (3.7%). In addition, as of that date approximately 44.6% 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: transport (13.9%), automobiles and auto ancillaries (7.3%), textiles (2.5%) and gems and jewelry (1.5%).

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 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, instead of foreclosure of security or a one-time settlement, which has generally been our practice.

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***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% of 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 13.60% as of March 31, 2008. The RBI has come out with the final guidelines based on the Basel II capital adequacy standards. These guidelines will be applicable to us from March 31, 2009 and 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 or 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.

***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.



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***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 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.***

The Bank provides 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 depository accounts. The Bank is required to maintain its capital market exposures within the limits as prescribed by the RBI. The Bank's capital market exposures are comprised primarily of investments in equity shares, loans to share brokers and financial guarantees issued to stock exchanges on behalf of share brokers.

With effect from 1 April 2007, the RBI has revised 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 40.0% of its net worth, both on a consolidated and non-consolidated basis. Based on the new norms, the Bank's capital market exposure as at 31 March 2008, was Rs. 44.8 billion or 44.6% of its net worth on a non-consolidated basis and was slightly higher at 45.2% on a consolidated basis. The RBI has approved the Bank's request for a time extension until 31 December 2008 to comply with the new norms. If the Bank fails to meet the norms before 31 December 2008, the Bank will have difficulty in getting other regulatory approvals necessary to do business in the normal course which could have a material adverse effect on its business and the price of our equity shares and ADSs. In addition, as a result of the Bank's capital market exposure, a significant or prolonged downturn on the Indian stock exchanges could have a material adverse effect on the Bank's 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.

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

HDFC Limited and its subsidiaries owned 23.26% of our equity as of March 31, 2008. 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. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals. Were such a 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.

***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. Any prolonged delay in the receipt of such licences could adversely affect our future financial performance.

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*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. 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.

*We may not realize possible benefits from the merger of Centurion Bank of Punjab Limited with us.*

On February 23, 2008, the Bank and Centurion Bank agreed in principle to the Merger (the Proposed Merger ) of the two banks. Subsequently, on obtaining requisite approvals, Centurion Bank of Punjab Ltd. merged with us effective May 23, 2008 as per the order of the Reserve Bank of India (RBI) dated May 20, 2008.

While we believe that the benefits of the Proposed Merger will outweigh the overall costs of such a merger, as with any merger, the risk exists that the final outcome of the Proposed Merger may not produce the benefits we anticipate. The success of the Proposed Merger depends, in part, on our ability to realize potential synergies, growth opportunities and cost savings from combining the businesses of Centurion Bank with that of our own. The realization of such benefits of the Proposed Merger may be blocked, delayed or reduced as a result of numerous factors, some of which will be outside our control. These factors include difficulties in integrating our existing operations with those of Centurion Bank, including personnel policies and procedures, overlapping branch networks, information systems and management and administrative functions, unforeseen contingent risks or latent liabilities that may only become apparent after the integration process is completed, loss of our and Centurion Bank s customers and loss of key personnel. The Bank will incur costs in connection with such integration process. There can be no assurance that these or other issues connected with the Proposed Merger will not emerge and have a material adverse effect on the Bank s financial condition and operations in the future.

*Our overseas operations are subject to international legal and regulatory risk which may adversely affect our business.*

We have and also seek to establish banking operations in countries other than India. As a result of our overseas operations and given that we may expand our geographic presence globally in the future, we are and will be subject to a wide variety of international banking and financial services laws and regulations and a large number of regulatory and enforcement authorities in the jurisdictions in which we operate. The laws and regulations governing the banking and financial services industry have become increasingly complex governing a wide variety of issues, including interest rates, liquidity, capital adequacy, securitization, investments, ethical issues, money laundering, privacy, record keeping, outsourcing and marketing and selling practices, with sometimes overlapping jurisdictional or enforcement authorities.

Despite our best efforts to comply with all applicable regulations, there are a number of risks that cannot be completely controlled. Regulators in the jurisdictions in which we operate have the power to bring administrative or judicial proceedings against us (or our employees, representatives, agents and third party service providers), which could result, among other things, in suspension or revocation of one or more of our licences, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition. Failure to comply with applicable regulations in various jurisdictions, including unauthorized actions by employees, representatives, agents and third parties, suspected or perceived failures and media reports, and future inquiries or investigations by regulatory and enforcement authorities, may result in regulatory action including financial penalties and restrictions on or suspension of the related business operations. In addition, failure to comply with the applicable regulations in various jurisdictions by our employees, representatives, agents and third party service providers, our overseas offices, either in or outside the course of their services, or suspected or perceived failures by them, may result in inquiries or investigations by regulatory and enforcement authorities, in regulatory or enforcement action against either, us, our overseas offices or such employees, representatives, agents and third party service providers. Such actions may, amongst other consequences, impact our reputation, result in adverse media reports, lead to increased or enhanced regulatory or supervisory concerns, lead to additional costs, penalties, claims and expenses being incurred by us or impact adversely our ability to conduct business owing to implications on business continuity, possible distraction, lack of proper attention or time by such employees, representatives, agents and third party service providers to their official roles and duties, or suspension or termination by us of their services and having to find suitable replacements apart from personal liability, financial or other penalties and restrictions that may be imposed on or suffered by them including personal liability for criminal violation.

*The U.S. banking industry has experienced significant deterioration and volatility recently, which has had negative repercussions on the international banking industry and the global economy and, as a result, could present new challenges for our business.*

Commencing in 2007 and continuing into 2008, certain adverse financial developments have impacted the U.S. and global financial markets, and the U.S. and global banking industries in particular. These developments include a general slowing of economic growth both in the U.S. and

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globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict how long these conditions will exist and which markets and businesses of our company may be affected, these developments could continue to present risks for an extended period of time for our industry and our Bank.



**Table of Contents****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. The estimated growth rate in the Indian economy has fallen from 9% in 2008 to 7.9% in 2009. A continued 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 has already been adversely affected by rising inflation (12% in 2008) and 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.

***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.

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**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 (the 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](#) 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 depository 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 depository facility upon surrender of ADSs, see [Restrictions on Foreign Ownership of Indian Securities](#).

*Your ability to withdraw equity shares from the depository 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 depository 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 depository facility upon surrender of ADSs, see [Restrictions on Foreign Ownership of Indian Securities](#).

*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 effect 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 depository 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



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registration statement under the 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 depository, 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 depository 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 depository; and

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 report 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 report 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. 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.



**Table of Contents****PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES**

Our ADSs, each representing three equity shares, par value Indian Rs. 10 per share, are listed on the NYSE under the symbol HDB. Our equity shares, including those underlying the ADSs, are listed on the National Stock Exchange under the symbol HDFCBANK and the Bombay Stock Exchange Limited under the code 500180. Our fiscal quarters end on June 30 of each year for the first quarter, September 30 for the second quarter, December 31 for the third quarter and March 31 for the fourth quarter.

**Trading Prices of Our ADSs on the NYSE**

The following table shows:

the reported high and low prices for our ADSs in U.S. dollars on the NYSE; and

the average daily trading volume for our ADSs on the NYSE.

Fiscal	Price per ADS		Average daily ADS trading volume (Number of ADSs)
	High	Low	
<b>2004</b>	U.S.\$ 34.9	U.S.\$ 15.4	68,228
<b>2005</b>	50.0	19.6	105,071
<b>2006</b>	59.7	40.0	166,883
<b>2007</b>			
First Quarter	63.6	43.0	281,986
Second Quarter	61.8	47.3	164,589
Third Quarter	77.7	59.1	182,341
Fourth Quarter	80.0	61.0	293,883
<b>2008</b>			
First Quarter	88.4	63.5	252,881
Second Quarter	107.8	70.9	420,506
Third Quarter	145.4	103.3	503,605
Fourth Quarter	140.7	85.3	664,692
<b>Most Recent Six Months</b>			
March 2008	108.0	85.3	797,115
April 2008	115.5	93.5	515,436
May 2008	119.5	96.0	398,167
June 2008	97.5	69.3	735,010
July 2008	92.0	61.2	1,163,955
August 2008	95.5	77.2	684,757

**Table of Contents****Trading Prices of Our Equity Shares on the National Stock Exchange**

The following table shows:

the reported high and low market prices for our equity shares in rupees on the National Stock Exchange;

the imputed high and low closing sales prices for our equity shares translated into U.S. dollars; and

the average daily trading volume for our equity shares on the National Stock Exchange.

Fiscal Year	Price per equity share		Price per equity share		Average daily equity share trading volume
	High	Low	High	Low	
<b>2004</b>	Rs. 406.8	Rs. 231.0	U.S.\$ 10.2	U.S.\$ 5.8	294,090
<b>2005</b>	628.6	256.2	15.7	6.4	325,118
<b>2006</b>	812.0	448.0	20.3	11.2	423,339
<b>2007</b>					
First Quarter	895.0	615.2	22.4	15.4	533,957
Second Quarter	954.7	680.0	23.9	17.0	354,892
Third Quarter	1,150.0	886.3	28.7	22.1	598,122
Fourth Quarter	1,160.0	883.6	29.0	22.1	604,502
<b>2008</b>					
First Quarter	1168.4	901.4	29.2	22.5	643,169
Second Quarter	1435.6	1068.1	35.9	26.7	516,689
Third Quarter	1784.1	1366.4	44.6	34.1	540,627
Fourth Quarter	1789.0	1226.0	44.7	30.6	733,692
<b>Most Recent Six Months</b>					
March 2008	1439.2	1226.0	36.0	30.6	830,818
April 2008	1547.8	1293.9	38.7	32.3	799,322
May 2008	1542.9	1319.6	38.6	33.0	555,049
June 2008	1310.5	1007.4	32.7	25.2	906,586
July 2008	1213.9	903.6	30.3	22.6	1,659,921
August 2008	1311.5	1108.3	32.8	27.7	1,556,858

The closing price for our equity shares on the National Stock Exchange was Rs. 1,233.75 (US\$30.8) per share on September 23, 2008.

As of March 31, 2008 there were 203,091 holders of record of our equity shares, excluding ADSs, of which 54 had registered addresses in the United States and held an aggregate of 32,209 of our equity shares representing 0.01%. In our books only the Depository, J.P. Morgan Chase Bank, is the shareholder with respect to equity shares underlying ADSs. We are unable to estimate the number of record holders of ADSs in the United States.

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### DESCRIPTION OF EQUITY SHARES

#### **The Company**

We are registered under number 11-80618 of 1994 with the Registrar of Companies, Maharashtra State, India. Our Articles permit us to engage in a wide variety of activities, including all of the activities in which we currently engage or intend to engage, as well as other activities in which we currently have no intention of engaging.

#### **Dividends**

Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not increase the dividend amount recommended by the board of directors. Dividends are generally declared as a percentage of par value and distributed and paid to shareholders in proportion to the paid up value of their equity shares. The Companies Act provides that shares of a company of the same class must receive equal dividend treatment.

These distributions and payments are required to be deposited into a separate bank account and paid to shareholders within 30 days of the annual general meeting where the resolution for declaration of dividends is approved.

The Companies Act states that any dividends that remain unpaid or unclaimed after that period are to be transferred to a special bank account. Any money that remains unclaimed for seven years from the date of the transfer is to be transferred by us to a fund created by the government of India. No claims for the payment of dividends unpaid or unclaimed for a period of seven years shall lie against the fund of the government of India or against us.

Our Articles authorize our board of directors to declare interim dividends, the amount of which must be deposited in a separate bank account within five days and paid to the shareholders within 30 days of the declaration.

Under the Companies Act, final dividends payable can be paid only in cash to the registered shareholder at a record date fixed prior to the relevant annual general meeting, to his order or to the order of his banker.

Before paying any dividend on our shares, we are required under the Indian Banking Regulation Act to write off all capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred or any other item of expenditure not represented by tangible assets). We are permitted to declare dividends of up to 33.33% of net profit calculated under Indian GAAP without prior RBI approval subject to compliance with certain prescribed requirements. Further, upon compliance with the prescribed requirements, we are also permitted to declare interim dividends subject to the above mentioned cap computed for the relevant accounting period.

Dividends may only be paid out of our profits for the relevant year and in certain contingencies out of the reserves of the company. Before declaring dividends, we are required, under the Indian Banking Regulation Act, to transfer 25% of the balance of profits of each year to a reserve fund.

#### **Bonus Shares**

In addition to permitting dividends to be paid out of current or retained earnings calculated under Indian GAAP, the Companies Act permits our board of directors, subject to the approval of our shareholders, to distribute to the shareholders, in the form of fully paid-up bonus equity shares, an amount transferred from the capital surplus reserve or legal reserve to stated capital. Bonus equity shares can be distributed only with the prior approval of the RBI. These bonus equity shares must be distributed to shareholders in proportion to the number of equity shares owned by them.

#### **Preemptive Rights and Issue of Additional Shares**

The Companies Act gives shareholders the right to subscribe for new shares in proportion to their existing shareholdings unless otherwise determined by a resolution passed by three-fourths of the shareholders present and voting at a general meeting. Under the





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Companies Act and our Articles, in the event of an issuance of securities, subject to the limitations set forth above, we must first offer the new shares to the holders of equity shares on a fixed record date. The offer, required to be made by notice, must include:

the right, exercisable by the shareholders of record, to renounce the shares offered in favor of any other person;

the number of shares offered; and

the period of the offer, which may not be less than 15 days from the date of the offer. If the offer is not accepted, it is deemed to have been declined.

Our board of directors is permitted to distribute equity shares not accepted by existing shareholders in the manner it deems beneficial for us in accordance with our Articles. Holders of ADSs may not be able to participate in any such offer. See Description of American Depositary Shares Share Dividends and Other Distributions.

### **General Meetings of Shareholders**

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within six months after the end of each fiscal year. We may convene an extraordinary general meeting when necessary or at the request of a shareholder or shareholders holding on the date of the request at least 10% of our paid up capital. A general meeting is generally convened by our secretary in accordance with a resolution of the board of directors. Written notice stating the agenda of the meeting must be given at least 21 days prior to the date set for the general meeting to the shareholders whose names are in the register at the record date. Those shareholders who are not registered at the record date do not receive notice of this meeting and are not entitled to attend or vote at this meeting.

The annual general meeting is held in Mumbai, the city in which our registered office is located. General meetings other than the annual general meeting may be held at any location if so determined by a resolution of our board of directors.

### **Voting Rights**

A shareholder has one vote for each equity share and voting may be by a show of hands or on a poll. However, under the Indian Banking Regulation Act, on poll, a shareholder cannot exercise voting rights in excess of 10% of the total voting rights of all shareholders. Unless a poll is demanded by a shareholder, resolutions are adopted at a general meeting by a majority of the shareholders having voting rights present or represented. The quorum for a general meeting is five members personally present. Generally, resolutions may be passed by simple majority of the shareholders present and voting at any general meeting. However, resolutions such as an amendment to the organizational documents, commencement of a new line of business, an issue of additional equity shares without preemptive rights and reductions of share capital, require that the votes cast in favor of the resolution (whether by show of hands or on a poll) are not less than three times the number of votes, if any, cast against the resolution. As provided in our Articles, a shareholder may exercise his voting rights by proxy to be given in the form prescribed by us. This proxy, however, is required to be lodged with us at least 48 hours before the time of the relevant meeting. A shareholder may, by a single power of attorney, grant general power of representation covering several general meetings. A corporate shareholder is also entitled to nominate a representative to attend and vote on its behalf at all general meetings.

The Companies Act has recently been amended to provide for the passing of resolutions in relation to certain matters specified by the government of India, by means of a postal ballot.

ADS holders have no voting rights with respect to the deposited shares. See Description of American Depositary Shares Voting Rights.

### **Annual Report**

At least 21 days before an annual general meeting, we must circulate either a detailed or abridged version of our Indian GAAP audited financial accounts, together with the Directors Report and the Auditor s Report, to the shareholders along with a notice convening the annual general meeting. We are also required under the Companies Act to make available upon the request of any shareholder our complete balance sheet and profit and loss account.

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Under the Companies Act, we must file with the Registrar of Companies our Indian GAAP balance sheet and profit and loss account within 30 days of the conclusion of the annual general meeting and our annual return within 60 days of the conclusion of that meeting.

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**Register of Shareholders, Record Dates and Transfer of Shares**

The equity shares are in registered form. We maintain a register of our shareholders in Mumbai. We register transfers of equity shares on the register of shareholders upon presentation of certificates in respect of the transfer of equity shares held in physical form together with a transfer deed duly executed by the transferor and transferee. These transfer deeds are subject to stamp duty, which has been fixed at 0.5% of the transfer price.

For the purpose of determining equity shares entitled to annual dividends, the register of shareholders is closed for a period prior to the annual general meeting. The Companies Act and our listing agreements with the stock exchanges permit us, pursuant to a resolution of our board of directors and upon at least 30 days advance notice to the stock exchanges, to set the record date and close the register of shareholders after seven days public notice for not more than 30 days at a time, and for not more than 45 days in a year, in order for us to determine which shareholders are entitled to certain rights pertaining to the equity shares. Trading of equity shares and delivery of certificates in respect of the equity shares may, however, continue after the register of shareholders is closed.

**Transfer of Shares**

Shares held through depositories are transferred in the form of book entries or in electronic form in accordance with the regulations laid down by SEBI. These regulations provide the regime for the functioning of the depositories and the participants and set out the manner in which the records are to be kept and maintained and the safeguards to be followed in this system. Transfers of beneficial ownership of shares held through a depository are exempt from stamp duty.

SEBI requires that our equity shares for trading and settlement purposes be in book-entry form for all investors, except for transactions that are not made on a stock exchange and transactions that are not required to be reported to the stock exchange. Transfers of equity shares in book-entry form require both the seller and the purchaser of the equity shares to establish accounts with depository participants appointed by depositories established under the Depositories Act, 1996. Charges for opening an account with a depository participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the practice of each depository participant. Upon delivery, the equity shares shall be registered in the name of the relevant depository on our books and this depository shall enter the name of the investor in its records as the beneficial owner. The transfer of beneficial ownership shall be effected through the records of the depository. The beneficial owner shall be entitled to all rights and benefits and subject to all liabilities in respect of his securities held by a depository.

The requirement to hold the equity shares in book-entry form will apply to the ADS holders when the equity shares are withdrawn from the depository facility upon surrender of the ADSs. In order to trade the equity shares in the Indian market, the withdrawing ADS holder will be required to comply with the procedures described above.

Our equity shares are freely transferable, subject only to the provisions of the Companies Act under which, if a transfer of equity shares contravenes the Securities and Exchange Board of India Act, 1992 or the regulations issued under it or the Sick Industrial Companies (Special Provisions) Act, 1985, or any other similar law, the Indian Company Law Board may, on application made by us, a depository incorporated in India, an investor, SEBI or certain other parties, direct a rectification of the register of records. It is a condition of our listing that we transfer equity shares and deliver share certificates duly endorsed for the transfer within one month of the date of lodgment of transfer. If a company without sufficient cause refuses to register a transfer of equity shares within two months from the date on which the instrument of transfer is delivered to the company, the transferee may appeal to the Indian Company Law Board seeking to register the transfer of equity shares. The Indian Company Law Board may, in its discretion, issue an interim order suspending the voting rights attached to the relevant equity shares before completing its investigation of the alleged contravention. Our Articles provide for certain restrictions on the transfer of equity shares, including granting power to the board of directors in certain circumstances, to refuse to register or acknowledge transfer of equity shares or other securities issued by us. Furthermore, the RBI requires us to obtain its approval before registering a transfer of equity shares in favor of a person which together with equity shares already held by him represent more than 5.0% of our share capital.

Our transfer agent, Datamatics Financial Services Limited, is located in Mumbai. Certain foreign exchange control and security regulations apply to the transfer of equity shares by a non-resident or a foreigner. See Restrictions on Foreign Ownership of Indian Securities.

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### **Disclosure of Ownership Interest**

The provisions of the Companies Act generally require beneficial owners of equity shares of Indian companies that are not holders of record to declare to the company details of the holder of record and holders of record to declare details of the beneficial owner. While it is unclear whether these provisions apply to holders of an Indian company's ADSs, investors who exchange ADSs for equity shares are subject to this provision. Failure to comply with these provisions would not affect the obligation of a company to register a transfer of equity shares or to pay any dividends to the registered holder of any equity shares in respect of which this declaration has not been made, but any person who fails to make the required declaration may be liable for a fine of up to Rs. 1,000 for each day this failure continues. However, under the Indian Banking Regulation Act, a registered holder of any equity shares, except in certain conditions, shall not be liable to any suit or proceeding on the ground that the title to those equity shares vests in another person.

### **Acquisition by the Issuer of Its Own Shares**

Until recently, the Companies Act did not permit a company to acquire its own equity shares because of the resulting reduction in the company's capital. However, the government of India amended the Companies Act and consequently this reduction in capital is permitted in certain circumstances. The reduction of capital requires compliance with buy-back provisions specified in the Companies Act and by SEBI.

ADS holders will be eligible to participate in a buy-back in certain cases. An ADS holder may acquire equity shares by withdrawing them from the depositary facility and then selling those equity shares back to us. ADS holders should note that equity shares withdrawn from the depositary facility may only be redeposited into the depositary facility under certain circumstances. See Description of American Depositary Shares Deposit, Withdrawal and Cancellation.

There can be no assurance that the equity shares offered by an ADS investor in any buy-back of shares by us will be accepted by us. The position regarding regulatory approvals required for ADS holders to participate in a buy-back is not clear. ADS investors are advised to consult their Indian legal advisers prior to participating in any buy-back by us, including in relation to any regulatory approvals and tax issues relating to the buy-back.

### **Liquidation Rights**

Subject to the rights of depositors, creditors and employees, in the event of our winding up, the holders of the equity shares are entitled to be repaid the amounts of capital paid up or credited as paid up on these equity shares. All surplus assets remaining belong to the holders of the equity shares in proportion to the amount paid up or credited as paid up on these equity shares, respectively, at the commencement of the winding up.

### **Acquisition of the Undertaking by the Government**

Under the Indian Banking Regulation Act, the government may, after consultation with the RBI, in the interest of our depositors or banking policy or better provision of credit generally or to a particular community or area, acquire our banking business. The RBI may acquire our business if it is satisfied that we have failed to comply with the directions given to us by the RBI or that our business is being managed in a manner detrimental to the interest of our depositors. Similarly, the government of India may also acquire our business based on a report by the RBI.

### **Takeover Code and Listing Agreements**

Under the Securities and Exchange Board of India (Substantial Acquisitions of Shares & Takeovers) Regulations, 1997 (the Takeover Code), upon the acquisition of more than 5% of the outstanding shares or voting rights of a publicly listed Indian company, a purchaser is required to notify the company and the company and the purchaser are required to notify all the stock exchanges on which the shares of such company are listed. Such notification is also required upon acquisition of 10% and 14% of the outstanding shares or voting rights of a publicly listed Indian company. An ADS holder would be subject to these notification requirements.

Upon the acquisition of 15% or more of such shares or voting rights, or a change in control of the company, the purchaser is required to make an open offer to the other shareholders, offering to purchase at least 20% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the Takeover Code. Since we are a listed company in India, the



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provisions of the Takeover Code will apply to us. However, the Takeover Code provides for a specific exemption from this provision to an ADS holder and states that this provision will apply to an ADS holder only once he or she converts the ADSs into the underlying equity shares.

We have entered into listing agreements with each of the Indian stock exchanges on which our equity shares are listed. Each of the listing agreements provides that if a purchase of a listed company's shares results in the purchaser and its affiliates holding more than 5% of the company's outstanding equity shares or voting rights, the purchaser and the company must report its holding to the company and the relevant stock exchanges. The agreements also provide that if an acquisition results in the purchaser and its affiliates holding equity shares representing more than 15% of the voting rights in the company, then the purchaser must, before acquiring such equity shares, make an offer on a uniform basis to all remaining shareholders of the company to acquire equity shares that have at least an additional 20% of the voting rights of the total equity shares of the company at a prescribed price.

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DESCRIPTION OF AMERICAN DEPOSITARY SHARES

**American Depositary Shares**

JPMorgan Chase Bank, N.A., as depositary, issued the American Depositary Shares, or ADSs. Each ADS represents an ownership interest in three equity shares, which we have deposited with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and each ADR holder. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but which it has not distributed directly to an ADR holder. The ADSs will be evidenced by what are known as American Depositary Receipts or ADRs.

The depositary's office is located at 4 New York Plaza, 13th Floor, New York, NY 10004.

Investors may hold ADSs either directly or indirectly through their broker or other financial institution. If an investor holds ADSs directly, by having an ADS registered in his name on the books of the depositary, he is an ADR holder. This description assumes that the investor holds his ADSs directly. If an investor holds the ADSs through his broker or financial institution nominee, he must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. Investors should consult with their broker or financial institution to find out what those procedures are.

Because the depositary's nominee will actually be the registered owner of the shares, investors must rely on it to exercise the rights of a shareholder on their behalf. The obligations of the depositary and its agents are set out in the deposit agreement. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to investors. For more complete information, investors should read the entire deposit agreement and the form of ADR which contains the terms of their ADSs. Investors can read a copy of the deposit agreement which was filed as an exhibit to the registration statement on Form F-1 we filed on July 12, 2001. Investors may also obtain a copy of the deposit agreement at the Public Reference Room of the United States Securities and Exchange Commission (the SEC) which is located at 100 F Street, N.E., Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

**Share Dividends and Other Distributions**

We may make various types of distributions with respect to our securities. The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its expenses. You will receive these distributions in proportion to the number of underlying shares that your ADSs represent.

Except as stated below, to the extent the depositary is legally permitted it will deliver such distributions to ADR holders in proportion to their interests in the following manner:

***Cash***

The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution if this is practicable and can be done in a reasonable manner. The depositary will attempt to distribute this cash in a practicable manner, and may deduct any taxes required to be withheld, any expenses of converting foreign currency and transferring funds to the United States and other expenses and adjustments. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, you may lose some or all of the value of the distribution.

***Shares***

In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. The depositary will sell any shares which would result in fractional ADSs and distribute the net proceeds to the ADR holders entitled to them.



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### ***Rights to Receive Additional Shares***

In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute the rights, the depositary may arrange for ADR holders to instruct the depositary as to the exercise of the rights. However, if we do not furnish that evidence or if the depositary determines it is not practical to distribute the rights, the depositary may:

sell the rights, if practicable, and distribute the net proceeds as cash, or

allow the rights to lapse, in which case ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

### ***Other Distributions***

In the case of a distribution of securities or property other than those described above, the depositary may either:

distribute such securities or property in any manner it deems equitable and practicable,

to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash, or

hold the distributed property, in which case the ADSs will also represent the distributed property.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents (fractional cents will be withheld without liability for interest and added to future cash distributions).

The depositary may choose any practical method of distribution for any specific ADR holder, including the distribution of foreign currency, securities or property, or it may retain those items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.

We cannot assure you that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or that any of such transactions can be completed within a specified time period.

### **Deposit, Withdrawal and Cancellation**

The depositary issues ADSs upon the deposit of shares or evidence of rights to receive shares with the custodian.

Except for shares that we deposit, no shares may be deposited by persons located in India, residents of India or for, or on the account of, such persons. Under current Indian laws and regulations, the depositary cannot accept deposits of outstanding shares and issue ADRs evidencing ADSs representing such shares without prior approval of the government of India. However, an investor who surrenders an ADS and withdraws shares may be permitted to redeposit those shares in the depositary facility in exchange for ADSs and the depositary may accept deposits of outstanding shares purchased by a non-resident of India on the local stock exchange and issue ADSs representing those shares. However, in each case, the number of shares redeposited or deposited cannot exceed the number represented by ADSs converted into underlying shares.

Shares deposited in the future with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made. Only the following may be deposited with the depositary or custodian:

shares issued as a free distribution in respect of deposited securities;

shares subscribed for or acquired by holders from us through the exercise of rights distributed by us to such persons in respect of shares; and

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securities issued by us as a result of any change in par value, subdivision, consolidation and other reclassification of deposited securities or otherwise.

We will inform the depositary if any of the shares permitted to be deposited do not rank *pari passu* with the shares issued in any offering and the depositary will arrange for the ADSs issuable with respect to such shares to be differentiated from those issued in such offering until such time as they rank *pari passu* with the shares issued in such offering.

The custodian will hold all deposited shares for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as deposited securities.

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which such person is entitled. Certificated ADRs will be delivered at the depositary's principal New York office or any other location that it may designate as its transfer office.

When you turn in your ADRs at the depositary's office, the depositary will, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions, deliver the underlying shares in dematerialized form, for which the ADS holder will be required to open an account with a depositary participant of the National Securities Depository Limited or Central Depository Services (India) Limited to hold and sell the shares in dematerialized form upon payment of customary fees and expenses. See Description of Equity Shares Transfer of Shares.

The depositary may only restrict the withdrawal of deposited securities in connection with:

temporary delays caused by closing our transfer books or those of the depositary or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends;

the payment of fees, taxes and similar charges; or

compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

## **Voting Rights**

Investors who hold ADRs have no voting rights with respect to the deposited equity shares. The depositary will abstain from exercising the voting rights of the deposited equity shares. Recently, the RBI examined the matter relating to the exercise of voting rights by the depositary and issued a circular dated February 5, 2007 pursuant to which we furnished to the RBI a copy of our agreement with the depositary. We have given an undertaking to the RBI stating that we will not give cognizance to voting by the depositary if the vote given by the depositary is in contravention of its agreement with us and that we or the depositary will not bring about any change in our depositary agreement without the prior approval of the RBI.

Equity shares which have been withdrawn from the depositary facility and transferred on our register of shareholders to a person other than the depositary or its nominee may be voted by that person. However, such shareholders may not receive sufficient advance notice of shareholder meetings to enable them to withdraw the underlying shares and vote at such meetings.

## **Record Dates**

The depositary may fix record dates for the determination of the ADR holders who will be entitled to receive a dividend, distribution or rights, subject to the provisions of the deposit agreement.

## **Reports and Other Communications**

## Edgar Filing: HDFC BANK LTD - Form 20-F

The depositary will make available for inspection by ADR holders any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. We will furnish these communications in English.

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Additionally, if we make any written communications generally available to holders of our shares, including the depositary or the custodian, and the depositary or the custodian actually receives those written communications, the depositary will mail copies of them, or, at its option, summaries of them to ADR holders.

### **Fees and Expenses**

The depositary will charge ADR holders a fee for each issuance of ADSs, including issuances resulting from distributions of shares, rights and other property, and for each surrender of ADSs in exchange for deposited securities. The fee in each case is US\$5.00 for each 100 ADSs (or any portion thereof) issued or surrendered. The depositary may also charge ADR holders or persons depositing shares:

stock transfer or other taxes and other governmental charges;

cable, telex and facsimile transmission and delivery charges incurred at your request;

transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and

expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars. The fees described above may be amended from time to time.

### **Payment of Taxes**

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may

deduct the amount thereof from any cash distributions, or

sell deposited securities and deduct the amount owing from the net proceeds of such sale.

In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities (except under limited circumstances mandated by securities regulations). If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled to them.

### **Reclassifications, Recapitalizations and Mergers**

If we take certain actions that affect the deposited securities, including (1) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (2) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

amend the form of ADR;

distribute additional or amended ADRs;

distribute cash, securities or other property it has received in connection with such actions;

sell any securities or property received and distribute the proceeds as cash; or

take no action.

If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

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### **Amendment and Termination**

We may agree with the depository to amend the deposit agreement and the ADSs without the consent of ADR holders for any reason. ADR holders must be given at least 30 days notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or affects any substantial existing right of ADR holders. If an ADR holder continues to hold an ADR or ADRs after being notified of these changes, the ADR holder is deemed to agree to such amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair an ADR holder's right to surrender its ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the deposit agreement or the ADS to be amended, we and the depository may make the necessary amendments, which could take effect before an ADR holder receives notice thereof.

The depository may terminate the deposit agreement by giving the ADR holders at least 30 days prior notice, and it must do so at our request. After termination, the depository's only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depository will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making those sales, the depository shall have no obligations except to account for such proceeds and other cash. The depository will not be required to invest such proceeds or pay interest on them.

### **Limitations on Obligations and Liability to ADR Holders**

The deposit agreement expressly limits the obligations and liability of the depository, ourselves and our respective agents. Neither we nor the depository nor any such agent will be liable if:

a change in law or regulation governing any deposited securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the deposit agreement or the ADRs provide shall be done or performed by it;

it exercises or fails to exercise discretion under the deposit agreement or the ADR;

it performs its obligations without gross negligence or bad faith;

it takes any action or inaction in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information; or

it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the depository nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as we require.

The depository will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote.

The depository may own and deal in deposited securities and in ADSs.

**Disclosure of Interest in ADSs**

From time to time we may request ADR holders and beneficial owners of ADSs to provide information as to:

the capacity in which you and other holders and beneficial owners own or owned ADSs;



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the identity of any other persons then or previously interested in such ADSs; and

the nature of such interest and various other matters.

You agree to provide any information requested by us or the depositary pursuant to the deposit agreement. The depositary has agreed to use reasonable efforts to comply with written instructions received from us requesting that it forward any such requests to you and other holders and beneficial owners and to forward to us any responses to such requests to the extent permitted by applicable law.

We may restrict transfers of the shares where any such transfer might result in ownership of shares in contravention of, or exceeding the limits under, the governmental approval which we receive from the Indian government in connection with any offering, applicable law or our organizational documents. We also may instruct ADR holders that we are restricting the transfers of ADSs where such transfer may result in the total number of shares represented by the ADSs beneficially owned by ADR holders contravening or exceeding the limits under the applicable law or our organizational documents. We reserve the right to instruct ADR holders to deliver their ADSs for cancellation and withdrawal of the shares underlying such ADSs.

### **Requirements for Depositary Actions**

We, the depositary or the custodian may refuse to

issue, register or transfer an ADR or ADRs;

effect a split-up or combination of ADRs;

deliver distributions on any such ADRs; or

permit the withdrawal of deposited securities (unless the deposit agreement provides otherwise), until the following conditions have been met:

the holder has paid all taxes, governmental charges and fees and expenses as required in the deposit agreement;

the holder has provided the depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and

the holder has complied with such regulations as the depositary may establish under the deposit agreement.

The depositary may also suspend the issuance of ADSs, the deposit of shares, the registration, transfer, split-up or combination of ADRs, or the withdrawal of deposited securities (unless the deposit agreement provides otherwise), if the register for ADRs or any deposited securities is closed or if we or the depositary decide it is advisable to do so.

### **Books of Depositary**

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs. ADR holders may inspect the depositary's designated records at such office during regular business hours.

The depositary will maintain facilities to record and process the registration, registration of transfer, combination and split of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

**Pre-release of ADSs**

The depositary may issue ADSs prior to the deposit with the custodian of shares (or rights to receive shares). This is called a pre-release of the ADSs. A pre-release is closed out as soon as the underlying shares (or other ADSs) are delivered to the depositary. The depositary may pre-release ADSs only if:

the depositary has received collateral for the full market value of the pre-released ADSs; and

each recipient of pre-released ADSs agrees in writing that he or she:

owns the underlying shares,

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assigns all rights in such shares to the depositary,

holds such shares for the account of the depositary; and

will deliver such shares to the custodian as soon as practicable, and promptly if the depositary so demands.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time (excluding those evidenced by pre-released ADSs). However, the depositary may change or disregard such limit from time to time as it deems appropriate. The depositary may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof.

**The Depositary**

JPMorgan Chase Bank, N.A., a national banking association organized under the laws of the United States, is a commercial bank offering a wide range of banking and trust services to its customers in the New York metropolitan area, throughout the United States and around the world.

**Table of Contents****DIVIDEND POLICY**

We have paid dividends every year since fiscal 1997. The following table sets forth, for the periods indicated, the dividend per equity share and the total amount of dividends paid on the equity shares, both exclusive of dividend tax. All dividends were paid in rupees.

Relating to Fiscal Year	Dividend per equity share		Total amount of dividends paid (1) (in millions)	
	Rs.	US\$	Rs.	US\$
2004	3.50	\$0.087	1,000.5	\$25.0
2005	4.50	0.112	1,400.7	\$35.0
2006	5.50	0.137	1,725.3	\$43.1
2007	7.00	0.175	2,235.7	\$55.9
2008	8.50	\$0.212	3,012.7	\$75.3

(1) Includes dividends paid on shares held by the Employees Welfare Trust.

Our dividends are generally declared and paid in the fiscal year following the year to which they relate. Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not to increase the dividend amount recommended by the board of directors.

Effective April 1, 2007, we pay a 15.0% direct tax in respect of dividends paid by us. In addition, we pay a 10.0% surcharge on 15.0% direct tax and a 3.0% add-on tax on such 15.0% direct tax including surcharge. These are direct taxes paid by us; these taxes are not payable by shareholders and are not withheld or deducted from the dividend payments set forth above. The tax rates imposed on us in respect of dividends paid in prior periods varied.

Future dividends will depend on our revenues, cash flows, financial condition (including capital position) and other factors. ADS holders will be entitled to receive dividends payable in respect of the equity shares represented by ADSs. Cash dividends in respect of the equity shares represented by ADSs will be paid to the depository in Indian rupees and, except in certain instances will be converted by the depository into U.S. dollars. The depository will distribute these proceeds to ADS holders. The equity shares represented by ADSs will rank equally with all other equity shares in respect of dividends.

For a description of regulation of dividends, see [Supervision and Regulation Requirements of the Banking Regulation Act Restrictions on Payment of Dividends](#).

**Table of Contents****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, 2006, 2007 and 2008 and the selected balance sheet data as of March 31, 2007 and 2008 are derived from our audited financial statements included in this report together with the report of Deloitte Haskins & Sells, independent registered public accounting firm. Our selected balance sheet data as of March 31, 2004, March 31, 2005, March 31, 2006 and selected income data for the years ended March 31, 2004 and March 31, 2005 are derived from our audited financial statements not included in this report. For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2008 have been translated into U.S. dollars at the rate on such date of Rs. 40.02 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. The following data does not include financial information about Centurion Bank of Punjab, which we acquired effective May 23, 2008.

	2004	2005	Year ended March 31,		2008	2008
			2006	2007		
	(in millions, except per equity share data and ADS data)					
<b>Selected income statement data:</b>						
Interest and dividend revenue	Rs. 24,591.5	Rs. 29,209.4	Rs. 43,528.0	Rs. 70,061.6	Rs. 104,249.7	US\$ 2,605.0
Interest expense	11,983.1	13,223.7	19,621.8	33,145.1	49,414.0	1,234.7
Net interest revenue	12,608.4	15,985.7	23,906.2	36,916.5	54,835.7	1,370.3
Provisions for credit losses, net	2,343.4	3,048.2	5,032.0	8,250.3	13,367.7	334.0
Net interest revenue after provisions for credit losses	10,265.0	12,937.5	18,874.2	28,666.2	41,468.0	1,036.3
Non-interest revenue, net	4,697.6	8,211.5	12,147.9	14,999.7	20,346.6	508.4
Net revenue	14,962.6	21,149.0	31,022.1	43,665.9	61,814.6	1,544.7
Non-interest expense	8,369.3	11,413.9	17,846.8	27,426.1	42,261.8	1,056.1
Income before income tax expense	6,593.3	9,735.1	13,175.3	16,239.8	19,552.8	488.6
Income tax expense	1,838.8	3,125.4	3,965.7	5,142.9	6,307.6	157.6
Net income before minority interest	4,754.5	6,609.7	9,209.6	11,096.9	13,245.2	331.0
Minority interest			22.5	57.2	91.0	2.3
Net income	Rs. 4,754.5	Rs. 6,609.7	Rs. 9,187.1	Rs. 11,039.7	Rs. 13,154.2	US\$ 328.7
<b>Per equity share data:</b>						
Earnings per equity share, basic	Rs. 16.87	Rs. 22.78	Rs. 29.45	Rs. 35.10	Rs. 38.24	US\$ 0.96
Earnings per equity share, diluted	16.70	22.60	29.08	34.60	37.75	0.94
Dividends per share	3.50	4.50	5.50	7.00	8.50	0.21
Book value (1)	110.36	159.22	176.49	205.10	336.44	8.41
<b>Equity share data:</b>						
Equity shares outstanding at end of period	282.8	309.9	313.1	319.4	354.4	354.4
Weighted average equity shares outstanding basic	281.9	290.1	311.9	314.6	344.0	344.0
Weighted average equity shares outstanding diluted	284.7	292.5	315.9	319.1	348.4	348.4
<b>ADS data (where 1 ADS represents 3 shares):</b>						
Earnings per ADS basic	50.61	68.34	88.36	105.30	114.72	2.87

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Earnings per ADS diluted	50.10	67.80	87.24	103.80	113.25	2.83
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	2004	2005	As of March 31, 2006 2007		2008	2008
			(in millions)			
<b>Selected balance sheet data:</b>						
Cash and cash equivalents	Rs. 33,010.4	Rs. 37,575.8	Rs. 61,194.3	Rs. 80,546.4	Rs. 147,208.0	US\$ 3,678.4
Term placements (2)	3,565.2	8,699.6	10,243.7	12,815.8	5,917.6	147.9
Loans, net of allowance	177,681.1	256,486.9	395,274.3	536,730.9	715,345.3	17,874.7
<b>Investments:</b>						
Investments held for trading	6,233.8	1,278.5	2,945.6	4,284.1	113,557.8	2,837.5
Investments available for sale	133,274.6	204,292.8	273,457.0	304,241.1	419,008.8	10,470.0
Investments held to maturity (3)	36,368.4					
Total	175,876.8	205,571.3	276,402.6	308,525.2	532,566.6	13,307.5
<b>Total assets</b>	Rs. 426,835.6	Rs. 535,544.2	Rs. 790,969.4	Rs. 1,013,185.9	Rs. 1,507,988.9	US\$ 37,680.9
Long-term debt (including current portion)	6,086.0	5,028.1	17,899.9	33,601.5	32,832.4	820.4
Short-term borrowings (excluding current portion of long-term debt)	24,064.2	62,079.1	74,805.4	95,472.4	129,330.3	3,231.6
Total deposits	304,062.0	363,542.5	557,305.4	682,348.0	1,005,910.1	25,135.2
Of which:						
Interest-bearing deposits	215,710.8	257,237.9	410,181.2	484,542.9	718,646.9	17,957.2
Non-interest bearing deposits	88,351.2	106,304.6	147,124.2	197,805.1	287,263.2	7,178.0
<b>Total liabilities</b>	395,619.8	486,206.2	735,476.6	947,356.2	1,388,281.6	34,689.7
Minority interest			225.3	321.6	462.0	11.5
Total Shareholders equity	31,215.8	49,338.0	55,267.5	65,508.1	119,245.3	2,979.8
<b>Total liabilities and shareholders equity</b>	Rs. 426,835.6	Rs. 535,544.2	Rs. 790,969.4	Rs. 1,013,185.9	Rs. 1,507,988.9	US\$ 37,681.0

	2004	2005	Year ended March 31, 2006 2007		2008	2008
			(in millions)			
<b>Period average (4)</b>						
Interest-earning assets	Rs. 327,523.4	Rs. 424,620.1	Rs. 589,311.1	Rs. 841,352.1	Rs. 1,077,606.7	US\$ 26,926.7
Loans, net of allowance	136,527.4	204,919.0	323,709.9	467,362.5	641,422.4	16,027.5
Total assets	357,123.8	448,029.6	621,249.5	885,171.5	1,251,281.2	31,266.4
Interest-bearing deposits	200,904.4	250,310.9	338,085.5	491,948.4	661,884.6	16,538.8
Non-interest bearing deposits	61,803.3	92,382.6	125,616.3	170,468.2	247,083.6	6,174.0
Total deposits	262,707.7	342,693.5	463,701.8	662,416.6	908,968.2	22,712.8
Interest-bearing liabilities	236,551.0	298,276.8	419,000.5	594,152.0	763,617.7	19,080.9
Long-term debt	2,605.9	5,371.3	6,669.7	26,812.5	32,218.4	805.1
Short-term borrowings	33,040.7	42,594.6	74,245.3	75,391.1	69,514.7	1,737.0
Total liabilities	328,458.9	407,265.5	572,893.7	826,187.9	1,149,483.2	28,722.7
Shareholders equity	28,664.9	40,764.1	48,355.8	58,983.6	101,797.9	2,543.7

	As of or for the year ended March 31, 2004 2005 2006 2007 2008					
	(in percentage)					
<b>Profitability:</b>						
Net income (after minority interest) as a percentage of:						
Average total assets		1.3	1.5	1.5	1.2	1.1
Average shareholders equity		16.6	16.2	19.0	18.7	13.0
Dividend payout ratio (5)		21.0	21.2	18.7	20.3	22.9
Spread (6)		3.5	3.5	3.8	4.0	4.8
Net interest margin (7)		3.8	3.8	4.1	4.4	5.1

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Cost-to-net revenue ratio (8)	55.9	54.0	57.5	62.8	68.4
Cost-to-average assets ratio (9)	2.3	2.5	2.9	3.1	3.4
<b>Capital:</b>					
Total capital adequacy ratio (10)	11.66	12.16	11.41	13.08	13.60
Tier 1 capital adequacy ratio (10)	8.03	9.60	8.55	8.57	10.30
Tier 2 capital adequacy ratio (10)	3.63	2.56	2.86	4.51	3.30
Average shareholders' equity as a percentage of average total assets	8.0	9.1	7.8	6.7	8.1
<b>Asset quality:</b>					
Gross non-performing customer assets as a percentage of gross customer assets (11)	1.6	1.5	1.2	1.2	1.2
Net non-performing customer assets as a percentage of net customer assets (11)	0.2	0.2	0.4	0.4	0.4
Total allowance for credit losses as a percentage of gross non-performing credit assets	116.8	133.2	118.2	128.1	144.2



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- 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.
- 11) Customer assets consist of loans and credit substitutes.

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## SELECTED STATISTICAL INFORMATION

The following information should be read together with our financial statements included in this report 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.

	2006			Year ended March 31, 2007			2008		
	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)									
<b>Assets:</b>									
Interest-earning assets:									
Cash equivalents	Rs. 36,720.2	Rs. 860.2	2.3%	Rs. 65,221.9	Rs. 1,891.1	2.9%	Rs. 30,631.2	Rs. 1,760.4	5.7%
Term placements	9,471.6	648.8	6.9	10,993.8	790.8	7.2	14,248.4	1,182.7	8.3
Investments available for sale:									
Tax free <sup>(1)</sup>	10,856.0	598.4	5.5	14,920.8	1,109.3	7.4	8,333.0	472.4	5.6
Taxable	205,220.9	12,371.2	6.0	264,519.6	18,298.7	6.9	327,523.6	24,789.0	7.6
Investments held to maturity									
Investments held for trading	3,332.4	195.6	5.9	18,333.5	1,148.2	6.3	55,448.1	3,449.3	6.2
Loans, net:									
Retail loans	157,272.2	14,864.4	9.5	250,818.9	29,662.0	11.8	361,791.4	46,794.0	12.9
Wholesale loans	166,437.7	13,989.4	8.4	216,543.6	17,161.5	7.9	279,631.0	25,801.9	9.2
<b>Total interest-earning assets:</b>	<b>Rs. 589,311.0</b>	<b>Rs. 43,528.0</b>	<b>7.4%</b>	<b>Rs. 841,352.1</b>	<b>Rs. 70,061.6</b>	<b>8.3%</b>	<b>Rs. 1,077,606.7</b>	<b>Rs. 104,249.7</b>	<b>9.7%</b>
Non-interest-earning assets:									
Cash	5,116.5			4,854.2			95,172.9		
Property and equipment	7,416.5			9,556.1			9,364.2		
Other assets	19,405.5			29,409.1			69,137.4		
<b>Total non-interest earning assets</b>	<b>31,938.5</b>			<b>43,819.4</b>			<b>173,674.5</b>		
<b>Total assets</b>	<b>Rs. 621,249.5</b>	<b>Rs. 43,528.0</b>	<b>7.0%</b>	<b>Rs. 885,171.5</b>	<b>Rs. 70,061.6</b>	<b>7.9%</b>	<b>Rs. 1,251,281.2</b>	<b>Rs. 104,249.7</b>	<b>8.3%</b>
<b>Liabilities:</b>									
Interest-bearing liabilities:									
Savings account deposits	Rs. 138,850.4	Rs. 3,731.6	2.7%	Rs. 178,310.4	Rs. 4,772.3	2.7%	Rs. 222,473.6	Rs. 5,757.6	2.6%
Time deposits	199,235.1	11,858.5	6.0	313,638.0	21,403.6	6.8	439,411.0	36,909.5	8.4
Short-term borrowings <sup>(2)</sup>	74,245.3	3,469.7	4.7	75,391.1	4,804.4	6.4	69,514.7	4,100.9	5.9
Long-term debt	6,669.7	562.0	8.4	26,812.5	2,164.8	8.1	32,218.4	2,646.0	8.2
<b>Total interest-bearing liabilities</b>	<b>Rs. 419,000.5</b>	<b>Rs. 19,621.8</b>	<b>4.7%</b>	<b>Rs. 594,152.0</b>	<b>Rs. 33,145.1</b>	<b>5.6%</b>	<b>Rs. 763,617.7</b>	<b>Rs. 49,414.0</b>	<b>6.5%</b>

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Non-interest-bearing liabilities:									
Non-interest-bearing deposits <sup>(3)</sup>	125,616.3			170,468.2			247,083.6		
Other liabilities	28,276.9			61,567.7			138,781.9		
Total non-interest-bearing liabilities	153,893.3			232,035.9			385,865.5		
Total liabilities	Rs. 572,893.7	Rs. 19,621.8	3.4%	Rs. 826,187.9	Rs. 33,145.1	4.0%	Rs. 1,149,483.2	Rs. 49,414.0	4.3%
Shareholders equity	48,355.8			58,983.6			101,797.9		
Total liabilities and shareholders equity	Rs. 621,249.5	Rs. 19,621.8	3.2%	Rs. 885,171.5	Rs. 33,145.1	3.7%	Rs. 1,251,281.2	Rs. 49,414.0	3.9%

- 1) Yields on tax free securities are not on a tax equivalent basis.
- 2) Includes securities sold under repurchase agreements.
- 3) Includes current accounts and cash floats from transactional services.

**Table of Contents****Analysis of Changes in Interest Revenue and Interest Expense Volume and Rate**

The following table sets forth, for the periods indicated, the allocation of the changes in our interest revenue and interest expense between average volume and changes in average rates.

	Fiscal 2007 vs. Fiscal 2006 Increase (decrease) <sup>(1)</sup> due to			Fiscal 2008 vs. Fiscal 2007 Increase (decrease) <sup>(1)</sup> due to		
	Net change	Change in average volume	Change in average rate	Net change	Change in average volume	Change in average rate
(in millions)						
<b>Interest revenue:</b>						
Cash equivalents	Rs. 1,030.9	Rs. 667.7	Rs. 363.2	Rs. (130.7)	Rs. 1,756.6	Rs. (1,887.3)
Term placements	142.0	104.3	37.7	391.9	234.1	157.8
<b>Investments available for sale:</b>						
Tax free	510.9	224.0	286.9	(636.9)	(489.8)	(147.1)
Taxable	5,927.5	3,574.7	2,352.8	6,490.3	4,358.4	2,131.9
<b>Investments held to maturity</b>						
Investments held for trading	952.6	880.5	72.1	2,301.1	2,324.4	(23.3)
<b>Loans, net:</b>						
Retail loans	14,797.6	8,841.5	5,956.1	17,132.0	13,123.7	4,008.3
Wholesale loans	3,172.1	4,211.5	(1,039.4)	8,640.4	4,999.8	3,640.6
<b>Total interest-earning assets</b>	<b>Rs. 26,533.6</b>	<b>Rs. 18,504.2</b>	<b>Rs. 8,029.3</b>	<b>Rs. 34,188.1</b>	<b>Rs. 26,307.2</b>	<b>Rs. 7,880.9</b>
<b>Interest expense:</b>						
Savings account deposits	Rs. 1,040.7	1,060.5	Rs. (19.8)	Rs. 985.3	Rs. 1,182.0	Rs. (196.7)
Time deposits	9,545.1	6,809.3	2,745.8	15,505.9	8,583.1	6,922.8
Short-term borrowings	1,306.7	86.6	1,220.1	(703.5)	(374.5)	(329.0)
Long-term debt	1,630.8	1,415.2	215.6	481.2	436.5	44.7
<b>Total interest-bearing liabilities</b>	<b>Rs. 13,523.3</b>	<b>Rs. 9,371.6</b>	<b>Rs. 4,151.7</b>	<b>Rs. 16,268.9</b>	<b>Rs. 9,827.1</b>	<b>Rs. 6,441.8</b>
<b>Net interest revenue</b>	<b>Rs. 13,010.3</b>	<b>Rs. 9,132.6</b>	<b>Rs. 3,877.6</b>	<b>Rs. 17,919.2</b>	<b>Rs. 16,480.1</b>	<b>Rs. 1,439.1</b>

1) The changes in net interest revenue between periods have been reflected as attributed either to volume or rate changes. For purposes of this table, changes which are due to both volume and rate have been allocated solely to changes in rate.

**Yields, Spreads and Margins**

The following table sets forth, for the periods indicated, the yields, spreads and interest margins on our interest-earning assets.

	Year ended March 31,		
	2006	2007	2008
(in millions, except percentages)			
Interest revenue	Rs. 43,528.0	Rs. 70,061.6	Rs. 104,249.7
Average interest-earning assets	589,311.0	841,352.1	1,077,606.7
Interest expense	19,621.8	33,145.1	49,414.0
Average interest-bearing liabilities	419,000.5	594,152.0	763,617.7
Average total assets	621,249.5	885,171.5	1,251,281.2
Average interest-earning assets as a percentage of average total assets	94.9%	95.0%	86.1%

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Average interest-bearing liabilities as a percentage of average total assets	67.4%	67.1%	61.0%
Average interest-earning assets as a percentage of average interest-bearing liabilities	140.6%	141.6%	141.1%
Yield	7.4%	8.3%	9.7%
Cost of funds <sup>(1)</sup>	3.4%	4.0%	4.3%
Spread <sup>(2)</sup>	3.8%	4.0%	4.8%
Net interest margin <sup>(3)</sup>	4.1%	4.4%	5.1%

- 1) Excludes shareholders' equity.
- 2) 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.
- 3) Net interest margin is 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 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 spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than spread.

**Table of Contents****Returns on Equity and Assets**

The following table presents selected financial ratios for the periods indicated.

	2006	Year ended March 31, 2007	2008
	(in millions, except percentages)		
Net income	Rs. 9,187.1	Rs. 11,039.7	Rs. 13,154.2
Average total assets	621,249.5	885,171.5	1,251,281.2
Average shareholders' equity	48,355.8	58,983.6	101,797.9
Net income as a percentage of average total assets	1.5%	1.2%	1.1%
Net income as a percentage of average shareholders' equity	19.0%	18.7%	12.9%
Average shareholders' equity as a percentage of average total assets	7.8%	6.7%	8.1%
Dividend payout-ratio	18.8%	20.3%	22.9%

**Investment Portfolio****Available for Sale Investments**

The following tables set forth, as of the dates indicated, information related to our investments available for sale.

	2006			At March 31, 2007			2008			Fair Value		
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Amortized cost	Gross unrealized gain	Gross unrealized loss	Amortized cost	Gross unrealized gain	Gross unrealized Loss			
	(in millions)											
Government securities	Rs. 189,660.3	Rs. 405.2	Rs. 1,957.1	Rs. 188,108.4	Rs. 234,524.4	Rs. 319.8	Rs. 5,202.3	Rs. 229,641.9	Rs. 351,477.0	Rs. 481.8	Rs. 2,527.2	Rs. 349.8
Debt securities	37,862.8	282.4	496.9	37,648.3	37,876.1	125.5	637.5	37,364.1	40,399.6	58.1	118.8	40.0
Debt securities	227,523.1	687.6	2,454.0	225,756.7	272,400.5	445.3	5,839.8	267,006.0	391,876.6	539.9	2,646.0	389.8
Debt securities	47,959.8	186.1	445.6	47,700.3	37,350.3	240.1	355.3	37,235.1	29,034.0	315.0	110.7	29.8
	Rs. 275,482.9	Rs. 873.7	Rs. 2,899.6	Rs. 273,457.0	Rs. 309,750.8	Rs. 685.4	Rs. 6,195.1	Rs. 304,241.1	420,910.6	Rs. 854.9	Rs. 2,756.7	Rs. 419.4

**Held to Maturity Investments**

As of March 31, 2006, March 31, 2007 and March 31, 2008, the Bank had no investments held to maturity.

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**Held for Trading Investments**

The following table sets forth, as of the dates indicated, information related to our investments held for trading:

	2006			At March 31, 2007			2008			Fair value		
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Amortized cost	Gross unrealized gain	Gross unrealized loss	Amortized cost	Gross unrealized gain	Gross unrealized loss			
Government Securities	Rs. 2,948.1	Rs. 6.1	Rs. 8.6	Rs. 2,945.6	Rs. 1,639.3	Rs. 3.5	Rs. 5.0	1,637.8	Rs. 12,572.9	Rs. 3.3	Rs. 41.1	Rs. 12,535.1
Other debt Securities									8,630.8	3.3	31.4	8,602.7
<b>Total debt Securities</b>	<b>Rs. 2,948.1</b>	<b>Rs. 6.1</b>	<b>Rs. 8.6</b>	<b>Rs. 2,945.6</b>	<b>Rs. 1,639.3</b>	<b>Rs. 3.5</b>	<b>Rs. 5.0</b>	<b>Rs. 1,637.8</b>	<b>Rs. 21,203.7</b>	<b>Rs. 6.6</b>	<b>Rs. 72.5</b>	<b>Rs. 21,137.8</b>
Non-debt Securities					2,644.2	2.5	0.4	2,646.3	92,418.7	5.1	3.8	92,420.0
<b>Total</b>	<b>Rs. 2,948.1</b>	<b>Rs. 6.1</b>	<b>Rs. 8.6</b>	<b>Rs. 2,945.6</b>	<b>Rs. 4,283.5</b>	<b>Rs. 6.0</b>	<b>Rs. 5.4</b>	<b>Rs. 4,284.1</b>	<b>Rs. 113,622.4</b>	<b>Rs. 11.7</b>	<b>Rs. 76.3</b>	<b>Rs. 113,557.8</b>

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**Residual Maturity Profile**

The following table sets forth, for the periods indicated, an analysis of the residual maturity profile of our investments in government and corporate debt securities classified as available for sale securities and their market yields.

	At March 31, 2008							
	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(in millions, except percentages)							
Government securities	Rs. 26,024.3	7.2%	Rs. 222,032.1	7.6%	Rs. 63,180.6	7.6%	Rs. 38,194.6	8.2%
Other debt securities	26,047.4	9.1	6,910.1	9.1	883.9	9.6	6,497.5	9.5
Total debt securities, fair value	Rs. 52,071.7	8.2%	Rs. 228,942.2	7.6%	Rs. 64,064.5	7.7%	Rs. 44,692.1	8.4%
Total amortized cost	Rs. 51,156.3		Rs. 230,004.7		Rs. 64,488.3		Rs. 45,227.3	

**Funding**

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 64.2% and 62.8% of total deposits as of March 31, 2007 and March 31, 2008, respectively. Wholesale banking deposits represented 35.8% and 37.2% of total deposits as of March 31, 2007 and March 31, 2008, respectively.

**Total Deposits**

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of daily balance for the relevant period) of savings deposits was 2.7% in fiscal 2006, 2.7% in fiscal 2007 and 2.6% in fiscal 2008. The average cost of time deposits was 6.0% in fiscal 2006, 6.8% in fiscal 2007 and 8.4% in fiscal 2008. The average deposits for the periods set forth are as follows:

	Year ended March 31,					
	2006		2007		2008	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
Current deposits <sup>(1)</sup>	Rs. 125,616.3	27.1%	Rs. 170,468.2	25.7%	Rs. 247,083.6	27.2%
Savings deposits	138,850.4	29.9	178,310.4	26.9	222,473.6	24.5
Time deposits	199,235.1	43.0	313,638.0	47.4	439,411.0	48.3
Total	Rs. 463,701.8	100.0%	Rs. 662,416.6	100.0%	Rs. 908,968.2	100.0%

1) Includes current accounts and cash floats from transactional services.

As of March 31, 2008, individual time deposits in excess of Rs. 0.1 million had a balance to maturity profile as follows:

	At March 31, 2008			
	Up to 3 Months	3 to 6 months	6 to 12 Months	More than 1 Year
	(in millions)			
Balance to maturity for deposits exceeding Rs. 0.1 million each	Rs. 156,769.8	Rs. 78,580.4	Rs. 118,013.9	Rs. 37,450.5

**Short-term Borrowings**



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The following table sets forth, for the periods indicated, information related to our short-term borrowings, which are comprised primarily of money-market borrowings. Short-term borrowings exclude deposits and securities sold under repurchase agreements.

	2006	Years ended March 31,	
		2007	2008
	(in millions, except percentages)		
Period end (including current portion of long-term debt)	Rs. 74,805.4	Rs. 95,472.4	Rs. 129,477.6
Average balance during the period	Rs. 73,569.3	Rs. 75,391.1	Rs. 69,514.7
Maximum outstanding	Rs. 100,008.2	Rs. 119,978.6	Rs. 161,157.0
Average interest rate during the period <sup>(1)</sup>	4.8%	6.4%	5.9%
Average interest rate at period end <sup>(2)</sup>	6.4%	9.9%	7.3%

1) Represents the ratio of interest expense on short-term borrowings to the average of daily balances of short-term borrowings.

2) Represents the weighted average rate of short-term borrowings outstanding as of March 31, 2006, 2007 and 2008.

**Table of Contents****Subordinated Debt**

We also obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier 2 risk-based capital under the RBI's guidelines for assessing capital adequacy. Subordinated debt (Lower Tier 2 capital), Upper Tier 2 capital and Innovative Perpetual Debt Instruments outstanding as on March 31, 2008 are Rs. 20.12 billion (previous year: Rs. 20.12 billion), Rs. 10.37 billion (previous year: Rs. 10.70), and Rs. 2.0 billion (previous year: Rs. 2.0 billion) respectively. The breakup of the same is shown hereunder:

Type	Currency	Year of issue	Year of maturity	Average tenor (years)	Interest rate %	Year of call	Step-up rate (%)	Outstanding amount (Rupees in billions)
Lower Tier 2	INR	2003-04	2013-14	9.3	5.90			3.95
Lower Tier 2	INR	2003-04	2016-17	12.3	6.00			0.05
Lower Tier 2	INR	2005-06	2015-16	9.5	7.50			4.14
Lower Tier 2	INR	2005-06	2015-16	9.3	7.75			2.31
Lower Tier 2	INR	2005-06	2015-16	9.7	8.25			2.57
Lower Tier 2	INR	2005-06	2015-16	9.9	8.60			3.00
Lower Tier 2	INR	2006-07	2016-17	10.0	8.45			1.69
Upper Tier 2	INR	2006-07	2021-22	15.0	8.80	2016-17	9.55	3.00
Upper Tier 2	INR	2006-07	2016-17	10.0	9.10			2.41
Upper Tier 2	INR	2006-07	2021-22	15.0	9.20	2016-17	9.95	3.00
Perpetual Debt	INR	2006-07			9.92	2016-17	10.92	2.00
Upper Tier 2	INR	2006-07	2021-22	15.0	8.95	2016-17	9.70	0.36
Upper Tier 2	USD	2006-07	2021-22	15.1	LIBOR+1.2	2016-17	LIBOR+2.2	4.01

The Upper Tier 2 U.S. dollar debt depicted in the table above is for an amount of US\$ 100 million raised during the fiscal 2007 carrying an interest rate of Libor + 1.20%. In the table above the rupee equivalent is based on the currency rate as on March 31, 2008. We have a right to redeem certain of the issuances as noted above under year of call. If not called, the interest rate increases to the step-up rate.

**Asset Liability Gap**

The following table sets forth, for the periods indicated, our asset-liability gap position:

	As of March 31, 2008 <sup>(1)</sup>								Total
	0-28 days	29-90 days	91-180 days	6-12 months	Total within one year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	
Cash and cash equivalents <sup>(2)(3)</sup>	Rs. 69,531.1	Rs. 7,994.4	Rs. 6,321.1	Rs. 6,752.3	Rs. 90,598.9	Rs. 48,688.5	Rs. 5,235.4	Rs. 2,685.2	Rs. 147,208.0
Term placements	249.0	379.5	256.9	173.9	1,059.3	297.6	1,597.9	2,962.8	5,917.6
Investments held for trading <sup>(4)</sup>	108,383.8	1,378.9		3,795.1	113,557.8				113,557.8
Investments available for sale <sup>(5)(6)</sup>	107,364.7	28,295.7	34,117.5	36,415.7	206,193.6	164,307.6	20,005.1	28,502.5	419,008.8
Securities purchased under agreement to resell	2,405.7				2,405.7				2,405.7
Loans, net <sup>(7)(8)</sup>	81,729.4	71,520.8	74,024.7	117,569.7	344,844.6	314,698.0	39,411.3	16,391.4	715,345.3
	11,297.7				11,297.7				11,297.7

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Accrued interest receivable									
Other assets	75,049.5				75,049.5				75,049.5
<b>Total financial assets</b>	<b>456,010.9</b>	<b>109,569.3</b>	<b>114,720.2</b>	<b>164,706.7</b>	<b>845,007.1</b>	<b>527,991.7</b>	<b>66,249.7</b>	<b>50,541.9</b>	<b>1,489,790.4</b>
Deposits <sup>(9)(10)</sup>	124,412.8	66,753.8	84,747.8	76,715.8	352,630.2	566,281.2	57,682.4	29,316.3	1,005,910.1
Debt <sup>(11)</sup>	45,156.6	51,067.4	31,037.4	2,210.5	129,471.9	199.8		32,491.0	162,162.7
Securities Sold under repurchase agreements	44,000.0				44,000.0				44,000.0
Other Liabilities <sup>(12)</sup>	130,332.6	2,670.0	5,873.0		138,875.6	31,997.4		5,335.8	176,208.8
<b>Total financial liabilities</b>	<b>343,902.0</b>	<b>120,491.2</b>	<b>121,658.2</b>	<b>78,926.3</b>	<b>664,977.7</b>	<b>598,478.4</b>	<b>57,682.4</b>	<b>67,143.1</b>	<b>1,388,281.6</b>
<b>Asset/Liability Gap</b>	<b>112,108.9</b>	<b>(10,921.9)</b>	<b>(6,938.0)</b>	<b>85,780.4</b>	<b>180,029.4</b>	<b>(70,486.7)</b>	<b>8,567.3</b>	<b>(16,601.2)</b>	<b>101,508.8</b>
<b>Cumulative gap</b>	<b>112,108.9</b>	<b>101,187.0</b>	<b>94,249.0</b>	<b>180,029.4</b>	<b>180,029.4</b>	<b>109,542.7</b>	<b>118,110.0</b>	<b>101,508.8</b>	<b>101,508.8</b>
<b>Cumulative gap as a percentage of total financial assets</b>	<b>24.6%</b>	<b>17.9%</b>	<b>13.9%</b>	<b>21.3%</b>	<b>21.3%</b>	<b>8.0%</b>	<b>8.2%</b>	<b>6.8%</b>	<b>6.8%</b>

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- 1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.
- 2) Cash on hand is classified in the 0-28 days category.
- 3) Cash and cash equivalents include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances as part of the applicable maturity categories on a basis proportionate to the classification of related deposits.
- 4) Securities in the trading book are classified based on the expected time of realization for such investments.
- 5) Securities held towards satisfying the statutory liquidity requirement prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.
- 6) Shares and units of open ended mutual funds in the available for sale investment portfolio are classified in the greater than five years category.
- 7) Includes net non-performing loans which are classified in the greater than five years category.
- 8) Ambiguous maturity overdrafts are classified under various maturity categories based on historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such advances.
- 9) Non-maturity deposits are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.
- 10) Time deposits are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits taking into account rollovers and premature withdrawals.
- 11) Includes short-term borrowings and long-term debt.
- 12) Cash floats are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such floats.

For further information on how we manage our asset liability risk, see [Business](#) [Market Risk](#).

**Loan Portfolio and Credit Substitutes**

As of March 31, 2008 our gross loan portfolio was Rs. 728.1 billion and represented approximately 7.0 million contracts outstanding. As of that date, our gross credit substitutes outstanding were Rs. 5.0 billion and represented 12 credit substitutes outstanding. Almost all of our gross loans and credit substitutes are to borrowers in India and over 90% are denominated in rupees. For a description of our retail and wholesale loan products, see [Business](#) [Retail Banking](#) [Retail Loan Products](#) and [Business](#) [Wholesale Banking](#) [Commercial Banking Products](#) [Commercial Loan Products](#) and [Credit Substitutes](#).

The following table sets forth, for the periods indicated, our gross loan portfolio classified by product group:

	2004	2005	At March 31, 2006 (in millions)	2007	2008
Retail loans	Rs. 73,251.6	Rs. 112,666.0	Rs. 229,301.4	Rs. 318,606.1	Rs. 441,312.4
Wholesale loans	107,923.8	149,259.4	171,626.2	226,139.3	286,768.9
Gross loans	Rs. 181,175.4	Rs. 261,925.4	Rs. 400,927.6	Rs. 544,745.4	Rs. 728,081.3
Credit substitutes (at fair value)	17,041.5	13,880.9	9,751.3	6,759.0	5,046.9
Gross loans plus credit substitutes	Rs. 198,216.9	Rs. 275,806.3	Rs. 410,678.9	Rs. 551,504.4	Rs. 733,128.2

**Table of Contents****Maturity and Interest Rate Sensitivity of Loans and Credit Substitutes**

The following tables set forth, for the periods indicated, the maturity and interest rate sensitivity of our loans and credit substitutes:

	At March 31, 2008		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
Retail loans	Rs. 169,784.5	256,124.2	15,403.7
Wholesale loans	175,060.3	100,888.4	10,820.2
<b>Gross loans</b>	<b>Rs. 344,844.8</b>	<b>Rs. 357,012.6</b>	<b>Rs. 26,223.9</b>
Credit Substitutes	3,208.2	1,833.6	5.1
<b>Gross Loans and credit substitutes</b>	<b>Rs. 348,053.0</b>	<b>Rs. 358,846.2</b>	<b>Rs. 26,229.0</b>

	At March 31, 2008		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
<b>Interest rate classification of loans by maturity:</b>			
Variable rates	Rs. 11,916.8	Rs. 159,806.8	Rs. 12,805.6
Fixed rates	332,928.0	197,205.8	13,418.3
<b>Gross loans</b>	<b>Rs. 344,844.8</b>	<b>Rs. 357,012.6</b>	<b>Rs. 26,223.9</b>
<b>Interest rate classification of credit substitutes by maturity:</b>			
Variable rates	Rs.	Rs.	Rs.
Fixed rates	3,208.2	1,833.6	5.1
<b>Gross credit substitutes</b>	<b>Rs. 3,208.2</b>	<b>1,833.6</b>	<b>5.1</b>
<b>Interest rate classification of loans and credit substitutes by maturity:</b>			
Variable rates	Rs. 11,916.8	Rs. 159,806.8	Rs. 12,805.6
Fixed rates	336,136.2	199,039.4	13,423.4
<b>Gross loans and credit substitutes</b>	<b>Rs. 348,053.0</b>	<b>Rs. 358,846.2</b>	<b>Rs. 26,229.0</b>

**Concentration of Loans and Credit Substitutes**

Pursuant to the guidelines of the RBI, our exposure to individual borrowers is limited to 15% of our capital funds (as defined by RBI and calculated under Indian GAAP), and to 40% of our capital funds 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 up to 10% in respect of group borrowers. We may, in exceptional circumstances, with the approval of our board of directors, consider enhancement of exposure to a borrower by a further 5% of capital funds. See Supervision and Regulation Credit Exposure Limits. In accordance with RBI regulations, we received approval from our board of directors for the fact that our top two single customer exposures exceeded the RBI prescribed limit of 15.0% of our capital funds.

The following table sets forth, for the periods indicated, our gross loans and fair value of credit substitutes outstanding by the borrower's industry or economic activity and as a percentage of our gross loans and fair value of credit substitutes (where such percentage exceeds 2.0% of the total). We do not consider retail loans a specific industry for this purpose. However, retail business banking loans are classified in the appropriate categories below and loans to commercial vehicle operators are included in land transport below.

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	2004		2005		At March 31, 2006		2007		2008	
					(in millions, except percentages)					
Land transport	Rs. 15,396.2	7.8%	Rs. 29,860.5	10.8%	Rs. 36,841.6	9.0%	Rs. 61,407.3	11.1%	Rs. 54,454.9	7.4%
Activities allied to agriculture	2,778.4	1.4	4,501.9	1.6	11,559.7	2.8	27,237.3	4.9	52,169.8	7.1
Trade	8,049.6	4.1	12,781.8	4.6	14,396.8	3.5	26,404.9	4.8	41,119.1	5.6
Automotive manufacturers	19,370.2	9.8	26,100.0	9.5	41,008.3	10.0	26,165.0	4.7	27,201.1	3.7
Food Processing	6,973.0	3.5	4,415.3	1.6	5,344.1	1.3	13,586.0	2.5	16,967.3	2.3
Engineering	6,631.0	3.3	4,862.3	1.8	10,963.5	2.7	13,010.8	2.4	15,662.0	2.1
Fertilizers	2,394.2	1.2	3,684.4	1.3	6,064.9	1.5	12,284.8	2.2	15,023.9	2.1
Others (including unclassified retail)	136,624.3	68.9	189,600.1	68.8	284,500.0	69.2	371,408.3	67.4	510,530.1	69.6
<b>Total</b>	<b>Rs. 198,216.9</b>	<b>100.0%</b>	<b>Rs. 275,806.3</b>	<b>100.0%</b>	<b>Rs. 410,678.9</b>	<b>100.0%</b>	<b>Rs. 551,504.4</b>	<b>100.0%</b>	<b>Rs. 733,128.2</b>	<b>100.0%</b>

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As of March 31, 2008, our 10 largest exposures totaled approximately Rs. 113.4 billion and represented 84.3% of our capital funds as per RBI guidelines based on Indian GAAP figures. The largest group of companies under the same management control accounted for 19.1% of our capital funds as on March 31, 2008 as per Indian GAAP.

**Directed Lending**

The RBI has established guidelines requiring Indian banks to lend 40% of their net bank credit to certain sectors called priority sectors. Priority sectors include small-scale industries, agricultural and agriculture based sectors, food, housing, small business enterprises and certain other priority sectors deemed weaker by the RBI. See Supervision and Regulation.

We are required to comply with the priority sector lending requirements as of the last reporting Friday of each fiscal year, a date specified by the RBI for reporting. Apart from our loans to the sectors outlined above, we may invest in bonds of specified institutions and mortgage-backed securitized paper to meet our mandated lending requirements. Any shortfall in the amount required to be lent to the priority sectors may be required to be deposited with Indian development banks like the National Bank for Agriculture and Rural Development and the Small Industries Development Bank of India. These deposits have a maturity of up to seven years and carry interest rates lower than market rates. With a view to rationalizing the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers or other priority sector borrowers, the RBI has stipulated that effective fiscal 2007, fresh investments by banks in specified institutions shall not be eligible for classification under priority sector lending.

The RBI has issued revised guidelines to be followed by banks with effect from April 1, 2007. See Supervision and Regulation for further details.

The following table sets forth, for the periods indicated, our directed lending broken down by sector:

	2004	2005	At March 31, 2006 (in millions)	2007	2008
Directed lending:					
Agriculture	Rs. 13,220.2	Rs. 20,641.5	Rs. 42,747.0	Rs. 70,712.7	Rs. 70,214.0
Small scale industries	4,370.6	4,013.2	6,968.9	19,229.9	79,809.0
Other	7,633.3	32,519.8	59,468.8	87,738.6	25,285.1
Total directed lending	Rs. 25,224.1	Rs. 57,174.5	Rs. 109,184.7	Rs. 177,681.2	Rs. 175,308.1

**Non-Performing Loans**

The following discussion of non-performing loans is based on U.S. GAAP. For classification of non-performing loans under Indian regulatory requirements, see Supervision and Regulation.

The Indian economy has expanded during the past two years with GDP growth of 9.6% in fiscal 2007 and 9.0% in fiscal 2008. Since 1991, the government of India has pursued a policy of gradual liberalization and deregulation. Indian corporations have had to respond to these pressures through a process of restructuring and repositioning. This restructuring process is taking place in several industries, primarily in sectors where many small, unprofitable manufacturing facilities have existed, such as the iron and steel and textiles industries. This led to a decline in the operating performance of some Indian corporations and the impairment of related loan assets in the financial system, including some of our assets. The decline in certain sectors of the Indian economy has been offset by growth in segments such as financial services and information technology.

As of March 31, 2008, our gross non-performing loans as a percentage of gross loan assets was 1.2% and our gross non-performing loans net of specific valuation allowances as a percentage of net loan assets was 0.4%. We have made total valuation allowances for 144.2% of gross non-performing loans. These allowances are based on the expected realization of cash flows from these assets and from the underlying collateral. All of our non-performing loans are rupee-denominated. Non-performing loans to the directed lending sector were 0.3% of gross loans.





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The following table sets forth, for the periods indicated, information about our gross non-performing loan portfolio:

	2004	2005	As of March 31 2006 (in millions, except percentages)	2007	2008
<b>Non-performing loans:</b>					
Retail loans	Rs. 403.5	Rs. 1,663.3	Rs. 3,193.5	Rs. 4,785.7	Rs. 7,446.1
Wholesale loans	2,589.1	2,420.9	1,590.0	1,469.9	1,383.2
Gross non-performing loans	Rs. 2,992.6	Rs. 4,084.2	Rs. 4,783.5	Rs. 6,255.6	Rs. 8,829.3
Specific valuation allowances	Rs. 2,722.7	Rs. 3,492.8	Rs. 3,204.6	Rs. 4,224.2	Rs. 5,841.6
Unallocated valuation allowances	771.6	1,945.7	2,448.7	3,790.3	6,894.4
Non-performing loans net of specific valuation allowance	269.9	591.4	1,578.9	2,031.4	2,987.7
Gross loan assets	181,175.4	261,925.4	400,927.6	544,745.4	728,081.3
Net loan assets	Rs. 177,681.1	Rs. 256,486.9	Rs. 395,274.3	Rs. 536,730.9	Rs. 715,345.3
Gross non-performing loans as a percentage of gross loans	1.7%	1.6%	1.2%	1.1%	1.2%
Non-performing loans net of specific valuation allowance as a percentage of net loan assets	0.2%	0.2%	0.4%	0.4%	0.4%
Specific valuation allowance as a percentage of gross non-performing loans	91.0%	85.5%	67.0%	67.5%	66.2%
Total valuation allowance as a percentage of gross non-performing loans	116.8%	133.2%	118.2%	128.1%	144.2%

**Recognition of Non-Performing Loans**

We classify our loan portfolio into loans that are performing and loans that are non-performing or impaired.

We consider a loan to be performing when no principal or interest payment is one quarter or more past due and where we expect to recover all amounts due to us.

We have categorized our gross loans based on their performance status as follows:

	2004	2005	At March 31, 2006 (in millions)	2007	2008
Performing	Rs. 178,182.8	Rs. 257,841.2	Rs. 396,144.1	Rs. 538,489.8	Rs. 719,252.0
<b>Non-performing or impaired:</b>					
<b>On accrual status</b>					
On non-accrual status	2,992.6	4,084.2	4,783.5	6,255.6	8,829.3
Total non-performing or impaired	2,992.6	4,084.2	4,783.5	6,255.6	8,829.3
Total	Rs. 181,175.4	Rs. 261,925.4	Rs. 400,927.6	Rs. 544,745.4	Rs. 728,081.3

Non-performing or impaired loans consist of loans that are on accrual status as well as loans that have been placed on non-accrual status.

We place loans on non-accrual status when interest or principal payments are one quarter past due, at which time no further interest is accrued and overdue interest not collected is reversed. We make specific allowances for all loans on non-accrual status based on the loss we expect to incur for each such loan.

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In the case of wholesale loans, we also identify loans as non-performing or impaired even when principal or interest payments are less than one quarter past due but where we believe recovery of all principal and interest amounts is doubtful. We make specific and unallocated allowances for these loans based on our estimate of losses inherent in the loan portfolio.

Our methodology for determining specific and unallocated allowances is discussed separately below for each category of loans.

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### ***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.

The Bank also makes unallocated allowances for its retail loans by product type. The Bank's retail loan portfolio comprises groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the expected amount of losses inherent in such product. In making such estimates, among other factors considered, the Bank stratifies such loans based on the number of days past due and takes into account historical losses for such product, the nature of security available and loan to value ratios.

### ***Wholesale Loans***

We make specific allowances for credit losses for all wholesale loans on non-accrual status. We also make specific allowances for wholesale loans that are on accrual status when we consider these loans to be impaired despite being less than one quarter past due.

We identify wholesale loans on accrual status as being impaired based on our assessment of each wholesale banking customer, taking into account quantitative and qualitative factors such as payment status, adverse situations that may affect the borrower's ability to repay, the value of any collateral held, our view of the industry and general economic conditions.

Impairment is measured for each non-performing wholesale banking customer for the aggregate of all wholesale loans made to that customer. We establish a specific allowance for the difference between the carrying value of the loan and the present value of expected future cash flows including the net realizable value of any collateral, discounted at the loan's effective interest rate. We do not establish a specific allowance for loans where the fair value of any collateral we hold exceeds the outstanding loan balance.

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. We also have an unallocated allowance for performing loans, based on the overall portfolio quality, asset growth, economic conditions and other risk factors.

### ***Analysis of Non-Performing Loans by Industry Sector***

The following table sets forth, for the periods indicated, our non-performing loans by borrowers' industry or economic activity in each of the respective periods and as a percentage of our loans in the respective industry or economic activity sector. These figures do not include credit substitutes, which we include for purposes of calculating our industry concentration for RBI reporting. See Risk Factors. 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.



***Land Transport***

The growth of the transportation industry has been affected by increasing fuel prices, rising interest rates and a marginal slowdown in the economy.

***Textile Industries***

The textile industry has been affected in recent times by rising cotton and polyester prices, as well as a slowdown in export demand. The Government has further extended the scheme for granting subsidized loans for modernization of the industry.

***Top Ten Non-Performing Loans***

As of March 31, 2008, we had 54 wholesale non-performing loans outstanding. Our top ten non performing loans represented 15.7% of our gross non-performing loans and 0.2% of our gross loan portfolio.

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The following table sets forth information regarding our ten largest non-performing loans. The table also sets forth the value (as set forth on the borrower's books) of collateral securing the loans. However, the net realizable value of such collateral may be substantially less, if anything.

		At March 31, 2008		Principal outstanding net of allowance for credit losses	Collateral- our share (in percentages)	Currently servicing all interest payments
Industry	Type of banking arrangement	Gross principal outstanding (in millions)				
Borrower 1	Automobiles	Sole	Rs. 642.9	Rs.		No
Borrower 2	Gems And Jewellery	Consortium	129.1		7.2	No
Borrower 3	Textiles	Consortium	120.8		5.1	No
Borrower 4	Metals And Metal Products	Consortium	108.9		7.0	No
Borrower 5	Miscellaneous- Textiles	Consortium	74.2		100.0	No
Borrower 6	Textiles	Multiple	73.0		24.3	No
Borrower 7	Electricity generation	Multiple	45.2		15.1	No
Borrower 8	Textiles	Sole	43.0	25.8	100.0	No
Borrower 9	Engineering	Consortium	40.1		21.2	No
Borrower 10	Miscellaneous-Manufacturing	Sole	31.8		100.0	No
			Rs. 1,309.0	Rs. 25.8		

**Interest Foregone**

Interest foregone is the interest due on non-performing loans that has not been accrued in our books of accounts. The following table sets forth the outstanding amount of interest foregone on existing non-performing loans as of the respective dates.

Interest foregone	(in millions)
March 31, 2006	Rs. 208.5
March 31, 2007	198.3
March 31, 2008	207.0

**Restructuring of Non-Performing Loans**

Our non-performing loans are restructured on a case-by-case basis after our management has determined that restructuring is the best means of maximizing realization of the loan. These loans continue to be on a non-accrual basis and are reclassified as performing loans only after sustained performance under the loan's renegotiated terms for a period of at least one year.

Pursuant to recently enacted regulations creating a system of Corporate Debt Restructuring, we may also be involuntarily required to restructure loans if decided by lenders holding 75% of the debt in a consortium in which we participate.

The following table sets forth, as of the dates indicated, our non-performing loans that have been restructured through rescheduling of principal repayments and deferral or waiver of interest:

	2004	2005	At March 31, 2006 (in millions, except percentages)	2007	2008
Gross restructured loans	Rs.	Rs. 100.3	Rs. 167.9	Rs.	Rs.
Allowance for credit losses		36.1	167.9		

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Net restructured loan	Rs.	Rs.	64.2	Rs.	Rs.	Rs.
Gross restructured loans as a percentage of gross non-performing loans			2.5%			3.5%
Net restructured loans as a percentage of net non-performing loans			10.9%			

If there is a failure to meet payment or other terms of a restructured loan, it may be considered a failed restructuring, in which case it is no longer classified as a restructured loan.

**Table of Contents****Non-Performing Loan Strategy**

Our non-performing loan strategy is focused on early problem recognition and active remedial management efforts. Because we are involved primarily in working capital finance with respect to wholesale loans, we track our borrowers' performance and liquidity on an ongoing basis. This enables us to define remedial strategies proactively and manage our exposures to industries or customers that we believe are displaying deteriorating credit trends. Relationship managers drive the recovery effort together with strong support from the credit group in the corporate office in Mumbai. Recovery is pursued vigorously through the legal process, enforcement of collateral, negotiated one-time settlements and other similar strategies. The particular strategy pursued depends upon the level of cooperation of the borrower and on our assessment of the borrower's management integrity and long-term viability.

**Allowance for Credit Losses on Loans**

The following table sets forth, for the periods indicated, movements in our allowance for credit losses:

	2004	2005	For the years ended March 31		2008
			2006	2007	
			(in millions)		
Specific allowance for credit losses at the beginning of the period	Rs. 1,684.3	Rs. 2,722.7	Rs. 3,492.8	Rs. 3,204.6	Rs. 4,224.2
Additions to allowance for credit losses for the period:					
Retail	775.8	2,433.9	4,762.6	6,969.0	10,317.8
Wholesale	1,278.7	221.9	41.5	11.8	44.0
Less allowances no longer required on account of recoveries	(300.3)	(781.7)	(275.1)	(72.1)	(98.2)
Allowance no longer required on account of write-offs	(715.8)	(1,104.0)	(4,817.2)	(5,889.1)	(8,646.2)
Specific allowance for credit losses at the end of period	Rs. 2,722.7	Rs. 3,492.8	Rs. 3,204.6	Rs. 4,224.2	Rs. 5,841.6
Unallocated allowance for credit losses at the beginning of the period	Rs. 182.4	Rs. 771.6	Rs. 1,945.7	Rs. 2,448.7	Rs. 3,790.3
Additions during the period	589.2	1,174.1	503.0	1,341.6	3,104.1
Unallocated allowance for credit losses at the end of the period	Rs. 771.6	Rs. 1,945.7	Rs. 2,448.7	Rs. 3,790.3	Rs. 6,894.4
Total allowance for credit losses at the beginning of the period	Rs. 1,866.7	Rs. 3,494.3	Rs. 5,438.5	Rs. 5,653.3	Rs. 8,014.5
Allowance no longer required on account of write-offs	(715.8)	(1,104.0)	(4,817.2)	(5,889.1)	(8,646.2)
Net addition to total allowance for the period charged to expense	2,343.4	3,048.2	5,032.0	8,250.3	13,367.7
Total allowance for credit losses at the end of the period	Rs. 3,494.3	Rs. 5,438.5	Rs. 5,653.3	Rs. 8,014.5	Rs. 12,736.0

The following table sets forth, for the periods indicated, the allocation of the total allowance for credit losses:

	2004	2005	As of March 31	2007	2008
			2006		
			(in millions)		
<b>Wholesale</b>					



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Allocated	Rs. 2,379.8	Rs. 2,285.7	Rs. 1,543.1	Rs. 1,456.7	Rs. 1,368.6
Unallocated	269.8	400.9	703.1	626.9	491.4
Subtotal	2,649.6	2,686.6	2,246.2	2,083.6	1,860.0
<b>Retail</b>					
Allocated	342.9	1,207.1	1,661.5	2,767.5	4,473.0
Unallocated	501.8	1,544.8	1,745.6	3,163.4	6,403.0
Subtotal	844.7	2,751.9	3,407.1	5,930.9	10,876.0
Allowance for credit losses	Rs. 3,494.3	Rs. 5,438.5	Rs. 5,653.3	Rs. 8,014.5	Rs. 12,736.0

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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 this report. 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 2003, we have experienced significant growth in our customer and geographical base, expanding from 3.4 million customers in 122 cities as of March 31, 2003 to 11.6 million customers in 327 cities as of March 31, 2008. In line with this increase, we have increased our loans to customers from Rs. 120,166.6 million in fiscal 2003 to Rs. 728,081.3 million in fiscal 2008, which included increases of Rs. 409,681.0 million in retail loans and Rs. 198,233.7 million in wholesale loans. Our merger with Centurion Bank of Punjab Ltd. (CBoP) became effective on May 23, 2008. Accordingly, our financial condition at March 31, 2008 and our results of operations for the year then ended do not reflect our merger with CBoP. See [Merger of Centurion Bank of Punjab](#) for a discussion of the merger.

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.

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, income from affiliates 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.

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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 over the past two years. GDP growth was 9.6% in fiscal 2007 and 9.0% in fiscal 2008.

In addition, interest rates have generally been rising during the past few years in line with global trends. During fiscal 2008, the benchmark reverse repo rate was 6.0%. In addition, the RBI increased the cash reserve ratio from 6.0% in fiscal 2007 to 7.50% in fiscal 2008.

### **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.

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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.

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 the Financial Statements.

### ***Recently issued accounting pronouncements not yet effective***

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 generally accepted accounting principles (GAAP), and expands disclosures about fair value

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measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. SFAS 157-2 (FSP FAS 157-2) which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for items within the scope of this FSP. The Bank does not expect the application of the standard will have a significant impact on the Bank's future financial position or results of operation.

In February, 2007, the FASB issued Statement No. 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 are to be reported in earnings. SFAS 159 is effective from an entity's fiscal year beginning after November 15, 2007. The Bank does not expect the application of the standard will have a significant impact on the Bank's future financial position or results of operation.

On November 5, 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). SAB 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 is on a prospective basis and effective for the Bank's loan commitments measured at fair value through earnings which are issued or modified in fiscal quarters beginning after December 15, 2007. The Bank does not expect the application of the staff's view to have a significant impact on the Bank's future financial position or results of operation.

On December 4, 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, SFAS 141R requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS 141R also modifies the accounting for certain acquired income tax assets and liabilities. SFAS 141R applies to business combinations for which the acquisition date is on or after the beginning of annual reporting periods beginning on or after December 15, 2008. Early adoption is not permitted.

On December 4, 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160) an amendment of ARB 51- *Consolidated Financial Statements*. SFAS 160 requires all entities to report noncontrolling (i.e., minority) interests in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also establishes accounting and reporting standards for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also requires expanded disclosure that distinguishes between the interests of the controlling owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is not permitted. We are currently evaluating the impact, if any, the future application of this pronouncement may have on our financial statements.

On March 19, 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. This Statement expands the disclosure requirements in Statement 133 about an entity's derivative instruments and hedging activities. Such disclosures, as well as existing Statement 133 required disclosures, generally will need to be presented for every annual and interim reporting period for which a statement of financial position and a statement of financial performance are presented. SFAS 161 improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

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In May 2008, the FASB issued SFAS 163, *Accounting for Financial Guarantee Insurance Contracts* an interpretation of FASB Statement No. 60- *Accounting and Reporting by Insurance Enterprise* . The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts issued by enterprises included within the scope of Statement 60. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Bank is currently evaluating the potential impact of adopting the statement.

**Table of Contents****Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007*****Net Interest Revenue after Allowance for Credit Losses***

Our net interest revenue after allowances for credit losses increased by 44.7% from Rs. 28.7 billion in fiscal 2007 to Rs. 41.5 billion in fiscal 2008. Our net interest margin increased from 4.4% in fiscal 2007 to 5.1% in fiscal 2008. The following table sets out the components of net interest revenue after allowance for credit losses:

	2007	2008	Year ended March 31, Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Interest on loans	Rs. 46,823.5	Rs. 72,595.9	Rs. 25,772.4	55.0%
Interest on securities, including dividends	20,556.2	28,710.7	8,154.5	39.7
Other interest revenue	2,681.9	2,943.1	261.2	9.7
Total interest and dividend revenue	70,061.6	104,249.7	34,188.1	48.8
Interest on deposits	26,175.9	42,667.1	16,491.2	63.0
Interest on short-term borrowings	4,800.4	4,093.6	(706.8)	(14.7)
Interest on long term debt	2,164.8	2,646.0	481.2	22.2
Other Interest Expense	4.0	7.3	3.3	82.5
Total interest expense	33,145.1	49,414.0	16,268.9	49.1
Net interest revenue	Rs. 36,916.5	Rs. 54,835.7	Rs. 17,919.2	48.5
Less: Allowance for credit losses:				
Retail	8,386.9	13,606.5	5,219.6	62.2
Wholesale	(136.6)	(238.8)	(102.2)	*
Total	Rs. 8,250.3	Rs. 13,367.7	Rs. 5,117.4	62.0
Net interest revenue after allowance for credit losses	Rs. 28,666.2	Rs. 41,468.0	Rs. 12,801.8	44.7%

\* Not meaningful

***Interest and Dividend Revenue***

Interest on loans increased as average volume of loans increased by 37.2% from Rs. 467.3 billion in fiscal 2007 to Rs. 641.4 billion in fiscal 2008. Our average volume of retail loans increased by 44.2% from Rs. 250.8 billion in fiscal 2007 to Rs. 361.8 billion in fiscal 2008. 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 29.1% from Rs. 216.5 billion in fiscal 2007 to Rs. 279.6 billion in fiscal 2008 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 10.0% in fiscal 2007 to 11.2% in fiscal 2008. 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.

Interest on securities, including dividends, increased by 39.7% from Rs. 20.5 billion in fiscal 2007 to Rs. 28.7 billion in fiscal 2008 due to increases in yields and in the volume of overall investments. Investments in mutual fund units increased in fiscal 2008 due to additional capital from our ADR issue in July 2007 and surplus funds during the year.

Other interest revenue increased by 9.7% for fiscal 2008 compared to fiscal 2007 mainly due to an increase in earnings from interbank funds.

***Interest Expense***

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Our interest expense on deposits increased by 63.0% from Rs. 26.2 billion in fiscal 2007 to Rs. 42.7 billion in fiscal 2008. Our average cost of deposits increased from 4.0% in fiscal 2007 to 4.7% in fiscal 2008 as a result of an increase in the average cost of time deposits from 6.8% in fiscal 2007 to 8.4% in fiscal 2008 and a marginal decline in the proportion of average current and savings account balances to average total deposits from 52.7% to 51.7%. Our interest expense on short-term borrowings decreased by 14.7% as a result of a decrease in borrowing in the inter-bank call money market. The cost of short-term borrowings decreased mainly due to inflow of additional capital on account of the preferential allotment of equity shares and the ADS issue. Our average cost of short-term borrowing also decreased from 6.4% in fiscal 2007 to 5.9% in fiscal 2008. Our interest expense on long-term debt increased by 22.2% primarily due to interest expense on Upper Tier 2 and Lower Tier 2 capital and innovative perpetual debt instruments that were issued during fiscal 2007.



**Table of Contents****Allowance for Credit Losses**

Allowances for credit losses increased by 62.0% for fiscal 2008 compared to fiscal 2007. This was due to an increase in credit losses for retail loans from Rs. 8.4 billion to Rs. 13.6 billion. Such increase resulted from increases in the volume of retail loans and changes in the composition of our retail 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. In the wholesale segment, there were recoveries in the non-performing loans and a release of unallocated loss provisions.

**Non- Interest Revenue**

Our non-interest revenue increased by 35.6% from Rs. 15.0 billion in fiscal 2007 to Rs. 20.3 billion in fiscal 2008. The following table sets forth the components of our non-interest revenue:

	2007	Year ended March 31,		% Increase/ (decrease)
		2008	Increase/ (decrease)	
(in millions, except percentages)				
Fees and commissions	Rs. 13,371.9	Rs. 18,443.1	Rs. 5,071.2	37.9%
Realized gains (losses) on sales of AFS securities	(456.9)	168.4	625.3	*
Realized gains (losses) on sales of HFT securities	(134.7)	243.3	378.0	*
Foreign exchange	1,903.5	1,445.0	(458.5)	(24.1)
Derivative transactions	165.1	(1,054.9)	(1,220.0)	(738.9)
Other	150.8	1,101.7	950.9	630.6
<b>Total non-interest revenue</b>	<b>Rs. 14,999.7</b>	<b>Rs. 20,346.6</b>	<b>Rs. 5,346.9</b>	<b>35.6%</b>

\* 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 an increase in credit card fees due to higher late payment charges, interchange income and over limit fees. 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.

Realised gains on sales of AFS securities and HFT securities was primarily from the sale of Government of India securities.

Revenue from derivative and foreign exchange transactions was lower primarily because of fair value adjustments on certain customer contracts on account of adverse currency movements. Other non interest revenue increased primarily on account of gains from the sale of our equity stake in our affiliates.

**Non- Interest Expense**

Our non-interest expense was comprised of the following:

	2007	2008	Year ended March 31,		2007 % of net revenues	2008 % of net revenues
			Increase/ (decrease)	% Increase/ (decrease)		
(in millions, except percentages)						
Salaries and staff benefits	Rs. 11,430.6	Rs. 19,169.6	Rs. 7,739.0	67.7%	26.2%	31.0%
Premises and equipment	4,130.5	4,729.3	598.8	14.5	9.5	7.7

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Depreciation and amortization	2,273.3	2,816.0	542.7	23.9	5.2	4.6
Administrative and other	9,591.7	15,546.9	5,955.2	62.1	22.0	25.2
<b>Total non-interest expense</b>	<b>Rs. 27,426.1</b>	<b>Rs. 42,261.8</b>	<b>Rs. 14,835.7</b>	<b>54.1%</b>	<b>62.8%</b>	<b>68.4%</b>

Total non-interest expense increased by 54.1% from Rs. 27.4 billion in fiscal 2007 to Rs. 42.3 billion in fiscal 2008. This was primarily due to increased salaries and staff benefits, infrastructure and administrative costs relating to the maintenance and 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 68.4% in fiscal 2008 compared to 62.8% in fiscal 2007.

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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 21,477 employees as of March 31, 2007 to 37,836 employees as of March 31, 2008 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. Headcount also increased due to general growth in our business. Our premises and equipment expense increased because we expanded our distribution network from 684 branches and 1,605 ATMs as of March 31, 2007 to 761 branches and 1,977 ATMs as of March 31, 2008. 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 22.6% from Rs. 5.1 billion in fiscal 2007 to Rs. 6.3 billion in fiscal 2008. Our effective tax rate was 31.7% in fiscal 2007 and 32.3% in fiscal 2008.

***Net Income***

As a result of the foregoing factors, our net income after taxes increased by 19.2% from Rs. 11.0 billion in fiscal 2007 to Rs. 13.2 billion in fiscal 2008.

**Table of Contents****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:

	2006	2007	Year ended March 31, 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		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.

***Interest Expense***

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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% in fiscal 2006 to 52.7% in fiscal 2007. Our interest expense on short-term borrowings increased by 38.4% 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 4.8% 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.

**Table of Contents****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 an 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:

	2006	Year ended March 31,		% Increase/ (decrease)
		2007	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)	(200.8)
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)
<b>Total non-interest revenue</b>	<b>Rs. 12,147.9</b>	<b>Rs. 14,999.7</b>	<b>Rs. 2,851.8</b>	<b>23.5%</b>

\* 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.

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.

**Table of Contents****Non- Interest Expense**

Our non-interest expense was comprised of the following:

			Year ended March 31,		2006 % of	2007 % of
	2006	2007	Increase/ (decrease)	% Increase/ (decrease)	net revenues	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
<b>Total non-interest expense</b>	<b>Rs. 17,846.8</b>	<b>Rs. 27,426.1</b>	<b>Rs. 9,579.3</b>	<b>53.7%</b>	<b>57.5%</b>	<b>62.8%</b>

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. We 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.

**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.

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 elsewhere in this report in order to facilitate understanding of significant trends in our business.

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	2006	Year ended March 31, 2007 (in millions)	2008
<b>Cash Flows from Operating Activities:</b>			
Net income	Rs. 9,187.1	Rs. 11,039.7	Rs. 13,154.2
Non cash adjustments to net income	11,654.2	16,993.3	20,866.1
Net change in other assets and liabilities	11,774.8	5,796.1	(83,680.2)
Net cash provided/(used) by operating activities	32,616.1	33,829.1	(49,659.9)
<b>Cash Flows from Investing Activities:</b>			
Net change in term placements	(1,544.2)	(2,572.1)	6,898.2
Net change in investments	(78,453.7)	(21,010.1)	(82,480.2)
Purchase of Subsidiary	155.8		
Proceeds from loans securitized	19,733.3	6,535.8	2,913.9
Loans purchased net of repayments	(3,736.3)	(8,899.3)	(770.0)
Increase in loans originated, net of principal collections	(159,840.8)	(147,290.9)	(197,034.3)
Additions to property and equipment	(3,701.4)	(3,224.4)	(6,372.6)
Net cash used in investing activities	(227,387.3)	(176,461.0)	(276,845.0)
<b>Cash Flows from Financing Activities:</b>			
Net increase in deposits	193,762.9	125,042.6	323,562.1
Net increase/(decrease) in short-term borrowings	13,597.6	20,667.0	34,005.2
Net increase/(decrease) in long-term debt	12,000.5	15,701.6	(916.4)
Proceeds from issuance of equity shares for options exercised	625.8	2,540.2	1,292.3
Proceeds from issuance of ADSs			23,938.6
Proceeds from issuance of equity shares on preferential allotment			13,901.0
Payment of dividends and dividend tax	(1,597.1)	(1,967.4)	(2,616.3)
Net cash provided by financing activities	218,389.7	161,984.0	393,166.5
Net change in cash and cash equivalents	23,618.5	19,352.1	66,661.6
Cash and cash equivalents, beginning of year	37,575.8	61,194.3	80,546.4
<b>Cash and cash equivalents, end of year</b>	<b>Rs. 61,194.3</b>	<b>Rs. 80,546.4</b>	<b>Rs. 147,208.0</b>

**Cash Flows from Operating Activities**

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 decreased during fiscal 2008 from Rs. 33.8 billion to Rs. (49.7) billion. This decrease was primarily due to an increase in investments held for trading from Rs. 1.3 billion in fiscal 2007 to Rs. 109.3 billion in fiscal 2008.

**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 47.4% from Rs. 682.3 billion in fiscal 2007 to Rs. 1,005.9 billion in fiscal 2008. Savings account deposits at Rs. 261.5 billion and current account deposits at Rs. 287.3 billion together accounted for approximately 54.6% of total deposits as of March 31, 2008. There has been a 58.4% increase in our time deposits from Rs. 288.7 billion in fiscal 2007 to Rs. 457.2 billion in fiscal 2008, which contributed to the significant overall increase in deposits.

The short-term borrowings are utilized for our treasury operations. Our short-term borrowings increased by 35.5% from Rs. 95.5 billion in fiscal 2007 to Rs. 129.3 billion in fiscal 2008. The foreign currency borrowing limits of the Bank increased on account of the ADS issue and the preferential allotment of equity shares to HDFC Limited during the fiscal 2008. Since the rates were attractive, we increased funding from



foreign markets.

In fiscal 2008 we allotted equity shares on a preferential basis to Housing Development Finance Corporation Ltd. (HDFC) aggregating to Rs. 13.9 billion. We raised equity capital of Rs. 23.9 billion in July 2007 through a public offering of ADSs in the United States. This strengthened our capital position in order to support balance sheet growth.

**Table of Contents****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, 2008 was an increase of Rs. 82.5 billion. Our statutory liquidity ratio investments increased from Rs. 229.6 billion in fiscal 2007 to Rs. 349.4 billion in fiscal 2008. The increase in loans originated and purchased, net of principal collections and repayments, was Rs. 156.2 billion in fiscal 2007 and Rs. 197.8 billion in fiscal 2008. The increase was due to a growth in retail loans in fiscal 2008.

**Financial Condition****Assets**

The following table sets forth the principal components of our assets as of March 31, 2007 and March 31, 2008:

	As of March 31,		Increase/ (decrease)	% Increase/ (decrease)
	2007	2008		
	(in millions except percentages)			
Cash and cash equivalents	Rs. 80,546.4	Rs. 147,208.0	Rs. 66,661.6	82.8%
Term placements	12,815.8	5,917.6	(6,898.2)	(53.8)
Investments held for trading	4,284.1	113,557.8	109,273.7	2,550.7
Investments available for sale	304,241.1	419,008.8	114,767.7	37.7
Securities purchased under agreements to resell		2,405.7	2,405.7	
Loans, net	536,730.9	715,345.3	178,614.4	33.3
Accrued interest receivable	15,742.9	11,297.7	(4,445.2)	(28.2)
Property and equipment	10,397.6	13,961.5	3,563.9	34.3
Other assets	48,427.1	79,286.5	30,859.4	63.7
Total assets	Rs. 1,013,185.9	Rs. 1,507,988.9	Rs. 494,803.0	48.8%

Our total assets increased by 48.8% to Rs. 1,508.0 billion in fiscal 2008 from Rs. 1,013.2 billion in fiscal 2007.

Cash and cash equivalents increased by 82.8% primarily due to an increase in balances with the RBI.

There was a 37.7% increase in AFS securities primarily on account of a rise in our statutory liquidity ratio requirements during the year. Investments held for trading increased by Rs. 109,273.7 million from Rs. 4,284.1 million as of March 31, 2007 to Rs. 113,557.8 million as of March 31, 2008. This increase was on account of higher short-term surpluses / floats available at the year end which were deployed in short term assets.

Net loans increased due to increases in both our retail and wholesale products. Our retail loan volume increased by 38.5% from Rs. 318.6 billion in fiscal 2007 to Rs. 441.3 billion in fiscal 2008. The key drivers in the retail loan increase were auto loans, personal loans, credit card receivables, commercial vehicle loans, construction equipment loans and business banking loans. This was complemented by an increase in wholesale loans of 26.8% from Rs. 226.1 billion to Rs. 286.8 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 684 branches and 1,605 ATMs as of March 31, 2007 to 761 branches and 1,977 ATMs as of March 31, 2008 and invested in other infrastructure to support our growth.

Other assets increased principally because of an increase in the fair value of derivatives as of March 31, 2008 as compared to March 31, 2007.

**Table of Contents****Liabilities and Shareholders Equity**

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2007 and March 31, 2008:

	2007	As of March 31, 2008	Increase/ (decrease)	% Increase/ (decrease)
		(in millions, except percentages)		
<b>Liabilities</b>				
Interest bearing deposits	Rs. 484,542.9	Rs. 718,646.9	Rs. 234,104.0	48.3%
Non-interest bearing deposits	197,805.1	287,263.2	89,458.1	45.2
Total deposits	682,348.0	1,005,910.1	323,562.1	47.4
Securities sold under repurchase agreements	10,500.0	44,000.0	33,500.0	319.0
Short-term borrowings (excluding current portion of long term debt)	95,472.4	129,330.3	33,857.9	35.5
Accrued interest payable	17,035.7	16,742.3	(293.4)	(1.7)
Long-term debt (including current portion)	33,601.5	32,832.4	(769.1)	(2.3)
Accrued expenses and other liabilities	108,398.6	159,466.5	51,067.9	47.1
Total liabilities	947,356.2	1,388,281.6	440,925.4	46.5
Minority Interest	321.6	462.0	140.4	43.7
Shareholders equity	65,508.1	119,245.3	53,737.2	82.0
Total liabilities and shareholders equity	Rs. 1,013,185.9	Rs. 1,507,988.9	Rs. 494,803.0	48.8%

Our total liabilities increased by 46.5% from Rs. 947.4 billion in fiscal 2007 to Rs. 1,388.2 billion in fiscal 2008. 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, 2008, retail deposits accounted for approximately 62% and wholesale deposits accounted for the balance.

Securities sold under repurchase agreements increased by 319.0% on account of a higher statutory liquidity ratio maintained by the Bank.

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, 2008, deposits accounted for approximately 72.4% with short-term borrowings accounting for approximately 9.3% and long-term debt accounting for approximately 2.4%. 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 35.5% as at March 31, 2008 as compared to March 31, 2007. Accrued expenses and other liabilities increased primarily because of a change in the fair value of derivatives.

Shareholders equity increased on account of a preferential issue of equity shares to HDFC Ltd., additional paid- in capital on account of an ADR issue and an increase in our retained earnings. On June 2007, 13,582,000 equity shares of Rs 10/- (each at a premium of Rs. 1,013.49 per share) were allotted on a preferential allotment basis to HDFC Ltd., aggregating to Rs. 13.9 billion. An amount of Rs. 23.9 billion was received, net of underwriting discounts and commissions on account of the public offering of 6,594,504 American Depository Shares (ADS) made in July 2007 at a price to the public of US\$ 92.10 per ADS. Each ADS represented three equity shares.

**Merger of Centurion Bank of Punjab**

Our merger with Centurion Bank of Punjab Ltd. (CBoP) became effective on May 23, 2008. CBoP had around 400 branches operating out of about 180 locations supported by an employee base of over 7,500 employees. Loans outstanding of CBoP as of March 31, 2008 were Rs. 161,818.7 million and deposits outstanding of CBoP as of this same date were Rs. 218,092.7 million, as per Indian GAAP.

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To maintain the promoter group shareholding in the Bank, the shareholders, on March 27, 2008, accorded their consent to issue equity shares and/or warrants convertible into equity shares to HDFC Limited and/or other promoter group companies. Pursuant to the said consent of the shareholders accorded on March 27, 2008, the Bank issued 26,200,220 warrants to HDFC Limited on a preferential basis during the quarter ended June 30, 2008. (Also see, I. The Bank , in Notes to the Consolidated Financial Statements. )

**Table of Contents****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*. 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,	
	2007	2008
	(in millions, except percentages)	
Tier 1 capital	Rs. 63,527.1	Rs. 110,629.6
Tier 2 capital	33,399.9	35,483.7
Total capital	96,927.0	146,113.3
Total risk weighted assets and contingents	Rs. 740,819.2	Rs. 1,074,479.9
Capital ratios:		
Tier 1	8.57%	10.3%
Total capital	13.08%	13.6%
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, provision for country risk and floating provision) of Rs. 3.5 billion and Rs. 5.4 billion as of March 31, 2007 and March 31, 2008, respectively, which qualify for Tier 2 capital subject to a ceiling of risk weighted assets.

The risk weights have been increased by the RBI in respect of certain items such as exposure to capital markets (125.0%), commercial real estate and venture capital funds (150.0%), consumer credit including personal loans and credit cards (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 in 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 an SPV:

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

A commitment to provide a liquidity facility, to the extent not drawn, is considered an off-balance sheet item and is given a conversion factor as well as a 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*.

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, applicable to us effective March 31, 2009, would also result in a decline in our capital adequacy ratio.

**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.

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We have current plans for aggregate capital expenditures of approximately Rs. 7.7 billion in fiscal 2009. These budgeted amounts include Rs. 3.5 billion to expand our branch and back office network, Rs. 0.6 billion to expand our ATM network, Rs. 0.4 billion to expand our Electronic Data Capture terminal network and Rs. 3.2 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.

**Table of Contents****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, 2007 and March 31, 2008, 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 counterparty in calculating these amounts.

	2007		As of March 31, 2008	
	Notional	Fair Value	Notional	Fair Value
	(in millions)			
Interest rate swaps and forward rate agreements	Rs. 1,794,090.4	Rs. (27.9)	Rs. 3,571,932.1	Rs. (1,039.5)
Forward exchange contracts, currency swaps and currency options	Rs. 1,377,440.9	Rs. 2,591.4	Rs. 2,102,441.7	Rs. 3,308.1

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,	
	2007	2008
	(in millions)	
Bank guarantees:		
Financial guarantees	Rs. 23,631.4	Rs. 34,617.7
Performance guarantees	20,330.7	25,916.0
Documentary credits	26,050.5	101,718.9
Total	Rs. 70,012.6	Rs. 162,252.6

Guarantees and documentary credits outstanding increased by 131.7% to Rs. 162.2 billion as of March 31, 2008, principally due to general growth in our wholesale banking business and to meet our clients' import needs.

**Loan Sanction Letters**

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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 decreased from Rs. 165.8 billion as of March 31, 2007 to Rs. 50.2 billion as of March 31, 2008. If requested, we make these loans subject to the customer's creditworthiness 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 elsewhere in this report.



**Table of Contents****Contractual Obligations and Commercial Commitments****Contractual Obligations**

	Total	Payments due by period, as of March 31, 2008			
		Less than 1 year	1-3 years (in millions)	3-5 years	After 5 years
Subordinated debt	Rs. 32,491.0	Rs.	Rs.	Rs.	Rs. 32,491.0
Other long term debt(a)	194.1		194.1		
Operating leases(b)	10,114.0	1,816.1	3,398.2	2,767.6	2,132.1
Unconditional purchase obligations(c)	1,407.4	1,407.4			
<b>Total contractual cash obligations</b>	<b>Rs. 44,206.5</b>	<b>Rs. 3,223.5</b>	<b>Rs. 3,592.3</b>	<b>Rs. 2,767.6</b>	<b>Rs. 34,623.1</b>

- (a) Other long term debt includes a loan of Rs 2.2 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.
- (c) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2008. 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. 455.8 million as of March 31, 2008 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, we have recognized a liability of Rs. 152.9 million as of March 31, 2008.

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, 2008 are set forth in the following table:

	Total amounts committed	Amount of commitment expiration per period			
		Less than 1 year	1-3 years (in millions)	3-5 years	Over 5 years
Documentary Credits	Rs. 101,718.9	Rs. 94,471.3	7,147.4	100.2	
Guarantees	60,533.7	468.1	3,642.1	1,232.7	55,190.8
Forward exchange contracts	1,929,955.5	1,901,324.6	26,701.3	1,929.7	
Derivative contracts*	3,744,418.3	1,961,845.4	1,091,900.1	650,922.8	39,750.0
<b>Total contractual cash obligations</b>	<b>Rs. 5,836,626.3</b>	<b>Rs. 3,958,109.4</b>	<b>1,129,390.9</b>	<b>654,185.4</b>	<b>94,940.8</b>

\* Denotes notional principal amounts.

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## MANAGEMENT

**Directors and Senior Management**

Our Memorandum and Articles of Association (the "Articles") provide that until otherwise determined by a general meeting of shareholders, the number of our directors shall not be less than three or more than 15, excluding directors appointed pursuant to the terms of issued debt. Our board of directors consisted of twelve members as of March 31, 2008.

As per the Indian Companies Act, 1956 (the "Companies Act"), at least two-thirds of our directors are required to retire by rotation, with one-third of these retiring at each annual general meeting. However, any retiring director may be re-appointed by resolution of the shareholders.

Under the terms of our organizational documents, HDFC Limited has a right to nominate two directors who are not required to retire by rotation, so long as HDFC Limited, its subsidiaries or any other company promoted by HDFC Limited either singly or in the aggregate holds not less than 20% of our paid-up equity share capital. The two directors so nominated by HDFC Limited are the Chairman and the Managing Director. The Bennett Coleman Group has the right to appoint one director so long as its equity holdings do not fall below 5%. Mr. Vineet Jain has been nominated by the Bennett Coleman Group.

The Banking Regulation Act requires that not less than 51% of the board members shall have special knowledge or practical experience in one or more of the following areas: accounting, finance, agriculture and rural economy, banking, co-operation, economics, law, small scale industry and any other matter the RBI may specify. Out of these, not less than two directors shall have specialized knowledge or practical experience in agriculture and rural economy, co-operation or small-scale industry. Mr. Ashim Samanta has specialized knowledge and experience in small-scale industry. Dr. Pandit Palande has specialized knowledge and experience in the agricultural sector.

Interested directors may not vote at board proceedings, except where the interest is based solely on a contract of indemnity for which the director is a surety, the interest is based on the director's involvement as director of another company and holder of shares of that company, or where a proper notification has been given under the Companies Act.

None of our directors or members of our senior management holds 1.0% or more of our shares.

Our Board of Directors, as of March 31, 2008, was comprised of:

<b>Name</b>	<b>Position</b>	<b>Age</b>
Mr. Jagdish Capoor	Chairman	68
Mr. Aditya Puri	Managing Director	57
Mr. Gautam Divan	Non-Executive Director	67
Mr. Vineet Jain	Non-Executive Director	41
Mrs. Renu Karnad	Non-Executive Director	55
Mr. Keki Mistry	Non-Executive Director	53
Mr. Arvind Pande	Non-Executive Director	65
Mr. Ashim Samanta	Non-Executive Director	53
Mr. C.M. Vasudev	Non-Executive Director	64
Dr. Pandit Palande	Non-Executive Director	46
Mr. Harish Engineer	Executive Director	59
Mr. Paresh Sukthankar	Executive Director	45

Mr. Harish Engineer was appointed as Executive Director of the Bank for a period of three years with effect from 12th October 2007.

Mr. Paresh Sukthankar was appointed as Executive Director of the Bank for a period of three years with effect from 12th October 2007.

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The following are brief biographies of our directors:

*Mr. Jagdish Capoor* holds a Masters degree in Commerce and is a Fellow of Indian Institute of Banking and Finance. Prior to joining the Bank, Mr. Capoor was the Deputy Governor of the Reserve Bank of India. He retired as Deputy Governor of the Reserve Bank of India after serving for 39 years. While with Reserve Bank of India, Mr. Capoor was the Chairman of the Deposit Insurance and Credit Guarantee Corporation of India and Bharatiya Reserve Bank Note Mudran Limited. He also served on the boards of the Export Import Bank of India, National Housing Bank, National Bank for Agriculture and Rural Development (NABARD) and State Bank of India.

Mr. Capoor is on the Boards of the Indian Hotels Company Limited, Bombay Stock Exchange Limited, GHCL Limited, LIC Pension Fund Limited, Assets Care Enterprise Limited and Quantum Trustee Co. Pvt. Ltd. He is a member of the Board of Governors of the Indian Institute of Management, Indore. Mr. Capoor is a Trustee of The Stock Exchange Investors Protection Fund and Sumati Capoor Charitable Trust.

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

*Mr. Aditya Puri* holds a Bachelors degree in Commerce from Punjab University and is an associate member of the Institute of Chartered Accountants of India. Mr. Aditya Puri has been the Managing Director of the Bank since September 1994. He has about 35 years of banking experience in India and abroad.

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

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

Mr. Divan is on the Board of HDFC Standard Life Insurance Company Limited, Baltic Consultancy & Services Private Limited, Bell Ceramics Limited, Brady & Morris Engineering Company Limited, Chandanbhoj and Jassoobhoj Consultants Private Limited, Serendib Investments Private Limited and Ascent Hotels Private Limited. He is Chairman of the Audit Committee and Remuneration Committee of Bell Ceramics Limited. He is the Chairman of the Audit Committee of HDFC Life Insurance Company Limited. He is a partner of M/s Rahul Gautam Divan & Associates.

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

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

Mr. Jain has transformed The Times Group from India's leading publishing house to India's largest diversified and multi-faceted media conglomerate. Mr. Jain is a nominee of the Bennett, Coleman Group on the Board of the Bank.

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

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Mrs. Karnad is a Joint Managing Director of the Housing Development Finance Corporation Limited and Chairperson of HDFC Venture Capital Limited, HDFC Property Ventures Limited and Home Loan Services India Private Limited. She is a Director of HDFC Asset Management Company Limited, GRUH Finance Limited, HDFC Realty Limited, Credit Information Bureau (India) Limited, HDFC General Insurance Company Limited, ICI India Limited, Indraprastha Medical Corporation Limited, HDFC Standard Life Insurance Company Limited, Sparsh BPO Services Limited, Mother Dairy Fruits & Vegetables Private Limited, Feedback Ventures Private Limited, Motor Industries Co. Limited, Egyptian Housing Finance Company and Ascendas Pte. Limited, Singapore. Mrs. Karnad is a member of the Managing Committee of the Indian Cancer Society and Vice Chairperson of the Governing Council of Indraprastha Cancer Society & Research Centre.

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

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

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

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

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

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

*Mr. Ashim Samanta* holds a Bachelor of Commerce degree from University of Bombay and has wide and extensive experience in business for nearly 29 years. He has vast experience in the field of bulk drugs and pharmaceutical formulations. He is a Director of Samanta Organics Private Limited, Nautilus Trading & Leasing Private Limited, Ashish Rang Udyog Private Limited, Samanta Movies Private Limited and Shakti Cine Studios Private Limited. Mr. Samanta has also been engaged in setting up and running a film editing and dubbing studio.

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

Mr. Vasudev is a Director on the Board of Directors of ICRA Management Consultancy Services Limited, NOIDA Power Company Limited and Noesis Consultancy Services Private Limited. He is a member of the Audit Committee and the Chairman of the Remuneration Committee of ICRA Management Consultancy Services Limited and a member of the Audit Committee of NOIDA Power Company Limited.

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

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

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

*Mr. Harish Engineer* was appointed as an additional director on October 12, 2007 pursuant to Section 260 of the Companies Act, 1956, subject to the approval of the RBI. He was also appointed as Executive Director for a period of three years with effect from 12th October 2007 subject to approvals of the shareholders and RBI. Effective December 10, 2007, the shareholders have given their consent in this regard by passing a resolution through a postal ballot and approval from RBI was received in September 2008.

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

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

*Mr. Paresh Sukthankar* was appointed as an additional director on October 12, 2007 pursuant to Section 260 of the Companies Act, 1956, subject to the approval of the RBI. He was also appointed as Executive Director for a period of three years with effect from 12th October 2007 subject to approvals of the shareholders and RBI. Effective December 10, 2007, the shareholders have given their consent in this regard by passing a resolution through a postal ballot and approval from RBI was received in September 2008.

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

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

**Table of Contents****Senior Management**

As of March 31, 2008, our senior management was comprised of the following:

<b>Name</b>	<b>Function</b>	<b>Age</b>
Aditya Puri	Managing Director	57
Harish Engineer	Wholesale Banking	59
Paresh D Sukthankar	Credit and Market Risk and Investor Relations	45
Vinod Yennemadi	Legal and Secretarial	66
Sudhir Joshi	Treasury	61
C N Ram	Information Technology	51
Bharat Shah	Merchant Services	61
G Subramanian	Audit and Compliance	60
Rajan Ananthanarayan	Operations	56
Abhay Aima	Equities and Private Banking	45
Kaizad Bharucha	Wholesale Credit and Market Risk and Retail Risk Policy	42
Pralay Mondal	Retail Assets	42
Mandeep Maitra	Human Resources, Admin & Infrastructure	42
Ashish Parthasarthy	Treasury	40
Rahul N Bhagat	Retail Liabilities, Marketing & Phone Banking	44
P V Ananthkrishnan	Capital and Commodity Markets and Business Banking	48
Bhavesh Zaveri	Wholesale Banking Operations	42
Navin Puri	Branch Banking	49
Jimmy M Tata	Corporate Banking	41
Sashi Jagdishan	Finance	43
Rajender Sehgal	Financial Institutions Group	52

Mr C.N. Ram and Mr. P V Ananthkrishnan resigned in fiscal 2009.

A brief biography of each of the members of the Bank's senior management is set out below:

**Mr. Vinod G. Yennemadi** holds a Bachelor of Commerce degree and is also a Fellow of the Institute of Chartered Accountants of India and an Associate of the Institute of Chartered Accountants in England and Wales. Mr. Yennemadi has been the Head, Finance, Administration, Legal, and Secretarial since April 1994. In addition, Mr. Yennemadi serves as a director of Softcell Technologies Ltd, Atlas Documentary Facilitators Company Private Ltd. and Flexcel International Private Ltd.

**Mr. Sudhir Joshi** holds a Bachelor of Science degree in Chemistry from the University of Pune and is a Certified Associate of the Indian Institute of Bankers. Mr. Joshi has held the position of Head of Treasury in the Bank since April 2000. He is also on the board of the Clearing Corporation of India Ltd.

**Mr. Bharat Shah** holds a Bachelor of Science degree from the University of Mumbai and a Higher National Diploma in Applied Chemistry from London University. He serves as Head of Merchant Services of the Bank. Mr. Shah also serves as a Non-executive Director of Computer Age Management Services Private Ltd and Atlas Documentary Facilitators Company Private Ltd., and is the chairman of HDFC Securities Ltd.

**Mr. G. Subramanian** holds a Bachelor of Science degree in Chemistry from Madras Christian College and is a Certified Associate of the Indian Institute of Bankers. Mr. Subramanian has been the Head of Audit, Compliance and Vigilance of the Bank since January 1995. Prior to that, Mr. Subramanian was Deputy General Manager of RBI. Mr. Subramanian also serves as a director on the board of directors of Computer Age Management Services Private Ltd and HDB Financial Services Ltd.

**Mr. A. Rajan** holds a Bachelor of Science degree from the University of Mumbai. He has nearly 30 years of experience in international and domestic banking operations. Mr. Rajan was employed by Bank of America prior to joining the Bank. He was part of the core management team that founded HDFC Bank, as its Head of Operations, and was responsible for creating the Operations team and detailed Operating Procedures. After working in foreign banks in Indonesia and Oman, he was the chief executive officer of Flexcel International Private Ltd for three years. He then rejoined the Bank as Country-Head, Operations.





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**Mr. Abhay Aima** is a graduate of the National Defence Academy. Mr. Aima is the Bank's Head of Equities, Private Banking and Third Party Products. He is also in charge of NRI and International Consumer Banking.

**Mr. Kaizad Bharucha** has a Bachelor of Commerce degree from the University of Mumbai. He has been a career banker with over two decades of banking experience and is Head of Wholesale Credit and Market Risk Policy of the Bank. He was previously with SBI Commercial and International Bank Ltd. as Group Head of Credits.

**Mr. Pralay Mondal** holds a B-Tech (Hons) from the Indian Institute of Technology, Kharagpur and a Post Graduate Diploma in Business Management in Marketing from the Indian Institute of Management, Calcutta. He has 18 years of experience in marketing, sales, product and business profit and loss management in the fast moving consumer goods, office automation and banking industries. He is currently head of the Retail Assets & Credit Cards business of the Bank. Mr. Mondal also serves as a director of HBL Global Private Limited and HDB Financial Services Ltd.

**Ms. Mandeep Maitra** completed her Bachelors in Psychology (Hons) from Lady Sriram College, Delhi University and her Masters degree in Personnel Management & Industrial Relations from the Tata Institute of Social Sciences, Mumbai. She has over 19 years of experience in the banking industry and holds the position of Country Head - Human Resources at the Bank.

**Mr. Ashish Pathasarthy** holds a Bachelor of Engineering degree from the Karnataka Regional Engineering College and has a Post-Graduate Diploma in Management from the Indian Institute of Management, Bangalore. He has over 18 years of experience in the interest rate and currency markets and holds the position of Deputy Treasurer at the Bank.

**Mr. Rahul N. Bhagat** holds a Bachelor of Arts in History (Hons) from St. Stephen's College, Delhi University and a Masters degree in International Affairs from the College of William & Mary, Virginia, USA. He has over 18 years of experience in consumer banking, having worked with ANZ Grindlays Bank and Bank of America prior to joining the Bank in 1999. Mr. Bhagat heads the Retail Liabilities, Marketing, High Net-Worth and Direct Channels businesses in the Bank.

**Mr. Bhavesh Zaveri** holds a Masters degree in Commerce from the University of Mumbai and is a Certified Associate of the Indian Institute of Bankers. Mr. Zaveri has been with the Bank since 1998, and he is Head of Wholesale Banking Operations and also Head of Cash Management Products. Mr. Zaveri is also a member of various committees and forums of the IBA and of the RBI, including a director of the Board of the National Payment Corporation of India Ltd.

**Mr. Navin Puri** holds a Bachelor of Commerce degree from Calcutta University and is a member of the Institute of Chartered Accountants of India. He has also received a Masters of Business Administration degree from the Texas University, U.S.A. Mr. Puri has 18 years of banking experience. He has been with the Bank since February 1999. He currently heads the Retail Branch Banking business, and is also the Business Head for Retail Current Accounts of the Bank.

**Mr. Jimmy Tata** holds a Masters of Financial Management degree from the University of Mumbai and is a qualified Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India, Hyderabad. He has over 20 years of work experience and he has been with the Bank since 1994. He is currently the Head of Corporate Banking of the Bank.

**Mr. Sashi Jagdishan** holds a Bachelor of Science degree in Physics from the University of Mumbai and a Masters in Economics of Money, Banking and Finance from the University of Sheffield, UK. He is also a Chartered Accountant of the Institute of Chartered Accountants of India. He has been with the Bank since 1996. He heads the finance function of the Bank.

**Mr. Rajender Sehgal** is a gold medalist in Bachelor of Science from Punjab University. He holds a Masters of Business Administration degree from FMS Delhi University and is also a Certified Associate of the Indian Institute of Bankers. Mr. Sehgal had a successful tenure of 20 years with the State Bank of India in various capacities, including an assignment with their New York USA branch. He has recently taken over as Business Head of the Financial Institutions Group and Public Sector Units (PSUs) based in North India.

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### **Corporate Governance**

#### ***Audit and Compliance Committee***

The Audit and Compliance Committee of the Bank is chaired by Mr. Arvind Pande. The other members of the Committee are Mr. Ashim Samanta, Mr. C. M. Vasudev, Mr. Gautam Divan and Dr. Pandit Palande. Dr. Pandit Palande was inducted as a member of the Committee on May 17, 2007. All the members of the Committee are independent directors and Mr. Gautam Divan is a financial expert.

The responsibilities of the Audit and Compliance Committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges in India as well as U.S. law requirements and include the following:

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

recommending the appointment and removal of external auditors and fixing of their fees;

reviewing with management the annual financial statements before submission to the board, with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;

reviewing the adequacy of the audit and compliance functions, including their policies, procedures, techniques and other regulatory requirements; and

any other responsibilities as may be included from time to time in clause 49 of the listing agreement.

The board has also adopted a charter for the Audit Committee in connection with certain United States and NYSE regulatory standards.

The Audit and Compliance Committee met seven times during fiscal 2008.

#### ***Compensation Committee***

Mr. Jagdish Capoor, Mr. Ashim Samanta, Mr. Gautam Divan and Dr. Pandit Palande are the members of the Committee. Dr. Pandit Palande was inducted as a member of the Committee on May 17, 2007. The Committee is chaired by Mr. Jagdish Capoor. All the members of the Committee other than Mr. Capoor are independent directors.

The Compensation Committee reviews the overall compensation structure and policies of the Bank with a view to attracting, retaining and motivating employees, considers grants of stock options to employees, and reviews compensation levels of the Bank's employees vis-a-vis other banks and the banking industry in general. The Bank's compensation policy is to provide a fair and consistent basis for motivating and rewarding employees appropriately according to their job, role, performance, contribution, skill and competence.

The Compensation Committee met three times during fiscal 2008.

#### ***Investors' Grievance (Share) Committee***

The Investors' Grievance (Share) Committee consists of Mr. Jagdish Capoor, Mr. Aditya Puri and Mr. Gautam Divan. The Committee is chaired by Mr. Capoor.

The Investors' Grievance (Share) Committee approves and monitors the transfer, transmission, splitting and consolidation of shares and bonds and the allotment of shares to employees pursuant to the Employees Stock Option Scheme. The Investors' Grievance (Share) Committee also monitors the redress of shareholders' complaints relating to matters such as the transfer of shares, non-receipt of annual reports and dividends.



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The powers to approve share transfers and dematerialisation requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Investors Grievance (Share) Committee.

As of March 31, 2008, 43 instruments of transfer representing 3,871 shares were pending and since then the same have been processed. The details of the transfers are reported to the Board of Directors from time to time.

The Committee met 11 (eleven) times during fiscal 2008.

### ***Risk Monitoring Committee***

The Risk Monitoring Committee is chaired by Mrs. Renu Karnad. The other members are Mr. Aditya Puri and Mr. C. M. Vasudev.

The Risk Monitoring Committee has been formed as per the guidelines of the RBI regarding Asset Liability Management/Risk Management Systems. The Risk Monitoring Committee develops the Bank's credit and market risk policies and procedures, verifies adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The Risk Monitoring Committee also ensures that the Bank's credit exposure to any one industry does not exceed internally-set limits and is prudentially diversified.

The Risk Monitoring Committee met five times during fiscal 2008.

### ***Credit Approval Committee***

The Credit Approval Committee is chaired by Mr. Jagdish Capoor. The other members are Mr. Aditya Puri, Mr. Keki Mistry and Mr. Gautam Divan.

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

The Credit Approval Committee met twice during fiscal 2008.

### ***Premises Committee***

The Premises Committee is chaired by Mrs. Renu Karnad. The other members are Mr. Aditya Puri, Mr. Ashim Samanta and Dr. Pandit Palande. Dr. Pandit Palande was inducted as member of the Committee with effect from May 17, 2007.

The Premises Committee approves the purchase and leasing of premises for the use of Bank branches, back offices, ATMs and executive residences in accordance with the guidelines established by the board.

The Premises Committee met four times during fiscal 2008.

### ***Nomination Committee***

The Nomination Committee is chaired by Mr. Arvind Pande. The other members are Mr. Ashim Samanta and Dr. Pandit Palande. Dr. V. R. Gadwal ceased to be a member of the Nomination Committee with effect from March 14, 2007. Dr. Pandit Palande was inducted as member of the Committee with effect from May 17, 2007. All the members of the Nomination Committee are independent directors.

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

academic qualifications;



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previous experience;

track record; and

integrity.

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

The Nomination Committee met twice during fiscal 2008.

### ***Fraud Monitoring Committee***

The Fraud Monitoring Committee is chaired by Mr. Jagdish Capoor. The other members of the Fraud Monitoring Committee are Mr. Aditya Puri, Mr. Keki Mistry and Mr. Arvind Pande.

Pursuant to the directions of the RBI, we have constituted a Fraud Monitoring Committee, exclusively dedicated to monitoring and following up cases of fraud involving amounts of Rs. 10 million and above. The objective of the Fraud Monitoring Committee is the effective detection of frauds and immediate reporting thereof to regulatory and enforcement agencies so that action can be taken against the perpetrators of frauds. The responsibilities of the Fraud Monitoring Committee are to:

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

identify the reasons for delay in detection, if any, and report to top management of the Bank and the RBI;

monitor progress of the Central Bureau of Investigation police investigations and recovery position;

ensure that staff accountability is examined at all levels in all cases of frauds and staff side action, if required, and that such examination is completed quickly;

review the efficacy of the remedial actions taken to prevent recurrence of frauds, such as strengthening of internal controls;

establish relevant measures to strengthen existing measures to prevent fraud.

The Fraud Monitoring Committee met four times during fiscal 2008.

### ***Customer Service Committee***

The Customer Service Committee is chaired by Mr. Arvind Pande. The other members are Mr. Keki Mistry and Dr. Pandit Palande. Dr. Pandit Palande was inducted as member of the Committee with effect from May 17, 2007.

The Customer Service Committee monitors the quality of services rendered to customers and also ensures implementation of relevant directives received from RBI. The responsibilities of the Customer Service Committee are to formulate comprehensive deposit policies covering operational issues arising from the death of a depositor, product approval process, annual survey of depositor satisfaction and the triennial audit of such services.

The Customer Service Committee met four times during fiscal 2008.

*Committees of Executives*

We have also established committees of executives that meet frequently to discuss and determine the management of assets and liabilities and other operations and personnel issues.

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### **Borrowing Powers of Directors**

Our shareholders, at the annual general meeting of our shareholders held on June 10, 2008, passed a special resolution pursuant to Section 293(1)(d) of the Companies Act, authorizing the board of directors to borrow, for business purposes of the Bank, such sum or sums of money as they may deem necessary, notwithstanding the fact that the money borrowed and the money to be borrowed from time to time (apart from acceptances of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise and/or temporary loans obtained in the ordinary course of business from banks, whether in India or outside India) will exceed our aggregate of paid-up capital and free reserves, subject to the condition that the total outstanding amount of such borrowings shall not exceed Rs. 200.0 billion over and above our aggregate paid-up capital and free reserves at any time.

The terms on which the board of directors may borrow funds may include the lender's right to appoint directors, the allotment of shares to certain public financial institutions and, with prior shareholder and regulatory approval, the allotment of shares to other entities.

### **Compensation of Directors and Members of our Senior Management**

The compensation packages of our Chairman, Managing Director and Executive Directors are approved by the shareholders and the RBI on the recommendation of the Board of Directors. During fiscal 2008, our Chairman received a salary of Rs. 1,200,000 per annum.

At our 12th annual general meeting held on May 30, 2006, shareholders approved the reappointment of our Managing Director for a further three-year period and also approved the revised salary/compensation and allowances of the Managing Director, with effect from April 1, 2007. Also at the same meeting, shareholders approved the revised salary/compensation and allowances of the Managing Director to Rs. 896,750 per month with effect from April 1, 2006, Rs. 1,088,485 per month with effect from April 1, 2007 and Rs. 1,280,085 per month with effect from April 1, 2008.

On December 10, 2007, by passing a resolution through a postal ballot, shareholders approved the appointment of Mr. Harish Engineer as an Executive Director for a period of three years and also approved his salary/compensation, with effect from October 12, 2007.

On December 10, 2007, by passing resolution through postal ballot, shareholders approved the appointment of Mr. Paresh Sukthankar as an Executive Director for a period of three years and also approved his salary/compensation, with effect from October 12, 2007.

For fiscal 2008, the aggregate amount of compensation paid to our Managing Director and members of our senior management was approximately Rs. 236.7 million, including the aggregate amount accrued by us to provide pension, retirement or similar benefits.

Under our organizational documents, each director, except the Managing Director and Executive Directors, is entitled to sitting fees for attending each meeting of the board of directors or of a board committee. The amount of sitting fees is set by the board from time to time in accordance with limitations prescribed by the Companies Act or the Government of India. At the board meeting held on October 17, 2006, it was decided that sitting fees for attending board meetings and committee meetings would be Rs. 20,000 per meeting, except in the case of meetings of the Investors' Grievance (Share) Committee, for which the sitting fees are Rs. 10,000 per meeting. We reimburse directors for travel and related expenses in connection with board and committee meetings and related matters.

Other than our Chairman, Managing Director and Executive Directors, none of our directors has a service contract with us.



**Table of Contents****Loans to Members of our Senior Management**

Loans to members of our senior management are granted in the normal course within the Bank's scheme, as is the case with employees of the Bank. This is within the provisions of local regulations.

**Loans to Members of our Senior Management**

Name	Largest amount outstanding since March 31, 2007 (Rs. millions)	Amount outstanding as of March 31, 2008 (Rs. millions)	Interest rate as of March 31, 2008	Nature of Loan
Abhay Aima	1.60	1.60	10.75%	Housing loan
Ashish Parthasarathy	6.98	6.93	10.75	Personal loan
Aditya Puri	5.00	5.00	10.75	Housing loan
A. Rajan	4.55	4.34	10.75	Personal loan
G. Subramanian	5.69	4.49	10.75	Housing loan
Pralay Mondal	4.42	4.31	10.75	Personal loan
Harish Engineer	2.30	2.30	10.75	Housing loan
Kaizad Bharucha	4.89	4.83	10.75	Personal loan
Sudhir Joshi	6.44	3.47	10.75	Housing loan
Mandeep Maitra	4.21	3.85	10.75	Personal loan
Vinod G. Yennemadi	2.07	2.07	10.75	Housing loan
Jimmy Tata	0.32	0.14	5.00	Personal loan
Bhavesh Zaveri	3.32			Housing loan
Rahul Bhagat	0.47	0.44	5.00	Personal loan
Navin Puri	1.26	0.16	5.00	Housing loan
Sashi Jagdishan	4.83	4.69	10.75	Personal loan
P.V. Ananthkrishan	0.39	0.27	5.00	Housing loan
Rajendra Sehgal	3.37	3.29	10.75	Personal loan
	0.10			Housing loan
	4.91	4.73	10.75	Personal loan
	0.49	0.36	5.00	Housing loan
	4.59	4.47	10.75	Personal loan
	0.38	0.27	5.00	Housing loan
Total	74.46	62.57		

**Employees Stock Option Scheme**

Our shareholders approved plan A-(year 2000) in January 2000, plan B-(year 2003) in June 2003, plan C-(year 2005) in June 2005 and plan D-(year 2007) in June 2007 for the issuance of stock options to employees and to the directors of the Bank under the Employees Stock Option Schemes (ESOSs), namely ESOS-001 to ESOS-012. Under the plan A, the option price is set as the average of the daily closing prices on the Bombay Stock Exchange Limited during the 60 days preceding the grant date. Under plan B, the option price is set as the closing prices on the business day preceding the grant date on whichever stock exchange in India has the highest trading volume for our shares during the two weeks preceding the date of grant. Under plans C and D, the option price is set as the closing price on the business day preceding the grant date on the

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stock exchange where there is the highest trading volume. Our Compensation Committee has issued options under these plans on eight separate occasions since January 2000. The

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options granted under ESOS-001 to ESOS-009 vest at the rate of 30.0%, 30.0% and 40.0% on each of the three successive anniversaries following the date of grant, and under ESOS-010 to ESOS-012 vest at the rate of 50% and 50% on each of the two successive anniversaries following the date of grant, subject to standard vesting conditions. In fiscal 2008, 1,677,800 options were exercised, resulting in an increase in our paid-up capital by Rs. 16.8 million. As of March 31, 2008, 16,937,800 options were outstanding.

### **Other Compensation**

All employees, including our Managing Director, Executive Directors and officers, receive the benefit of our gratuity and provident fund retirement schemes. Our superannuation fund covers all employees at manager level or above, including our Managing Director. Our gratuity fund, required under Indian law, is a defined benefit plan that, upon retirement, death while employed or termination of employment, pays a lump sum equivalent to 15 days' salary for each completed year of service. The superannuation fund is a retirement plan under which we annually contribute 13.0% (15.0% for the Managing Director) of the eligible employee's annual salary to the administrator of the fund. Under the provident fund, required by Indian law, both we and the employee contribute monthly at a determined rate (currently 12.0% of the employee's salary). Of this, the Bank contributes an amount (currently 8.33% of the lower of Rs. 6,500 or the employee's basic salary) to the pension scheme administered by the Regional Provident Fund Commissioner and the balance is contributed to a fund we set up which is administered by a board of trustees. We have no liability for future provident fund benefits other than our annual contribution, and we recognize such contributions as an expense in the year incurred.

### **Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

As of March 31, 2008, our principal executive officer and principal financial officer conducted an evaluation pursuant to Rule 13a-15 promulgated under the United States Securities Exchange Act of 1934, as amended (the Exchange Act), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the date of their evaluation, such disclosure controls and procedures were effective.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2008. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2008.



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Our independent registered public accounting firm, Deloitte Haskins & Sells, has audited the consolidated financial statements included in this annual report on Form 20-F, and as part of their audit, has issued their report, included herein, on (1) our management's assessment of the effectiveness of our internal control over financial reporting and (2) the effectiveness of our internal control over financial reporting as of March 31, 2008.

### **Changes in Internal Controls**

There were no changes in our internal controls or in other factors that could materially or are reasonably likely to materially affect these controls during the period covered by this report.

### **Audit and Compliance Committee Financial Expert**

Mr. Gautam Divan is the audit committee financial expert as defined in item 401(h) of Regulation S-K and is independent pursuant to applicable Commission rules.

### **Code of Ethics**

We have a written code of ethics applicable to the Managing Director (Chief Executive Officer), the Chief Financial Officer and members of our senior management of the Bank. We believe the code constitutes a code of ethics as defined in Item 16B of Form 20-F. We will provide a copy of such code of ethics to any person without charge upon request. Requests may be made by writing to [investor.helpdesk@hdfcbank.com](mailto:investor.helpdesk@hdfcbank.com).

We also have a whistle blower policy that contains procedures for receiving, retaining and treating complaints received, and procedures for the confidential and anonymous submission by employees of complaints, regarding questionable accounting or auditing matters or conduct which results in a violation of law by the Bank or in a substantial mismanagement of the Bank's resources. Under this whistle blower policy, our employees are encouraged to report questionable accounting matters or any fraudulent financial information provided to our shareholders, the government or the financial markets, or any conduct that results in a violation of law by the Bank, to our management (on an anonymous basis, if employees so desire). Under this policy we have also prohibited discrimination, retaliation or harassment of any kind against any employee who, based on the employee's reasonable belief that such conduct or practices have occurred or are occurring, reports such information or participates in an investigation.

**Table of Contents****Principal Accountant Fees and Services**

The following table sets forth for the fiscal years indicated the fees paid to our principal accountant and its associated entities for various services provided during these periods.

Type of Services	Fiscal Year Ended		Description of Services
	March 31, 2007	March 31, 2008	
	(in millions)		
Audit services	Rs. 46.4	Rs. 26.0	Audit of financial statements
Audit-related services	2.6	10.1	Services related to review of financial statements and due diligence
Tax services	0.4	1.1	Tax audit, tax returns, tax processing, tax filing and advisory services
Other services	1.5	0.2	Statutory certifications, quality registrar, work permit related services and other advisory services
Total	Rs. 50.9	Rs. 37.4	

Our Audit and Compliance Committee charter requires us to receive the approval of our Audit and Compliance Committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. All of the non-audit services provided by our principal accountants or their associated entities in the previous two fiscal years have been pre-approved by our Audit and Compliance Committee.

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**Compliance with NYSE Listing Standards on Corporate Governance**

We are incorporated under the Indian Companies Act, and our equity shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, which are the major stock exchanges in India. Our corporate governance framework is in compliance with the Companies Act, the regulations and guidelines of SEBI and the requirements of the listing agreements entered into with the Indian stock exchanges. We also have ADSs listed on the NYSE.

On November 4, 2003, the SEC approved new rules proposed by the NYSE intended to strengthen corporate governance standards for listed companies. These new corporate governance listing standards supplement the corporate governance reforms already adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002.

Section 303A.11 of the NYSE Corporate Governance Standards requires listed companies that are foreign private issuers to disclose the significant ways in which their corporate governance practices differ from those followed by U.S. companies under the NYSE Corporate Governance Standards. The table below sets forth the significant differences between the rules applicable to NYSE listed companies under the NYSE Corporate Governance Standards and the Corporate Governance Rules as per the Listing Agreement with the Indian Stock Exchange(s) (the Listing Agreement ).

**NYSE Corporate Governance Standards applicable to NYSE Listed Companies**

***Board of Directors ( Board )***

Companies need to have a majority of independent directors. *[NYSE Corporate Governance Standard 303A.01]*

Certain heightened standards apply to independent directors. *[NYSE Corporate Governance Standard 303A.02]*

***Executive Sessions***

Non-management directors need to meet at regularly scheduled executive sessions without management *[NYSE Corporate Governance Standard 303A.03]*

***Nominating/Corporate Governance Committee***

In addition to an audit committee, a listed company needs to have a nominating/corporate governance committee composed entirely of independent directors. *[NYSE Corporate Governance Standard 303A.04]*

The nominating / corporate governance committee needs to have a written charter that addresses certain specific committee purposes and responsibilities and provides for an annual performance evaluation of the committee. *[NYSE Corporate Governance Standard 303A.04]*

**Corporate Governance Rules as per Listing Agreement with the Indian Stock Exchange(s)**

The board of a company needs to have an optimum combination of executive and non-executive directors with not less than 50% of the directors being non-executive directors.

If the chairman of the board of directors is a non-executive director of the company, at least one-third of the directors should be independent. If the chairman is an executive director, at least half of the board of directors of the company should be comprised of independent directors.

The interpretation of the term independent director is different from the way it is interpreted under NYSE Corporate Governance Standards.

There is no requirement for such sessions.

Constitution of a Nomination Committee is not mandatory and need not be comprised of independent directors.

Pursuant to the Listing Agreement, constitution of a nomination committee is not mandatory and does not require a charter for such a committee. The performance evaluation of non-executive directors could be done by a peer group comprised of the entire Board of Directors, excluding the director being evaluated.





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***Compensation Committee***

Companies need to have a compensation committee composed entirely of independent directors. *[NYSE Corporate Governance Standard 303A.05]*

The compensation committee needs to have a written charter that addresses certain specific purposes and responsibilities of the committee and provides for an annual performance evaluation of the committee. *[NYSE Corporate Governance Standard 303A.05]*

***Audit Committee***

Companies need to have an audit committee that satisfies the independence requirements of Rule 10A-3 under the Exchange Act and the requirements of NYSE Corporate Governance Standard 303A.02. *[NYSE Corporate Governance Standards 303A.06 and 303A.07]*

The audit committee needs to have a written charter that addresses certain specific purposes and responsibilities of the committee, provides for an annual performance evaluation of the committee and sets forth certain minimum duties and responsibilities. *[NYSE Corporate Governance Standard 303A.07]*

***Internal Audit Function***

Each listed company needs to have an internal audit function to provide the management and audit committee with ongoing assessments of the company's risk management processes and a system of internal control. A company may choose to outsource this function to a third party service provider other than its independent auditor. *[NYSE Corporate Governance Standard 303A.07]*

It is not mandatory under Clause 49 that the board constitute a compensation / remuneration committee to determine behalf of the Board and on behalf of the shareholders with agreed terms of reference the company's policy on specific remuneration packages for executive directors, including pension rights and any compensation payment. To avoid any conflict of interest, any compensation committee should consist of at least three non-executive directors. The chairman of any compensation committee should be an independent director.

Indian listing requirements do not require that a compensation committee have a charter. However, the non-mandatory requirements contained in Clause 49 provide that the board may set the terms of reference of the compensation committee. The annual corporate governance report of a company generally provides details about remuneration, including brief details of the terms of reference of any compensation committee.

The Listing Agreement requires listed companies to have a qualified and independent audit committee and stipulates the powers and role of the audit committee. All of the member of the audit committee must be as non-executive directors with at least <sup>2</sup>/<sub>3</sub> of the members must be independent. All members must financially literate and at least one member must have accounting or related financial management expertise. The Chairman of the committee must be an independent director.

There is no requirement in Clause 49 of the Listing Agreement that the audit committee must have a written charter. However, Clause 49D sets forth the roles of the audit committee which are required to be performed by the audit committee of a listed company.

Though Clause 49 does not provide for a mandatory internal audit, one of the role of the audit committee is *reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.* . Therefore, it is advisable that the listed company should have a department that conducts an internal audit.

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***Corporate Governance Guidelines/Code of Ethics***

Companies need to adopt and disclose corporate governance guidelines. [NYSE Corporate Governance Standard 303A.09]

Listed companies are required to comply with the provisions relating to the corporate governance as prescribed under clause 49 of the Listing Agreement with Indian stock exchanges. However, listed companies are not required to disclose the said provisions.

Companies need to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. [NYSE Corporate Governance Standard 303A.10]

As per clause 49 of the Listing Agreement, a company needs to adopt code of conduct/ethics applicable to the entire Board of Directors and all senior management one level below the Board. A company's annual Report should state that the Board members and senior management are in compliance with the code of conduct/ethics.

***Certifications as to Compliance***

The CEO of each listed company has to certify on an annual basis that he or she is not aware of any violation by the company of the NYSE corporate governance listing standards. This certification, as well as the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act of 2002, should be disclosed in the company's annual report to shareholders. [NYSE Corporate Governance Standard 303A.12]

In addition to the annual CEO/CFO certification on the true and fair view of financial statement, and compliance with the prescribed accounting standards, applicable laws and regulations, Indian listed companies are also required to submit a quarterly report on compliance with corporate governance rules to the Indian Stock Exchange(s) where their shares are listed.

Further, the CEO of each listed company needs to promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Section 303A.

There shall be a separate section of corporate governance in the annual report of the company, giving details of the adoption of and compliance with the mandatory clauses and non-mandatory clauses (to the extent applicable rules) of the Listing Agreement, company has to obtain a certificate issued by its auditors or practising company secretary regarding compliance with corporate governance rules annex the same to the director report to be sent annually to the shareholders of the company and concerned stock exchanges.

**Memorandum and Articles of Association**

Our main objects are to carry on banking activity and other related activities. Our objects and purposes can be found in clauses A and B of our Articles of Association (the Articles).

Under the Articles, a director may not vote, participate in discussions or be counted for purposes of a quorum with respect to any decision relating to whether we will enter into any contract or arrangement if the director is directly or indirectly interested in such contract or arrangement. The board of directors may not hold meetings in the absence of a quorum. Pursuant to the Companies Act, our directors have the power to borrow money for business purposes only with the consent of the shareholders (with certain limited exceptions).

Sections 172 through 187 of the Articles set forth certain rights and restrictions relating to dividend distributions. One of these restrictions is that dividends may be approved only at a general meeting of shareholders, but in no event in an amount greater than the amount recommended by the board of directors.

Subject to the Companies Act, profits of a company are divisible among shareholders in proportion to the amount of capital paid up on the shares held by them respectively. In the event of liquidation, surplus will be distributed in proportion to the capital paid up or which ought to have been paid up on the shares held by shareholders respectively at the time of commencement of the winding up. The board of directors may make calls on shareholders in respect of all money unpaid on the shares held by them and not by the conditions of allotment thereof.

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The rights and privileges of any class of shareholders may not be modified without the approval of three-fourths of the issued shares of that class or the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class.

The annual general meeting shall be called for a time during business hours at our registered office or at some other place within Mumbai as the board of directors may determine. The notice of the meeting shall specify it as the annual general meeting. The board may also call an extraordinary meeting, and if there is not a quorum of directors within India, any director or two shareholders may call such a meeting. The board of directors is required to call an extraordinary meeting upon the request of a set number of shareholders, as set forth in the Companies Act.

**Table of Contents****PRINCIPAL SHAREHOLDERS**

The following table contains information relating to the beneficial ownership of our equity shares as of March 31, 2008 by:

each person or group of affiliated persons known by us to beneficially own 5.0% or more of our equity shares; and

our individual directors and senior management as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons listed in the table have sole voting and sole investment control with respect to all equity shares beneficially owned. All shares issued in India have the same voting rights. We have not issued different classes of securities.

We were founded by HDFC Limited, the leading housing finance company in India. As of March 31, 2008, HDFC Limited, together with its subsidiaries, held an aggregate of 23.26% of our equity shares. As of June 30, 2008, such ownership was increased as described in note (1) below. Under the Indian Banking Regulation Act, no person holding equity shares in a banking company can vote more than 10.0% of the outstanding equity shares.

	Number of Equity Shares	Percentage of Total Equity Shares Outstanding
HDFC group	82,443,000 <sup>(1)</sup>	23.26%
Bennett Coleman group	16,192,408 <sup>(2)</sup>	4.57%
Directors and senior management as a group	2,385,915 <sup>(3)</sup>	0.67%

- (1) The number and percentage shown in the table include 52,442,000 equity shares held directly by HDFC Limited, 30,000,000 equity shares held by HDFC Investments Limited and 1,000 equity shares held by HDFC Holdings Limited. HDFC Investments Limited and HDFC Holdings Limited are controlled by HDFC Limited. The number and percentage includes an additional 13,582,000 equity shares subscribed to by HDFC Limited on June 29, 2007, pursuant to a preferential offer made by us to HDFC Limited, which shares were subscribed 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. This offer was approved by the shareholders of the Bank at the annual general meeting held on June 16, 2007.
- (2) Includes 8,849,929 equity shares held by Bennett Coleman & Company Limited, 2,486,956 equity shares held by Dharmayug Investments Limited and 4,855,523 equity shares held by other Bennett Coleman affiliates. Our computation of the number of shares held by the Bennett Coleman group, pursuant to Indian law, differs by 336,825 equity shares from that set out in their most recent filings on Form 13-G.
- (3) None of our directors or members of our senior management individually holds 1.0% or more of our total equity shares outstanding. The ADS are represented by underlying equity shares. As on March 31, 2008, Indian equity shares numbering 76,595,508 represent the ADS and constitute 21.61% of the Bank's capital. In our books only the Depository, J.P. Morgan Chase Bank, is the shareholder with respect to equity shares underlying ADSs. We are unable to estimate the number of record holders of ADSs in the United States.

**Table of Contents****RELATED PARTY TRANSACTIONS**

The following is a summary of transactions we have engaged in with our promoter and principal shareholder, HDFC Limited and its subsidiaries and other related parties, including those in which we or our management have a significant equity interest. Figures herein reflecting our equity interests exclude shares held by our Employees Welfare Trust, an independent trust established for the benefit of our employees.

All transactions with HDFC group companies and the other related parties listed below are on terms that we believe are as favorable to us as those that could be obtained from a non-affiliated third party in an arm's-length transaction. In addition, our banking license from the RBI stipulates that we can only transact business with HDFC Limited and its affiliates on an arm's-length basis.

**HDFC Securities Ltd ( HSL )**

We own an aggregate of 59% of HSL. As of March 31, 2008, the book value of our investment in HSL was Rs. 237.6 million. In fiscal year 2007-08, we earned Rs. 135.4 million from HSL towards services rendered. We incurred a net expense of Rs. 19.6 million for sales assistance provided by HSL. We received Rs. 2.1 million as interest from HSL. An amount of Rs. 99.1 million was receivable from HSL (including security deposit of Rs. 0.1 million) as of March 31, 2008.

**HDB Financial Services Ltd. ( HDBFSL )**

During the year ended March 31, 2008, we invested in 100 million equity shares of HDB Financial Services Limited (HDBFSL) of Rs. 10.0 each at par aggregating to Rs. 1,000 million. HDBFSL is a non-banking financial company and our subsidiary. It is yet to commence full-fledged operations. As at March 31, 2008, our stake-holding in the company was 95.3%. During the year we received Rs. 2.1 million as reimbursement of the rent paid by us for the premises shared by HDBFSL. As of March 31, 2008, an amount of Rs. 4.0 million was receivable from HDBFSL.

**Housing Development Finance Corporation Limited*****Housing Loans***

We participate in the home loan business by selling loans provided by HDFC Limited. Under this arrangement HDFC Limited approves and disburses the loans, which are booked in the books of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, HDFC Limited agrees to provide us the right to buy back 70% of the home loans sourced and disbursed pursuant to services rendered by us. We earned Rs. 520.1 million from HDFC Limited in fiscal 2008 as fees for selling these loans and other services rendered. An amount of Rs. 18.3 million was receivable from HDFC Limited as of March 31, 2008.

***Property***

We have facilities located on eight properties owned or leased by HDFC Limited. In fiscal, 2008, we paid an aggregate of Rs. 10.6 million as rental fees, maintenance and service charges to HDFC Limited for use of these properties. We believe that we pay market rates for these properties. As of March 31, 2008, HDFC Limited held a deposit of Rs. 0.2 million that we have paid to secure these leased properties.

***Capital Transaction***

During the year ended March 31, 2008, approvals from the Board and shareholders were sought to allot 13,582,000 equity shares of Rs. 10/- each at a premium of Rs. 1013.49 per share on a preferential basis to HDFC Ltd., aggregating to Rs. 13,901.0 million. The said allotment was completed on June 29, 2007.

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

In fiscal 2008, we contributed Rs. 106.5 million to a defined benefit plan managed by HDFC Standard Life to cover gratuity of our employees. In the same period, we received fees and commissions from HDFC Standard Life aggregating Rs. 1,529.4 million for the sale of insurance policies and other services to our customers. As of March 31, 2008, commissions amounting to Rs. 56.9 million were receivable from HDFC Standard Life.



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**HDFC Asset Management Company Ltd ( HDFC AMC )**

In fiscal 2008, we paid Rs. 3.3 million as rent to HDFC AMC. We have placed a security deposit of Rs. 1.7 million with HDFC AMC to secure leased property. During fiscal 2008, we received Rs. 1078.5 million in fees from HDFC AMC for distribution of units of mutual funds. As of March 31, 2008, commissions amounting to Rs. 43.4 million is receivable from HDFC AMC.

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

We paid Rs. 32.7 million to HDFC Ergo towards insurance premiums in fiscal 2008. A deposit of Rs. 0.1 million was kept with HDFC Ergo as of March 31, 2008. We received custodian fees from HDFC Ergo aggregating Rs. 0.4 million in fiscal 2008. Consequent to the expiry of the corporate agency license in October 2006, the agency with HDFC Chubb has been mutually terminated.

**Atlas Documentary Facilitators Company Private Ltd ( ADFC )**

ADFC specializes in back-office processing. We regularly transact business with ADFC. In fiscal 2008, we incurred a net expense Rs. 1566.9 million for back-office processing services. As of March 31, 2008, we had provided a security deposit amounting to Rs. 105.0 million to ADFC for the various services provided by ADFC and an amount of Rs. 21.85 million was payable for such services. As of that date, we retained an equity investment of Rs. 0.2 million in ADFC, which represents 29.0% of the share capital of ADFC. Members of our management team own an aggregate of 45.1% of the equity shares of ADFC.

We have consolidated the accounts of ADFC in our US GAAP financial statements for fiscal 2008.

**HBL Global Private Ltd ( HBL )**

HBL Global is a subsidiary of ADFC and provides us with direct sales support for certain of our products. HBL Global was paid a net fee of Rs. 1932.4 million for the year ended March 31, 2008. As of March 31, 2008 we had provided a security deposit of Rs. 90.0 million for the services provided by HBL Global. An amount of Rs. 21.8 million was payable to HBL Global, including a deposit of Rs. 2 million to secure properties leased as of that date. We do not presently have any direct investment in HBL Global.

**Flexcel International Private Ltd ( Flexcel )**

During 2008 we also sold our entire strategic holding in Flexcel for a total consideration of Rs. 18.5 million thereby reducing our shareholding along with subsidiaries from 40.0% to nil. Loans outstanding of Flexcel were Rs. 2 million. During fiscal 2008, we received interest of Rs. 0.3 million on said loan.

**Salisbury Investments Private Ltd ( Salisbury Investments )**

We have paid a security deposit of Rs. 35 million to Salisbury Investments and, in fiscal 2008, we paid rent of Rs. 5.4 million for the residential accommodation of our Managing Director, to Salisbury Investments Private Ltd, in which the relatives of the Managing Director hold a stake. The value of the security deposit and rent is based on an independent assessment by a professional property valuation expert.

**Table of Contents****Other Strategic Investments**

We frequently partner with other HDFC group companies when making strategic investments. We currently have three strategic investments in which HDFC group companies are co-investors. Without the prior approval of the RBI, we cannot hold more than a 30% equity stake in another company. The following is a list of strategic investments made by us and the HDFC group companies:

Company	Type of Business	HDFC Bank Investment (in millions)	HDFC Bank Ownership	Total HDFC Group ownership
Computer Age Management Services Private Limited ( CAMS )	Unit capital accounting and transfer agency services	Rs. 3.3	10.2%	31.2%
SolutionNET India Private Limited	Information technology consulting and services	Rs. 7.6	19.0%	50.0%
Softcell Technologies Limited ( Softcell )	Business-to-business software services	Rs. 26.0	12.0%	26.0%

During fiscal 2008, we sold our 8.7% stake held in CAMS. We routinely conduct business with some of the companies in which we have made strategic investments. In fiscal 2008, we paid CAMS Rs. 1.9 million for mutual fund back office processing services. We paid Softcell Rs. 15.1 million and SolutionNet Rs. 10.9 million for providing software-related services to us. During fiscal 2008, we received Rs. 9.9 million from CAMS, Rs. 0.2 million from SolutionNet and Rs. 3.7 million from Softcell as dividends. In the same period, we paid Rs. 165.7 million to Softcell and Rs. 46.3 million to SolutionNet towards the purchase of fixed assets.

We have entered into normal banking transactions with some of the above parties and we believe all such transactions to be at arms-length.



**Table of Contents****TAXATION****Indian Taxation of the ADSs**

*The following is a summary of the principal Indian tax consequences for non-resident investors of the ADSs and the equity shares issuable on conversion of the ADSs. The summary is based on the taxation law and practice in force and is subject to change. Further, it only addresses the tax consequences for persons who are non-residents as defined in the Indian Income Tax Act, who acquire ADSs or equity shares (upon conversion) and who hold such ADSs or equity shares (upon conversion) as capital assets, and does not address the tax consequences which may be relevant to other classes of non-resident investors, including dealers. The summary assumes that the person continues to remain a non-resident when income by way of interest, dividends and capital gains is earned.*

**EACH INVESTOR IS ADVISED TO CONSULT THEIR TAX ADVISOR ABOUT THE PARTICULAR TAX CONSEQUENCES APPLICABLE ON INVESTMENTS IN THE ADSs.**

The following discussion describes the material Indian income tax and stamp duty consequences of the purchase, ownership and disposal of the ADSs.

This summary is based on the provisions of Section 115AC and other applicable provisions of the Income Tax Act, 1961 (43 of 1961) (the Indian Income Tax Act ) and the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 promulgated by the government of India (the Depository Receipt Scheme ) (together the Section 115AC Regime ). The offer is in accordance with the 115AC Regime, and non-resident investors of the ADSs will therefore have the benefit of tax concessions available under the 115AC Regime subject to the fulfillment of conditions of that section. This summary is not intended to constitute a complete analysis of the tax consequences under Indian law of the acquisition, ownership and sale of the ADSs (or equity shares upon conversion) by non-resident investors. Investors should therefore consult their tax advisors about the tax consequences of such acquisition, ownership and sale including, specifically, tax consequences under Indian law, the laws of the jurisdiction of their residence, any tax treaty between India and their country of residence or the United States, the country of residence of the overseas depository bank (the Depository ), as applicable and, in particular, the applicable provisions of the Income Tax Act and the Section 115AC Regime. The Indian Income Tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of the 115AC Regime may be modified or amended by future amendments to the Income Tax Act.

***Taxation of Distributions***

Upon withdrawal of equity shares from the depository facility, dividends paid to such non-resident holder are not presently taxable. However, we must pay a dividend distribution tax at the rate of 15.0% (plus a surcharge of 10.0% and an add-on tax at the rate of 3.0% of the total dividend distribution tax and surcharge) on the total amount distributed as dividend. In India, dividends are not taxable in the hands of the recipient.

Distribution to non-residents of bonus ADSs or bonus shares or rights to subscribe for equity shares (for the purposes of this section, Rights ) made with respect to ADSs or shares are not subject to Indian tax.

***Taxation on Acquisition of ADSs or Equity Shares Received Upon Conversion or in Exchange for ADSs***

The acquisition of equity shares in exchange for ADSs does not constitute a taxable event for Indian income tax purposes. Such exchange may, however, give rise to stamp duty as described below under Stamp Duty.

***Taxation of Capital Gains in Relation to ADSs***

The transfer between non-resident investors outside India of ADSs falling within the purview of Section 115AC is not subject to income tax in India on capital gains therefrom.

It is unclear whether capital gains derived from the sale of Rights by a non-resident investor to another non-resident investor will be subject to tax liability in India. This would depend on the view taken by Indian tax authorities with respect to the status of the Rights being offered under the ADSs. If such Rights are deemed by the Indian tax authorities to be situated within India, the gains



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realized on the sale of such Rights, will be subject to Indian taxation. The capital gains realized on the sale of such Rights which will generally be in the nature of short-term capital gains, will be subject to tax at variable rates with a maximum of 40.0% excluding the applicable surcharge at the rate of 2.5% and add-on tax at the rate of 3.0%, in case of a foreign company and 30.0% excluding the applicable surcharge and add-on tax in case of resident employees and non-resident individuals with taxable income over Rs. 0.25 million.

***Taxation of Capital Gains in Relation to Equity Shares Received Upon Conversion or in Exchange for ADSs***

Capital gains arising to a non-resident investor on the transfer of the equity shares received upon conversion of the ADSs (whether in India or outside India to a non-resident investor) will be subject to income tax under the provisions of the Indian Income Tax Act.

Effective October 1, 2004, any gain realized on the sale of listed equity shares held for more than 12 months to an Indian resident, or to a non-resident investor in India, will not be subject to Indian capital gains tax if the Securities Transaction Tax ( STT ) has been paid on the transaction.

Since June 1, 2006, in respect of a sale and purchase of equity shares entered into on a recognized stock exchange, (i) both the buyer and the seller are required to pay STT at the rate of 0.125% of the transaction value of the securities, if the transaction is a delivery based transaction, which means that the transaction involves actual delivery or transfer of shares; and (ii) the seller of the shares is required to pay a STT at the rate of 0.025% of the transaction value of the securities if the transaction is a non-delivery based transaction, which means that the transaction is settled without taking actual delivery or transfer of the shares.

Any gain realized on the sale of equity shares to an Indian resident whether in India or outside India or to a non-resident in India on which no STT has been paid will be subject to Indian capital gains tax at the rate of 10% plus applicable surcharge on income tax and add-on tax at the rate of 3% of the sale of shares. For the purpose of computing capital gains tax on the sale of the equity shares under the Section 115AC Regime, the cost of acquisition of equity shares received in exchange for ADSs will be determined on the basis of the prevailing price of the equity shares on the Bombay Stock Exchange Limited or the National Stock Exchange as of the date on which the depository gives notice to its custodian for the delivery of such equity shares upon redemption of the ADSs, while the cost of acquisition of shares directly converted from ADSs will be determined on the basis of the price prevailing on the Bombay Stock Exchange Limited, or the National Stock Exchange on the date of conversion into shares. A non-resident holder's holding period (for purpose of determining the applicable Indian capital gains tax rate) in respect of equity shares received in exchange for ADSs commences on the date of the advice of withdrawal of such equity shares by the relevant Depository to its custodian.

Capital gain realized in respect of equity shares held (calculated in the manner set forth in the prior paragraph) for 12 months or less (short-term gain) on which STT is paid in the manner and rates set out above is subject to tax at the rate of 10.0% plus applicable surcharge on income tax and an add-on tax at the rate of 3.0%. In the event that no STT is paid, short-term gain is subject to tax at variable rates with a maximum rate of 40.0% plus applicable surcharge on income tax and add-on tax at the rate of 3.0%. The actual rate of tax on short-term gains depends on a number of factors, including the legal status of the non-resident holder and the type of income chargeable in India. The provisions of the Agreement for Avoidance of Double Taxation entered into by the government of India with the country of residence of the non-resident investor will be applicable to the extent they are more beneficial to the non-resident investor. However, during the period of fiduciary ownership of equity shares in the hands of the Depository, the provisions of the Double Taxation Avoidance Agreement entered into by the government of India with the United States will be applicable in the matter of taxation of capital gains, if any, on ADSs.

***Tax Deduction at Source***

Tax on long-term and short-term capital gains is to be deducted at source by the person paying for equity shares, in accordance with the relevant provisions of the Indian Income Tax Act.

***Capital Losses***

Neither Section 115AC nor the Depository Receipt Scheme deals with capital losses arising on a transfer of equity shares in India. In general terms, losses arising from a transfer of a capital asset in India can only be set off against capital gains on transfer of another capital asset. Furthermore, a long-term capital loss can be set off only against a long-term capital gain. To the extent that losses are not absorbed in the year of transfer, they may be carried forward for a period of eight assessment years immediately succeeding the assessment year for which the loss was first determined by the assessing authority and may be set off against the



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capital gains assessable for such subsequent assessment years. In order to set off capital losses as above, the non-resident investor would be required to file appropriate and timely tax returns in India and undergo the customary assessment procedures. However, long-term capital loss on sale of equity shares being chargeable to STT will not be allowed to be set-off or carried forward for set-off against any capital gains.

### ***Stamp Duty***

There is no stamp duty on the sale or transfer of ADSs outside India.

Generally, the transfer of ordinary shares in physical form would be subject to Indian stamp duty at the rate of 0.25% of the market value of the ordinary shares on the trade date, and such stamp duty customarily is borne by the transferee, i.e., the purchaser. In order to register a transfer of equity shares in physical form, it is necessary to present a stamped deed of transfer. However, since our equity shares are compulsorily deliverable in dematerialized form (except for trades of up to 500 equity shares, which may be delivered in physical form) there would be no stamp duty payable in India on transfer of these equity shares in dematerialized form.

### ***Other Taxes***

At present, there is no wealth tax, gift tax or inheritance taxes which may apply to the ADSs or the underlying shares.

### ***Service Tax***

Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares listed on a recognized stock exchange in India are subject to a service tax of 12.36% (including add-on tax at the rate of 3.0%) ad valorem. The stockbroker is responsible for collecting the service tax and paying it to the relevant authority.

### ***United States Tax***

The following summary describes the material United States federal income tax consequences relating to an investment in our equity shares or ADSs as of the date hereof. This summary is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing final, temporary and proposed Treasury Regulations, rulings and judicial decisions, all as currently in effect and all of which are subject to prospective and retroactive rulings and changes. We will not seek a ruling from the Internal Revenue Service (IRS) with regard to the United States federal income tax treatment relating to investment in our equity shares or ADSs and, therefore, there can be no assurance that the IRS will agree with the conclusions set forth below.

This summary does not purport to address all United States federal income tax consequences that may be relevant to a particular investor and you are urged to consult your own tax advisor regarding your specific tax situation. The summary applies only to holders who hold equity shares or ADSs as capital assets (generally, property held for investment) under the Code, and does not address the tax consequences that may be relevant to investors in special tax situations, including for example:

insurance companies;

regulated investment companies and real estate investment trusts;

tax-exempt organizations;

broker-dealers;

traders in securities that elect to mark-to-market;

banks or other financial institutions;

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United States investors whose functional currency is not the United States dollar;

United States expatriates;

investors that hold our equity shares or ADSs as part of a hedge, straddle or conversion transaction;

holders that purchase or otherwise acquire equity shares or ADSs other than through this offering; or

holders that own, directly, indirectly or constructively 10.0% or more of our total combined voting stock.

Further, this summary does not address the alternative minimum tax consequences of an investment in equity shares or ADSs, or the indirect consequences to holders of equity interests in entities that own our equity shares or ADSs. In addition, this summary does not address the state, local and foreign tax consequences of an investment in our equity shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state, local and foreign and other tax consequences of purchasing, owning and disposing of our equity shares or ADSs in your particular circumstances.

***Taxation of U.S. Holders***

You are a U.S. Holder if you are a beneficial owner of equity shares or ADSs and you are for United States federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;

an estate the income of which is subject to United States federal income tax regardless of its source; or

a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust has made a valid election to be treated as a United States person.

If a partnership holds equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding our equity shares or ADSs should consult their own tax advisors.

A Non-U.S. Holder is a beneficial owner of equity shares or ADSs that is not a U.S. Holder.

For United States federal income tax purposes, a U.S. Holder of an ADS will generally be treated as the owner of the equity shares represented by the ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for equity shares. A U.S. Holder's tax basis in the equity shares will be the same as the tax basis in the ADS surrendered therefor, and the holding period in the equity shares will include the period during which the holder held the surrendered ADS. However, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Indian taxes paid with respect to the ADSs could be affected by future actions that may be taken by the United States Treasury.

*Distributions on Equity Shares or ADSs*

## Edgar Filing: HDFC BANK LTD - Form 20-F

Cash distributions made by us to a U.S. Holder with respect to equity shares or ADSs (including amounts withheld in respect of any Indian withholding taxes) generally will be taxable to such U.S. Holder as ordinary dividend income when such U.S. Holder receives the distribution, actually or constructively, to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). If these dividends constitute qualified dividend income ( QDI ),



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individual U.S. Holders of our equity shares or ADSs will generally pay tax on such dividends received before 2011 at a maximum rate of 15.0%, provided certain holding period requirements and other conditions are satisfied. Assuming we are not a passive foreign investment company (as discussed below), or foreign investment company, dividends paid by us will be QDI if we are a qualified foreign corporation ( QFC ) at the time the dividends are paid. We believe that we are currently, and will continue to be, a QFC so as to allow all dividends paid by us to be QDI for United States federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits will be treated first as a non-taxable return of capital reducing such U.S. Holder's tax basis in the equity shares or ADSs. Any distribution in excess of such tax basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the equity shares or ADSs for more than one year. Dividends paid by us generally will not be eligible for the dividends-received deduction available to certain United States corporate shareholders.

Dividends paid on the equity shares or ADSs will generally be treated as foreign source income. Subject to certain limitations, a U.S. Holder may be entitled to a credit or deduction against its U.S. federal income taxes for the amount of any Indian taxes that are withheld from dividend distributions made to such U.S. Holder. The decision to claim either a credit or deduction must be made annually, and will apply to all foreign taxes paid by the U.S. Holder to any foreign country or U.S. possession with respect to the applicable tax year. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Income received with respect to the equity shares or ADSs will generally be treated as passive category income for United States foreign tax credit limitation purposes. The rules regarding the availability of foreign tax credits are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. We therefore urge you to consult your own tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

The amount of any cash distribution paid in Indian rupees will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depository (in the case of ADSs) or by the U.S. Holder (in the case of equity shares held directly by such U.S. Holder), regardless of whether the payment is in fact converted to U.S. dollars at that time. Generally, a U.S. Holder should not recognize any foreign currency gain or loss if such Indian rupees are converted into U.S. dollars on the date received and it is expected that the depository will in the ordinary course convert Indian rupees received by it as distributions in the depository into U.S. dollars. If the Indian rupees are not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Indian rupees. Such foreign currency gain or loss, if any, will be United States source ordinary income or loss.

*Sale or Exchange of Equity Shares or ADSs*

A U.S. Holder will generally recognize capital gain or loss upon the sale, exchange or other disposition of the equity shares or ADSs measured by the difference between the U.S. dollar value of the amount received and the U.S. Holder's tax basis (determined in U.S. dollars) in the equity shares or ADSs. Any gain or loss will be long-term capital gain or loss if the equity shares or ADSs have been held for more than one year and will generally be United States source gain or loss. Your ability to deduct capital losses is subject to limitations. Under certain circumstances described under Indian Tax Taxation of Capital Gains in Relation to ADSs and Indian Tax Taxation of Capital Gains in Relation to Equity Shares Received upon Conversion or in Exchange for ADSs, you may be subject to Indian tax upon the disposition of equity shares or ADSs. In such circumstances and subject to applicable limitations (and the relief provided by an applicable income tax treaty), you may be able to credit the Indian tax against your United States federal income tax liability. You should consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

For cash-basis U.S. Holders who receive foreign currency in connection with a sale or other taxable disposition of equity shares or ADSs, the amount realized will be based upon the United States dollar value of the foreign currency received with respect to such equity shares or ADSs as determined on the settlement date of such sale or other taxable disposition.

Accrual-basis U.S. Holders may elect the same treatment required of cash-basis taxpayers with respect to a sale or other taxable disposition of equity shares or ADSs, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the United States IRS. Accrual-basis U.S. Holders that do not elect to be treated as cash-basis taxpayers (pursuant to the Treasury Regulations applicable to foreign currency transactions) for this purpose may have a foreign currency gain or loss for United States federal income tax purposes because of differences between the United States dollar value of the foreign currency received prevailing on the date of such sale or other taxable disposition and the value prevailing on the date of payment. Any such currency gain or loss will generally be treated as ordinary income or loss that is United States source, in addition to the gain or loss, if any, recognized on the sale or other taxable disposition of equity shares or ADSs.

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*Passive Foreign Investment Company Rules*

U.S. Holders generally will be subject to a special, adverse tax regime that would differ in certain respects from the tax treatment described above if we are, or were to become, a passive foreign investment company ( PFIC ) for United States federal income tax purposes. Although the determination of whether a corporation is a PFIC is made annually and thus may be subject to change, we do not believe that we are, nor do we expect to become, a PFIC for United States federal income tax purposes. However, the matter is not free from doubt. We urge you to consult your own tax advisor regarding the adverse tax consequences of owning the equity shares or ADSs of a PFIC and making certain elections designed to lessen those adverse consequences.

***Taxation of Non-U.S. Holders***

*Distributions on Equity Shares or ADSs*

Non-U.S. Holders generally will not be subject to United States federal income or withholding tax on dividends received from us with respect to equity shares or ADSs, unless such income is considered effectively connected with the Non-U.S. Holder's conduct of a United States trade or business (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States).

*Sale or Exchange of Equity Shares or ADSs*

Non-U.S. Holders generally will not be subject to United States federal income tax on any gain realized upon the sale, exchange or other disposition of equity shares or ADSs:

unless such gain is considered effectively connected with the Non-U.S. Holder's conduct of a United States trade or business (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States); or

if such Non-U.S. Holder is an individual that is present in the United States for 183 days or more during the taxable year of the disposition and certain other conditions are met.

In addition, if you are a corporate Non-U.S. Holder, any effectively connected dividend income or gain (subject to certain adjustments) may be subject to an additional branch profits tax at a rate of 30.0% (or such lower rate as may be specified by an applicable income tax treaty).

***Backup Withholding and Information Reporting***

In general, dividends on equity shares or ADSs, and payments of the proceeds of a sale, exchange or other disposition of equity shares or ADSs, paid to a U.S. Holder within the United States or through certain United States-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a rate currently equal to 28.0% unless the holder:

is a corporation or other exempt recipient; or

provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding applies to such U.S. holder.

Non-U.S. Holders generally are not subject to information reporting or backup withholding. However, such holders may be required to provide a certification to establish their non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

Holders generally will be allowed a credit of the amount of any backup withholding against their United States federal income tax liability or may obtain a refund of any amounts withheld under the backup withholding rules that exceed such income tax liability by filing a refund claim

with the United States IRS.

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**SUPERVISION AND REGULATION**

The main legislation governing commercial banks in India is the Banking Regulation Act 1949. The provisions of the Banking Regulation Act are in addition to and not, save as expressly provided in the Banking Regulation Act, in derogation of the Companies Act, 1956 and any other law currently in force. Other important laws include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (the SARFAESI Act ) and the Banker s Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines to be followed by the Bank. Compliance with all regulatory requirements is evaluated with respect to financial statements under Indian GAAP.

**RBI Regulations**

Commercial banks in India are required under the Banking Regulation Act to obtain a license from the RBI to carry on banking business in India. Before granting the license, the RBI must be satisfied that certain conditions are complied with, including (i) that the bank has the ability to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the bank has adequate capital and earnings prospects; and (iv) that the public interest will be served if such license is granted to the bank. The RBI can cancel the license if the Bank fails to meet the above conditions or if the Bank ceases to carry on banking operations in India.

The Bank, being licensed by the RBI, is regulated and supervised by the RBI. The RBI requires the Bank to furnish statements, information and certain details relating to its business. It has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing and restructured assets. The RBI has set up a Board for Financial Supervision, under the chairmanship of the Governor of the RBI. The RBI can direct a special audit in the interest of the depositors or in the public interest.

**Regulations Relating to the Opening of Branches**

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the bank, its management, adequacy of capital structure and earning prospects and the public interest. The RBI may cancel a license for violations of the conditions under which it was granted.

The RBI issued a new branch authorisation policy in September 2005 under which the existing system of granting authorisations for opening individual branches from time to time will be replaced by a system of aggregated approvals on an annual basis. The RBI will discuss with individual banks their branch expansion strategies and plans over the medium term. The term branch for this purpose has been defined to also include extension counters, offsite ATMs, administrative offices and back offices as well as call centres where banking transactions are undertaken.

While processing authorisation requests, the RBI will give importance to the nature and scope of banking services, particularly in under-banked areas, actual credit flow to priority sectors and efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the bank s regulatory compliance, quality of corporate governance, risk management and relationships with subsidiaries and affiliates.

**Capital Adequacy Requirements**

The Bank is subject to the capital adequacy requirements of the RBI, which, based on the guidelines of the Basel Committee on Banking Regulations and Supervisory Practices, 1998, require the Bank to maintain a minimum ratio of capital to risk adjusted assets and off-balance sheet items of 9.0%, at least half of which must be Tier I capital.

The capital funds of a banking company are classified into Tier I and Tier II capital. Tier I capital, the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital, innovative perpetual debt instruments eligible, innovative perpetual non-cumulative preference shares and reserves consisting of any statutory reserves and free reserves as reduced by equity investments in subsidiaries, intangible assets, gaps in provisioning and losses in the current period and those brought forward from the previous period.

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In January 2006, the RBI issued guidelines permitting banks to issue perpetual debt with a call option after not less than 10 years, to be exercised with its prior approval, for inclusion in Tier I capital up to a maximum of 15.0% of total Tier I capital. The RBI also permitted banks to issue debt instruments with a minimum maturity of 15 years and a call option after not less than 10 years, to be exercised with its prior approval, for inclusion in Tier II capital. In July 2006, the RBI issued guidelines permitting the issuance of Tier I and Tier II debt instruments denominated in foreign currencies without RBI's prior approval.

Tier II capital consists of undisclosed reserves, revaluation reserves (at a discount of 55.0%), general provisions and loss reserves (allowed up to a maximum of 1.25% of risk weighted assets), investment reserve accounts, hybrid debt capital instruments (which combine certain features of both equity and debt securities) and subordinated debt. Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50.0% of Tier I capital. Total Tier II capital cannot exceed Tier I capital.

In fiscal 2006, the RBI also issued detailed guidelines for securitization of standard assets, whereby credit enhancements (comprising first loss and second loss facilities) given by an originator are required to be deducted from its capital funds. The deduction from Tier I capital is capped at the amount of capital that the bank would have been required to hold for the full value of the assets, had they not been securitized. Securities issued by special purpose vehicles and held by banks in excess of 10.0% of the original amount of issue, including secondary market purchases, are also required to be deducted from capital funds.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of certain funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and conversion factors to off-balance sheet items. The value of each item is multiplied by the relevant weight or conversion factor to produce risk-adjusted values of assets and off-balance-sheet items. Financial guarantees are treated as similar to funded exposure and are subject to similar risk weighting. The credit conversion factor for certain off-balance sheet items such as performance bonds, bid bonds and standby letters of credit related to particular transactions is 50.0% while that for short-term self-liquidating trade-related contingencies such as documentary credits collateralized by the underlying shipments is 20.0%. The risk weights have been increased by the RBI in the recent past in respect of certain items such as exposures to capital markets (to 125.0%), commercial real estate and venture capital funds (to 150.0%), consumer credit including personal loans and credit card receivables (to 125.0%). Investment in mortgage backed securities of residential assets of housing finance companies satisfying certain conditions have a risk weight of 50%. The aggregate risk weighted assets are taken into account for determining the capital adequacy ratio. Banks are required to maintain capital charge for market risks on their trading books in respect of securities included under the HFT and AFS categories, open positions in bullion, open foreign exchange position limits, trading positions in derivatives and derivatives entered into for hedging trading book exposures.

The RBI has issued guidelines for implementation of the new capital adequacy framework. In order to maintain consistency and harmony with international standards, banks were advised to adopt the Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk with effect from March 31, 2008 for banks having international operations and from March 31, 2009 for banks without international operations. The guidelines will be applicable to us from March 31, 2009. These guidelines include an increase in the minimum Tier I capital adequacy ratio from 4.5% to 6.0%. Differential risk weights for credit exposures linked to their credit rating and a capital charge for operational risk equal to the average of 15.0% of the sum of a bank's annual gross income (excluding extraordinary income) for the past three years, where positive, has been prescribed. The risk weight for consumer credit and capital market exposures has been retained at 125%. Risk weight on residential mortgages is 75.0%. However, risk weight on residential mortgages of less than Rs. 2.0 million with a loan to value ratio of less than 75.0% will be 50.0%. The capital adequacy norms stipulate a capital charge on undrawn commitments. The norms also stipulate that from the financial year 2008-09, all fresh sanctions or renewals in respect of unrated claims on domestic corporates in excess of Rs. 500 million will attract a risk weight of 150.0%. This threshold will be reduced to Rs. 100 million from April 1, 2009.

The minimum capital maintained by banks on implementation of the new framework shall be subjected to a prudential floor which shall be the higher of the following amounts:

- a) minimum capital required to be maintained as per the new framework; and
- b) a specified percentage of the minimum capital required to be maintained as per the Basel framework for credit and market risks. The specified percentage will progressively decline from 100 in March 2008 to 80 in March 2010. The relevant period shall be March 2009 and March 2011 for banks implementing the framework with effect from March 31, 2009.

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The RBI may consider allowing some banks to migrate to an Internal Rating Based approach after adequate expertise has been developed both at the bank and at the supervisory level.

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### **Loan Loss Provisions and Non-Performing Assets**

In April 1992, the RBI issued formal guidelines on income recognition, asset classification, provisioning standards and valuation of investments applicable to banks, which are revised from time to time. These guidelines are applied for the calculation of impaired assets under Indian GAAP.

The principal features of these RBI guidelines, which have been implemented with respect to the Bank's loans, debentures, lease assets, hire purchases and bills are set forth below.

#### ***Non-Performing Assets***

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. A nonperforming asset is an asset in respect of which either the principal or interest remains overdue for more than 90 days (180 days for fiscal years ending before 31 March 2004).

The RBI guidelines stipulate the criteria for determining and classifying a non-performing asset (an NPA). An NPA is a loan or an advance where:

interest and/or an installment of principal remained overdue for a period of more than 90 days in respect of a term loan;

the account remained out-of-order (as defined below) in respect of an overdraft or cash credit for more than 90 days;

the bill remained overdue for a period of more than 90 days in the case of bills purchased and discounted;

In the case of a loan granted for short duration crops, if the installments of principal or interest thereon remain overdue for two crop seasons;

In the case of a loan granted for long duration crops, if the installments of principal or interest thereon remain overdue for one crop season; or

an amount to be received remains overdue for a period of 90 days in respect of other accounts.

Banks should classify an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter.

#### ***Out-of-Order Status***

An account should be treated as out-of-order if the outstanding balance remains continuously in excess of the sanctioned drawing limit. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned drawing limit, but (i) there are no credits continuously for a period of 90 days from the date of the balance sheet of the Bank or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as out-of-order.

#### ***Asset Classification***

Non-performing assets are classified as described below:

*Sub standard Assets.* Assets that are non-performing assets for a period not exceeding 12 months (or, prior to 31 March 2005, 18 months). In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. Such an asset has well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by

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the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

*Doubtful Assets.* With effect from 31 March 2005, an asset will be classified as doubtful if it remains in the substandard category continuously for 12 months (or, prior to 31 March 2005, 18 months). A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.



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*Loss Assets.* Assets on which losses have been identified by the bank or internal or external auditors or RBI inspection but the amount has not been written off fully.

There are separate guidelines for projects under implementation which are based on the achievement of financial closure and the date of approval of the project financing.

The RBI also has separate guidelines for restructured assets. A fully secured standard asset can be restructured by rescheduling principal repayments and/or interest, but must be separately disclosed as a restructured asset. The amount of sacrifice, if any, in the interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. Similar guidelines apply to sub standard assets. The substandard accounts which have been subjected to restructuring, whether in respect of principal installment or interest amount, are eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when the first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

### ***Provisioning and Write-Offs***

Provisions are based on guidelines specific to the classification of the assets. The following guidelines apply to the various asset classifications:

#### ***Standard assets***

(i) Banks should make general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis:

- (a) direct advances to agricultural and SME sectors at 0.25 per cent;
- (b) residential housing loans beyond Rs. 20 lakh at 1 per cent;
- (c) advances to specific sectors, i.e., personal loans (including credit card receivables), loans and advances qualifying as capital market exposures, Commercial real estate loans, and loans and advances to non-deposit taking systemically important non-banking financial companies ( NBFCs ) at 2 per cent;
- (d) all other advances not included in (a), (b) and (c) above, at 0.40 percent.

(ii) The provisions on standard assets should not be reckoned for arriving at net NPAs.

#### ***Sub-Standard Assets.***

A general provision of 10.0% on total outstanding loans is required. The unsecured exposures which are identified as sub standard would be subject to an additional provision of 10.0% (i.e., a total of 20.0% on the outstanding balance).

#### ***Doubtful Assets.***

A 100.0% provision is made against the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is the amount reflected on the borrower's books or the realisable value determined by third party appraisers. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 20.0% to 100.0% provision is required to be taken against the secured asset as follows:

Up to one year: 20.0% provision.

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One to three years: 30.0% provision.

More than three years: 100.0% provision.

### *Loss Assets.*

The entire asset is required to be written off or 100.0% of net liability is to be made at the Head Office.

### *Restructured Assets.*

A provision is made equal to the net present value of the reduction in the rate of interest on the loan over its maturity.

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In June 2006, the RBI issued prudential standards on the creation and utilisation of floating provisions (provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirements for provisions for standard assets). The standards state that floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining approval from the Bank's board of directors and with the prior permission of the RBI. Floating provisions for advances and investments must be held separately and cannot be reversed by credit to the profit and loss account. Until the utilisation of such provisions, they can be netted off from gross non-performing assets to arrive at disclosure of net non-performing assets, or, alternatively, can be treated as part of Tier II capital within the overall ceiling of 1.25% of total risk-weighted assets. Further, floating provisions would not include specific voluntary provisions made by banks for advances at rates which are higher than the stipulated rates.

### **Prudential norms for off-balance sheet exposures of banks**

RBI has in August 2008 issued prudential norms on off-balance sheet exposures of banks. These guidelines prescribe the methodologies to compute credit exposure, capital adequacy, provisioning for standard and non-performing exposures and asset classification of receivables in respect of interest rate and foreign exchange derivative transactions and gold.

These guidelines will come into effect from the financial year 2008-09. Banks will, however, have the option of complying with the additional capital and provisioning requirements, arising from these modifications, in a phased manner, over a period of four quarters, ending March 31, 2009.

### **Regulations Relating to Sale of Assets to Asset Reconstruction Companies**

The SARFAESI Act provides for the sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has issued guidelines to banks on the process to be followed for sales of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company provided the asset is a non-performing asset. These assets are to be sold on a non-recourse basis only.

A bank may sell a standard asset only if the borrower has a consortium or multiple banking arrangements, at least 75.0% by value of the total loans to the borrower are classified as non-performing and at least 75.0% by value of the banks and financial institutions in the consortium or multiple banking arrangements agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realisation. However, banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. Whilst each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.0% by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bonds or debentures or security receipts or pass-through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets.

The RBI issued guidelines for the securitisation of standard assets in February 2006. The guidelines provide that for a transaction to be treated as a securitisation, a two stage process must be followed. In the first stage there must be pooling and transferring of assets to a bankruptcy remote special purpose vehicle ( SPV ) and in the second stage repackaging and selling the security interests representing claims on incoming cash flows from the pool of assets to the third party investors should be effected. Further, for enabling the transferred assets to be removed from the balance sheet of the seller in a securitisation structure, the isolation of assets or true sale from the seller or originator to the SPV is an essential prerequisite. Also, an arms-length relationship shall be maintained between the originator, the seller and the SPV.

Certain regulatory standards for capital adequacy, valuation, profit and loss on sale of assets, income recognition and provisioning for originators and service providers, like credit enhancers, liquidity support providers, underwriters and investors, and also the accounting treatment for securitisation transactions and disclosure standards have been prescribed. Quarterly reporting to the audit sub-committee of the Board of Directors by originating banks of the securitisation transactions has also been prescribed. Apart from banks, these guidelines are also applicable to financial institutions and non-banking financial companies.

### **Guidelines on Sale and Purchase of Non-Performing Assets**

The RBI has issued detailed guidelines in July 2005 in respect of procedures for the purchase and sale of non-performing assets



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between banks, financial institutions and non-bank finance companies. The guidelines set out prudential norms that need to be complied with, in respect of valuation and pricing, asset classification and provisioning, accounting of recoveries, norms on capital adequacy, exposure norms and disclosure requirements.

### **Regulations Relating to Making Loans**

The provisions of the Banking Regulation Act govern making loans by banks in India. The RBI issues directions covering the loan activities of banks. Important guidelines include norms for bank lending to non-bank financial companies, guidelines on banks benchmark prime-lending rate and norms for loans against shares.

#### ***Directed Lending***

##### ***Priority Sector Lending***

Prior to March 31, 2007, the RBI's directed lending norms required commercial banks to lend a certain percentage of their net bank credit to specific sectors (the priority sectors), such as agriculture, small-scale industry, small businesses and housing finance. Total priority sector advances were set at 40.0% of net bank credit with agricultural advances required to be 18.0% of net bank credit and advances to weaker sections required to be at 10.0% of the net bank credit, and 1.0% of the previous year's total advances outstanding was required to be lent under the Differential Rate of Interest scheme. In April 2007, the RBI issued revised guidelines on lending to the priority sector. The RBI has linked the Priority sector lending targets are linked to adjusted net bank credit (net bank credit plus investments made by banks in non-statutory liquidity bonds included in the held to maturity category and excluding recapitalization bonds floated by the government) or the credit equivalent amount of off-balance sheet exposure, whichever is higher as of previous fiscal years.

Priority sectors include agriculture, small and micro enterprises, retail traders, micro credits, education and housing. The RBI also has set forth the minimum percentage of adjusted net bank credit that banks must direct to specific priority sectors. The minimum percentage of adjusted net bank credit that banks must direct to agriculture is 18.0% and to weaker sections of minority communities (as may be notified by the government of India from time to time) is 10.0%.

Domestic banks having shortfalls in priority sector lending shall be allocated amounts by the RBI for contribution to the Rural Infrastructure Development Fund (RIDF) established with the National Bank for Agriculture and Rural Development (NABARD). For RIDF contributions, priority sector lending targets as of the last reporting Friday of March of the immediately preceding financial year will be taken into account.

##### ***Export Credit***

The RBI also requires us to make loans to exporters at concessional rates of interest. This enables exporters to have access to an internationally competitive financing option. Pursuant to existing guidelines, 12.0% of a bank's net bank credit is required to be in the form of export credit. We provide export credit for pre-shipment and post-shipment requirements of exporter borrowers in rupees and foreign currencies.

##### ***Credit Exposure Limits***

As a measure aimed at better risk management and avoidance of concentration of credit risk, the RBI has prescribed credit exposure limits for banks in respect of their lending to individual borrowers and borrower groups.

The RBI limits exposure to individual borrowers to not more than 15.0% of the capital funds of the bank and limits exposure to a borrower group to not more than 40.0% of the capital funds of the bank. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5.0% of capital funds is allowed in respect of individual borrowers and of up to 10.0% in respect of group borrowers. Banks may, in exceptional circumstances, with the approval of their boards of directors, consider enhancement of exposure to a borrower by a further 5.0% of capital funds. Banks would need to make appropriate disclosures in their annual financial statements in respect of exposures where the banks had exceeded the prudential exposure limits during the year.

Exposure is the aggregate of:

approved credit exposure comprised of funded and non-funded credit limits;



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investment exposure including underwriting and similar commitments; and

foreign exchange and derivative contracts at their replacement cost value.

Capital funds for determining the exposure ceilings comprise both Tier 1 and Tier 2 capital.

To ensure that exposures are evenly spread, the RBI requires banks to fix internal limits of exposure to specific sectors. These limits are subject to periodic review by the banks. We have fixed a ceiling of 12.0% on our exposure to any one industry and monitor our exposures accordingly.

**Regulations Relating to Capital Market Exposure Limits**

The RBI has issued guidelines on financing to participants in the capital markets. These guidelines place a ceiling on the overall exposure of a bank to the capital markets.

The aggregate exposure that a bank has to the capital markets in all forms (both fund and non-fund based) should not exceed 40.0% of its net worth (both for the stand-alone and the consolidated bank) as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposure to venture capital funds should not exceed 20.0% of its net worth (both for the stand-alone and the consolidated bank).

The following exposures are subject to the ceiling:

direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the fund assets of which is not exclusively invested in corporate debt;

advances against shares/bonds/debentures or other securities or advances without security to individuals for investment in shares (including in primary offerings and employee stock option plans), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;

advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;

advances for any other purposes to the extent secured by collateral of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;

secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;

loans sanctioned to corporates against the security of shares/bonds/debentures or other securities or on a clean basis for meeting a promoter's contribution to the equity of new companies;

bridge loans to companies against expected equity flows/issues;

underwriting commitments taken up by banks in respect of primary issues of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds;

financing to stockbrokers for margin trading; and

all exposure to venture capital funds (both registered and unregistered).

**Regulations Relating to Investments**

*Exposure Limits*

Credit exposure limits specified by the RBI in respect of a bank's lending to individual borrowers and borrower groups apply in respect of non-convertible debt instruments. Within the overall capital market exposure ceiling, a bank's direct investments in equity



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securities, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 20.0% of its net worth. A bank's aggregate investment in subordinated bonds eligible for Tier 2 capital status issued by other banks or financial institutions are restricted up to 10.0% of the investing bank's capital funds (Tier 1 plus Tier 2 capital). Investments in the instruments issued by banks or financial institutions that are eligible for capital status will attract a 100.0% risk weight for credit risk for capital adequacy purposes.

In order to contain the risks arising out of investment by banks in non-statutory liquidity ratio (non-SLR) securities, and in particular the risks arising out of investment in bonds through private placement, the RBI has issued detailed guidelines on investment by banks in non-SLR securities. Banks have been advised to restrict their new investments in unlisted securities to 10.0% of their total non-SLR investments as of March 31 of the previous year. Banks are permitted to invest in unlisted non-SLR securities within this limit, provided that such securities comply with prescribed disclosure requirements for listed companies. Investment in security receipts issued by securitization companies/reconstruction companies registered with the RBI, and in asset-backed securities or mortgage-backed securities carrying the minimum investment grade, are excluded from this limit. The guidelines do not cover investments in venture capital funds, commercial paper, certificates of deposit and mutual fund schemes where any part of the corpus can be invested in equity.

### ***Non-Performing Investments***

The RBI has defined non-performing investments as those where principal or interest is unpaid for more than 90 days including preference shares where a fixed dividend is not paid. The non-availability of the latest balance sheet of a company in whose equity securities a bank has invested, will render those equity shares non-performing investments. If any credit facility availed of by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as NPI and vice versa.

### ***Restrictions on Investments in a Single Company***

No bank may, without prior RBI approval, hold shares in any company exceeding 30.0% of the paid-up share capital of that company or 30.0% of its own paid-up share capital and reserves, whichever is lower.

### ***Valuation of Investments***

The RBI has issued guidelines for the valuation of investments. These guidelines require banks to classify their entire portfolio of approved securities under three categories: held for trading, available for sale and held to maturity. For disclosure and valuation purposes, the investments are further classified under six groups: government securities, other approved securities, shares, debentures and bonds, investments in subsidiaries, and joint ventures and other investments.

There are guidelines for the amount and nature of investments that can be made in the held to maturity category. Securities in the held to maturity category would have to be valued at cost and any premium paid over face value would be amortized over the period of maturity of the instrument. Investment under the held for trading category cannot be held for more than 90 days.

Investments in the available for sale and held for trading categories are required to be marked to market based on market quotes or on the basis of the yield curve provided by the Fixed Income Money Market Dealers Association of India and Primary Dealers Association of India. Any depreciation on the revaluation of investments of each of the six groups in the held for trading and available for sale category would have to be recognized in the income account. Net gain on revaluation of investments shall not be recognized in the income account. Banks would be able to shift investments from one category to another only with the approval of the board of directors/committee thereof.

### ***Prohibition on Short Selling***

The RBI does not permit short selling of securities by banks, except intra-day short selling of central government securities subject to stipulated conditions. The RBI has permitted banks to sell government of India securities already contracted for purchase provided the purchase contract is confirmed and the contract is guaranteed by Clearing Corporation of India Limited or the security is contracted for purchase from the RBI. Each security is deliverable or receivable on a net basis for a particular settlement cycle.

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### **Regulations Relating to Deposits**

The RBI has permitted banks to independently determine rates of interest offered on fixed deposits. However, no bank is permitted to pay interest on current account deposits. Further, banks can pay interest of up to 3.5% per annum on savings deposits. In respect of savings and time deposits accepted from employees, we are permitted by the RBI to pay an additional interest of 1.0% over the interest payable on deposits from the public.

Domestic time deposits have a minimum maturity of seven days. Time deposits from non-resident Indians denominated in foreign currency normally have a tenor of one to three years.

The RBI has permitted banks the flexibility to offer varying rates of interest on domestic deposits of the same maturity subject to the following conditions:

time deposits are of Rs. 1.5 million and above; and

interest is paid in accordance with a schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

The RBI regulates the interest rates offered on deposits accepted from non-residents.

To achieve greater financial inclusion, banks have been advised by the RBI to make available a basic banking no frills account either with no or very low minimum balances and charges that would make such accounts accessible to vast sections of the population.

### **Deposit Insurance**

Demand and time deposits of up to Rs. 100,000 accepted by Indian banks have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the RBI. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer.

### **Regulations Relating to Knowing the Customer and Anti-Money Laundering**

The RBI has issued several guidelines relating to identification of depositors and has advised banks to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant whilst opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

The RBI issued a notification in November 2004 prescribing guidelines for Know Your Customer ( KYC ) and anti-money laundering procedures. Banks are required to have a customer acceptance policy laying down explicit criteria for acceptance of customers and defining risk parameters. A profile of the customers should be prepared based on risk categorisation. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data. Banks must obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship.

The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity.

In August 2005, the RBI has simplified the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs. 50,000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 100,000 in a year in order to ensure that the implementation of the KYC guidelines do not result in the denial of the banking services to those who are financially or socially disadvantaged.

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In addition to keeping customer information confidential, banks must ensure that only information relevant to the perceived risk is collected and that the same is not intrusive in nature. Apart from addressing this concern the new guidelines set out in detail the framework to be adopted by banks as regards their customer dealings. The concerns remain substantially the same and are directed towards prevention of financial frauds and money laundering transactions.

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In a bid to prevent money laundering activities, the Government enacted the Prevention of Money Laundering Act, 2002 (the PML Act ) which came into effect 1 July 2005. The PML Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental matters or matters connected therewith.

The PML Act and the rules made thereunder stipulates that banking companies, financial institutions and intermediaries (together, the Institutions ) shall maintain a comprehensive record of all their transactions, including the nature and value of such transactions. Further, it mandates verification of the identity of all their clients and also requires the Institutions to maintain records of their respective clients. These details are to be provided to the authority established by the PML Act, which is empowered to order confiscation of property where the authority is of the opinion that a crime as recognised under the PML Act has been committed. In addition the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorized dealers to report identified suspicious transactions to the RBI.

### **Legal Reserve Requirements**

#### ***Cash Reserve Ratio***

Each bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. The cash reserve ratio is currently at 9%. For this purpose, the following liabilities are not considered:

net inter-bank liabilities;

refinancing from the RBI and other institutions permitted to offer refinancing to banks; and

perpetual debt qualifying for lower Tier 1 capital treatment.

The cash reserve ratio has to be maintained on an average basis for a two-week period and should not fall below 70.0% of the required cash reserve ratio on any particular day. Effective April 13, 2007, RBI does not pay any interest on cash reserve ratio balances.

#### ***Statutory Liquidity Ratio***

In addition to the cash reserve ratio, each bank is required to maintain in India a specified percentage of its net demand and time liabilities by way of liquid assets such as cash, gold or approved securities, such as Government of India securities and state government securities. This is to maintain liquidity in the banking system. The percentage of this liquidity ratio is fixed by the RBI from time to time. Currently, the RBI requires banks to maintain a minimum liquidity ratio of 25.0% of their total demand and time liabilities which could be raised up to 40.0%. For this purpose the following liabilities are not considered:

any advance taken from the RBI or from certain other financial institutions; and

inter-bank liabilities to the extent of inter-bank assets.

### **Regulations on Asset Liability Management**

At present, RBI regulations for asset liability management require banks to draw up two types of asset-liability gap statements separately for the rupee and for four major foreign currencies. These gap statements are prepared by scheduling all assets and liabilities according to the stated or anticipated re-pricing date or maturity date. These statements have to be submitted to the RBI on a periodic basis. The RBI has announced that banks should actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period as a risk control mechanism. Additionally, the RBI requires each bank to manage its asset-liability structure so that the negative liquidity gap in the one to 14 day and 15 to 28 day time periods does not exceed 20% of the cash

outflows in those time periods.

**Foreign Currency Dealership**

The RBI has granted us a fully authorized dealers license to deal in foreign exchange through our designated branches. Under this license, we have been granted permission to: engage in foreign exchange transactions in all currencies; open and maintain foreign

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currency accounts abroad; raise foreign currency and rupee-denominated deposits from non-resident Indians; grant foreign currency loans to on-shore and off-shore corporations; open documentary credits; grant import and export loans; handle collection of bills and funds transfer services; issue foreign currency guarantees; and enter into derivative transactions and risk management activities that are incidental to our normal functions authorized under our organizational documents.

Our foreign exchange operations are subject to the guidelines specified by the RBI in its exchange control manual. As an authorized dealer, we are required to enroll as a member of the Foreign Exchange Dealers Association of India, which prescribes the ground rules relating to foreign exchange business in India.

Authorized dealers are required to determine their limits on open positions and maturity gaps in accordance with RBI guidelines and these limits are approved by the RBI. Further, we are permitted to hedge foreign currency loan exposures of Indian corporations in the form of interest rate swaps, currency swaps and forward rate agreements, subject to certain conditions.

### **Statutes Governing Foreign Exchange and Cross-Border Business Transactions**

Foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act, 1999 (the Foreign Exchange Management Act). All branches should monitor all non-resident accounts to prevent money laundering. These transactions are regulated by the Foreign Exchange Management Act and The Prevention of Money Laundering Act, 2002.

In March 2006, in view of enhanced stability in India's external and financial sectors and increased integration of the financial sector in the global economy, the RBI constituted a committee to set out a roadmap towards fuller capital account convertibility. The committee submitted its report in July 2006.

Overseas foreign currency borrowings by banks in India shall not exceed 25 percent of its unimpaired Tier 1 capital or USD 10 Million (or its equivalent), whichever is higher. The aforesaid limit applies to the aggregate amount availed of by all the offices and branches in India from all their branches and correspondents abroad and includes overseas borrowings in gold for funding domestic gold loans.

The following borrowings would continue to be outside the limit:

1. overseas borrowing by banks for the purpose of financing export credit subject to certain conditions prescribed by RBI;
2. capital funds raised or augmented by the issue of Innovative Perpetual Debt Instruments and Debt Capital Instruments in foreign currency; and
3. any other overseas borrowing with the specific approval of the Reserve Bank.

### **Requirements of the Banking Regulation Act**

#### ***Prohibited Business***

The Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities.

#### ***Reserve Fund***

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25.0% of the profits of each year before dividends. If there is an appropriation from the reserve, the bank is required to obtain prior permission from the RBI within 21 days, explaining the circumstances leading to such appropriation.

#### ***Restrictions on Payment of Dividends***

The Banking Regulation Act requires that a bank pay dividends on its shares only after all of its expenses capitalized under Indian GAAP (including preliminary expenses, organization expenses, share selling commission, brokerage on public offerings, amounts of losses and any other items of expenditure not represented by tangible assets) have been written off.



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The government of India may, upon the recommendation of the RBI, exempt a bank from the restrictions on dividend payments.

The RBI issued revised guidelines in May 2005 regarding declaration and payment of dividends (including interim dividends) by banks, with effect from fiscal 2005. Banks that comply with the following prudential requirements are eligible to declare dividends:

capital adequacy ratio must be at least 9.0% for the preceding two completed years and the fiscal year for which the bank proposes to declare a dividend;

net non-performing assets must be less than 7.0% of advances. In the event a bank does not meet the above capital adequacy norm, but has capital adequacy of at least 9.0% for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend, provided its net non-performing asset ratio is less than 5%;

the bank has complied with the provisions of Sections 15 and 17 of the Banking Regulation Act;

the bank has complied with the prevailing regulations/guidelines issued by the RBI, including creating adequate provisions for impairment of assets and staff retirement benefits and transfer of profits to statutory reserves;

dividend should be payable out of the current year's profits; and

the RBI has not placed any explicit restrictions on the bank for declarations of dividends.

Banks, which comply with the above prudential requirements, can pay dividends subject to compliance with the following conditions:

the dividend payout ratio (calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit during the year ) should not exceed 40.0%. The RBI has prescribed a matrix of criteria linked to the capital adequacy ratio and the net non-performing assets ratio in order to ascertain the maximum permissible range of dividend payout ratio; and

if the financial statements for which the dividend is declared have any audit qualifications which have an adverse bearing on the profits, the same should be adjusted while calculating the dividend payout ratio.

### ***Restriction on Share Capital and Voting Rights***

Banks can issue only ordinary shares. The Banking Regulation Act specifies that no shareholder in a banking company can exercise voting rights in a poll in excess of 10.0% of total voting rights of all the shareholders of the banking company. Legislation recently introduced in the Indian parliament proposes to amend the Banking Regulation Act to remove the limit of 10.0% on the maximum voting power exercisable by a shareholder in a banking company and allow banks to issue preference shares.

### ***Restriction on Transfer of Shares***

RBI approval is required before a bank can register the transfer of shares to an individual or group which acquires 5.0% or more of its total paid-up capital.

### ***Regulatory Reporting and Examination Procedures***



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The RBI is empowered under the Banking Regulation Act to inspect a bank. The RBI monitors prudential parameters at regular intervals. The results of these inspections are provided to the bank, but are required by law to be kept confidential. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on financial and operating measures such as:

assets, liabilities and off-balance sheet exposures;

the risk weighting of these exposures, the capital base and the capital adequacy ratio;

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the unaudited balance sheet/statement of income;

asset quality;

concentration of exposures; and

other prudential parameters.

The RBI also conducts periodic on-site inspections of matters relating to the bank's portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at intervals ranging from one to three years. We have been subject to on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by us, has to be placed before our board of directors. On approval by our board of directors, we are required to submit the report on actions taken by us to the RBI. The RBI also discusses the report with our management team, including our Managing Director.

The RBI also conducts on-site supervision of selected branches with respect to their general operations and foreign exchange related transactions.

### ***Penalties***

The RBI may impose penalties on banks and its employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment.

### ***Assets to be Maintained in India***

Every bank is required to ensure that its assets in India (including import-export bills drawn in India and the RBI approved securities, even if the bills and the securities are held outside India) are not less than 75.0% of its demand and time liabilities in India.

### ***Secrecy Obligations***

Our obligations relating to maintaining secrecy arise out of common law principles governing our relationship with our customers. We cannot disclose any information to third parties except under certain limited and clearly defined circumstances.

### ***Subsidiaries and Other Investments***

The Bank requires the prior permission of the RBI to incorporate a subsidiary. The Bank is required to maintain an arms-length relationship in respect of its subsidiaries in regard to business parameters such as taking undue advantage in borrowing or lending funds, transferring or selling or buying securities at rates other than market rates, giving special consideration for securities transactions, in supporting or financing the subsidiary and financing its clients through them when it itself is not able or not permitted to do so. The Bank and its subsidiaries have to observe the prudential standards stipulated by the RBI, from time to time, in respect of its underwriting commitments. Pursuant to such prudential standards, the Bank's underwriting or the underwriting commitment of its subsidiaries under any single obligation shall not exceed 15.0% of an issue.

The Bank also requires the prior specific approval of the RBI to participate in the equity of financial services ventures including stock exchanges and depositories, notwithstanding the fact that such investments may be within the ceiling prescribed under Section 19(2) of the Banking Regulation Act. Further investment by the Bank in a subsidiary, financial services company or financial institution cannot exceed 10.0% of its paid-up capital and reserves and its aggregate investments in all such companies and financial institutions put together cannot exceed 20.0% of its paid-up capital and reserves.

### ***Guidelines for Merger/Amalgamation of Private Sector Banks***

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The RBI has issued detailed guidelines in May 2005 for the merger or amalgamation of private sector banks and for the amalgamation of a non-banking finance company with a banking company. The guidelines lay down the process for a merger proposal the determination of swap ratios, disclosures, the stages at which the board of directors will get involved in the merger process and norms of buying and selling of shares by the promoters before and during the merger process.

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**Appointment and Remuneration of the Chairman, the Managing Director and Other Directors**

We require the prior approval of the RBI to appoint our Chairman and Managing Director and any other directors and to fix their remuneration. The RBI is empowered to remove the appointee on the grounds of the public interest or the interest of depositors or to ensure the proper management of the Bank. Further, the RBI may order meetings of the Bank's board of directors to discuss any matter in relation to the Bank, appoint observers to these meetings and in general may make changes to the management as it may deem necessary and can also order the convening of a general meeting of the company to elect new directors.

The RBI has issued guidelines relating to salary and other remuneration payable to the Chairman, Managing Director and full-time directors of new private sector banks. Pursuant to the guidelines, the RBI has permitted banks to fix the performance bonus payable to the managing director/whole time directors on either of two criteria:

up to a maximum of 25% of the salary; or

the average bonus paid to officers and employees. The average bonus paid to officers and employees is calculated by dividing the total salary bill by the total bonus paid to them.

**Regulations and Guidelines of the Securities and Exchange Board of India**

SEBI was established to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market. We are subject to SEBI regulations in respect of certain of our activities, including acting as agent for collecting subscriptions to public offerings of securities made by other companies. These regulations provide for registering with SEBI, the functions, responsibilities and the code of conduct applicable for each of these activities.

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**EXCHANGE CONTROLS**

**Restrictions on Conversion of Rupees**

There are restrictions on the conversion of rupees into dollars. Before February 29, 1992, the RBI determined the official value of the rupee in relation to a weighted basket of currencies of India's major trading partners. In the February 1992 budget, a new dual exchange rate mechanism was introduced by allowing conversion of 60.0% of the foreign exchange received on trade or current account at a market-determined rate and the remaining 40.0% at the official rate. All importers were, however, required to buy foreign exchange at the market rate, except for certain priority imports. In March 1993, the exchange rate was unified and allowed to float. In February 1994 and again in August 1994, the RBI announced relaxations in payment restrictions in the case of a number of transactions. Since August 1994, the government of India has substantially complied with its obligations owed to the International Monetary Fund, under which India is committed to refrain from using exchange restrictions on current international transactions as an instrument in managing the balance of payments. Effective July 1995, the process of current account convertibility was advanced by relaxing restrictions on foreign exchange for various purposes, such as foreign travel and medical treatment. The government has also, since 1999, relaxed restrictions on capital account transactions by resident Indians. For example, by circular dated March 18, 2004 and more recently by circular dated September 26, 2007, resident Indians are now permitted to remit up to US\$200,000 for any permissible current or capital account transaction or a combination of both.

**Restrictions on Sale of the Equity Shares Underlying the ADSs and for Repatriation of Sale Proceeds**

Under the laws of India, ADSs issued by Indian companies to non-residents have free transferability outside of India. Similarly, under the recent amendments to Indian regulations, no approval of the RBI is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India, subject to reporting requirements and the applicable pricing formula in the case of shares not sold on an exchange.

The Ministry of Finance, government of India, has granted general permission for the transfer of ADRs outside India and also permitted non-resident holders of ADRs to surrender ADRs in exchange for the underlying shares. Pursuant to the terms of the deposit agreement, an investor who surrenders ADRs and withdraws shares is permitted to redeposit such shares subject to the total issued ADRs and obtain ADRs at a later time.

**Fungibility of ADRs**

The RBI permits the re-conversion of shares of Indian companies into ADRs, subject to the following conditions:

the Indian company has issued ADRs;

the shares of the Indian company are purchased by a registered stockbroker in India in the name of the depository, on behalf of the non-resident investor who wishes to convert such shares into ADRs;

shares are purchased on a recognized stock exchange;

the shares are purchased with the permission of the custodian of the ADRs of the Indian company and are deposited with the custodian;

the issuer company has authorized the custodian to accept shares from non-resident investors for reissuance of ADRs;

the number of shares so purchased does not exceed the ADRs converted into underlying shares, and are in compliance with the sectoral caps applicable under the Foreign Direct Investment regime; and

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the non-resident investor, broker, custodian and the overseas depository comply with the provisions of the Depository Receipt Mechanism and the guidelines issued thereunder from time to time.

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The RBI requires the domestic custodian to ensure compliance with RBI guidelines and to file reports with the RBI from time to time. The domestic custodian is also required to perform the following functions:

provide a certificate to the RBI and the SEBI stating that the sectoral caps for foreign investment in the relevant company have not been breached;

monitor the total number of ADRs that have been converted into underlying shares by non-resident investors;

liaise with the issuer company to ensure that the foreign investment restrictions, if any, are not being breached; and

file a monthly report about the ADR transactions under the two-way fungibility arrangement with the RBI and the SEBI.

An investor who surrenders an ADS and withdraws equity shares may be entitled to redeposit those equity shares in the depository facility in exchange for ADSs and the depository may accept deposits of outstanding equity shares purchased by a non-resident on the local stock exchange and issue ADSs representing those equity shares. However, in each case, the aggregate number of equity shares re-deposited or deposited by such persons cannot exceed the number represented by ADSs converted into underlying equity shares. The RBI has issued a notification, *inter alia*, permitting Indian companies to sponsor ADR issues against shares held by their shareholders at a price to be determined by the lead manager. Investors who seek to sell any equity shares in India withdrawn from the depository facility and to convert the rupee proceeds from the sale into foreign currency and repatriate the foreign currency from India will, subject to the foregoing, not have to obtain RBI approval for each transaction.

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RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

The government of India regulates ownership of Indian companies by foreigners. Foreign investment in Indian securities is generally regulated by the Foreign Exchange Management Act. The Foreign Exchange Management Act, when read together with a series of regulations issued thereunder by the RBI, permits transactions involving the inflow or outflow of foreign exchange and empowers the RBI to prohibit or regulate such transactions.

The Foreign Exchange Management Act has eased restrictions on current account transactions. However, the RBI continues to exercise control over capital account transactions (i.e., those that alter the assets or liabilities, including contingent liabilities, of persons). The RBI has issued regulations under the Foreign Exchange Management Act to regulate the various kinds of capital account transactions, including certain aspects of the purchase and issuance of shares of Indian companies.

The RBI has issued a notification under the provisions of the Foreign Exchange Management Act relaxing the requirement of prior approval for an Indian company making an ADS issue, provided that the issuer is eligible to issue ADSs pursuant to the relevant scheme or notification issued by the Ministry of Finance or has the necessary approval from the Foreign Investment Promotion Board.

Under the foreign investment rules, the following restrictions are applicable to foreign ownership:

***Foreign Direct Investment***

The Government of India, pursuant to its liberalization policy, set up the Foreign Investment Promotion Board, or the FIPB, to regulate all foreign direct investment into India. Foreign Direct Investment means investment by way of subscription and/or purchase of securities of an Indian company by a non-resident investor. FIPB approval is required for investment in some sectors, including housing, petroleum (other than refining), defense and strategic industries. Also, the following investments would require the prior permission of the FIPB:

investments, including a transfer of shares, in excess of specified sectoral caps;

investments by a foreign investor who has an existing joint venture or technology transfer/trade mark agreement in the same field as on January 12, 2005. However, prior FIPB approval will not be required in case of an investment made by a venture capital fund registered with SEBI or where the investment in the existing joint venture is less than 3.0% or where the existing joint venture is defunct or sick;

investment of more than 24.0% in the equity capital of units manufacturing items reserved for small scale industries;

investments by an unincorporated entity;

investment in industries for which industrial licensing is compulsory; and

all proposals relating to the acquisition of shares of an Indian company by a foreign investor (including individuals of Indian nationality or origin residing outside India (a Non-Resident Indian ), the activities of which company are not under the automatic route under existing Indian foreign investment policy or where the Indian company is engaged in the financial services sector or where the acquisition of shares attracts the provisions of the Takeover Code. However, as per a Press Note dated February 10, 2006 issued by the government of India, the prior permission of the FIPB would not be required for transfer of shares from residents to non-residents in the financial services sector or where the provisions of the Takeover Code apply or, in cases where approvals are required from the RBI, or the Insurance Regulatory and Development Authority.





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Subject to certain exceptions, Foreign Direct Investment and investment by Non-Resident Indians in Indian companies does not require the prior approval of the FIPB or the RBI. The government has indicated that in all cases where Foreign Direct Investment is allowed on an automatic basis without FIPB approval, the RBI would continue to be the primary agency for the purposes of monitoring and regulating foreign investment. In cases where FIPB approval is obtained, no approval of the RBI is required, although a declaration in the prescribed form, detailing the foreign investment, must be filed with the RBI once the foreign investment is made in the Indian company. The foregoing description applies only to an issuance of shares by, and not to a transfer of shares of, Indian companies.

The government has set up the Foreign Investment Implementation Authority, or the FIIA, in the Ministry of Commerce and Industry. The FIIA has been mandated to (i) translate foreign direct investment approvals into implementation, (ii) provide a proactive one-stop after-care service to foreign investors by helping them obtain necessary approvals, (iii) sort out operational problems and (iv) meet with various government agencies to find solutions to foreign investment problems and maximize opportunities through a cooperative approach.

Under the foreign investment rules, the following restrictions are applicable to foreign ownership:

Foreign investors may own up to 74.0 % of the equity shares of an Indian company subject to compliance with guidelines issued by the RBI from time to time. This limit falls under the automatic route and does not require specific approval of the FIPB. It includes Foreign Direct Investment, ADSs, Global Depository Receipts and investments under the portfolio investment scheme by foreign institutional investors and also by Non-Resident Indians. In addition, it encompasses shares acquired by subscription in private placements and public offerings and acquisitions of shares from existing shareholders. Aggregate foreign investment in HDFC Bank from all sources is allowed up to a maximum of 74.0% of the paid-up capital of the Bank. At least 26.0% of the paid-up capital would have to be held by Indian residents.

Under the Issue of Foreign Currency Convertible Bonds and Equity Shares (through Depository Receipt Mechanism) Scheme, 1993, foreign investors may purchase ADSs subject to the receipt of all necessary government approvals at the time the depository receipt program is set up. With a view to liberalizing the operational procedures, the government of India's Ministry of Finance and the RBI have granted a general approval to ADS issues, subject to certain restrictions. However, pricing of ADS offerings is subject to new regulations announced by the Ministry of Finance on August 31, 2005 amending the depository receipt scheme. Pursuant to this amendment, issuers of ADSs are required to ensure that the pricing of ADSs is made at a price that is the higher of (i) the average of the weekly high and low of the closing prices of an issuer's shares quoted on the stock exchanges during the six months preceding the relevant date; and (ii) the average of the weekly high and low of the closing prices of an issuer's shares quoted on the stock exchanges during the two weeks preceding the relevant date. The relevant date is the date 30 days prior to the date on which the meeting of the general body of shareholders is held to consider the proposed issue of such ADSs. This pricing requirement will be dispensed with if the ADSs are offered simultaneously with or within 30 days of a domestic offering of equity shares and if the ADSs are priced at or above the price of the domestic offering.

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Under the portfolio investment scheme, foreign institutional investors, subject to registration with SEBI and the RBI, may hold in aggregate up to 24.0% of the paid-up equity capital of a company. Subject to a resolution of the board of directors and a special resolution of the shareholders this limit may be raised to relevant statutory cap of the total issued capital of the company that are not represented by ADSs; no single foreign institutional investor may own more than 10.0% of the total issued capital of the company; a corporate or individual sub-account of the foreign institutional investor may not hold more than 5.0% of the total issued capital of a company; a broad based sub-account may not hold more than 10.0% of the total issued capital of a company and no single Non-Resident Indian may own more than 5.0% of the total issued capital of the company. In addition, overseas corporate bodies are not permitted to invest under the portfolio investment scheme though they may continue to hold investments that have already been made under the portfolio investment scheme until such time as these investments are sold on the stock exchange.

SEBI, through the SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2004, which amended the Foreign Institutional Investors Regulations, has provided that, with effect from February 3, 2004, a foreign institutional investor or sub-account may issue, deal in or hold offshore derivative instruments such as participatory notes, equity linked notes or any other similar instruments against underlying securities, listed or proposed to be listed on any stock exchange in India, only in favor of those entities that are regulated by any regulatory authority in the countries of their incorporation or establishment, subject to compliance with the know your client requirement. A foreign institutional investor or sub-account is also to ensure that no further issue or transfer of any off-shore derivative instrument is made to any person other than a regulated entity.

On October 25, 2007, SEBI issued a press release placing certain restrictions on the issuance of participatory notes. As a result, participatory notes can now only be issued to regulated entities. Also, foreign institutional investors and their sub-accounts cannot issue any participatory notes with derivatives as underlying securities and they are required to wind-up any such derivative instruments within 18 months of the date of the press release. In addition, sub-accounts of a foreign institutional investor cannot issue any further participatory notes.

Foreign institutional investors with existing participatory notes (not linked to underlying derivatives) whose notional value as a percentage of their assets under custody in India ( AUC ) is less than 40% on September 30, 2007 are permitted to issue such instruments at the annual rate of 5% of their AUC. SEBI has clarified that the 5% is applicable only until the total percentage reaches 40%, at which time the foreign institutional investor shall comply with the regulations applicable to foreign institutional investors at or above the 40% limit.

Foreign institutional investors with existing participatory notes (not linked to underlying derivatives) whose notional value as a percentage of their AUC is more than 40% are permitted to issue such instruments only against the cancellation, redemption or closing out of the existing participatory notes of at least equivalent amount.

SEBI, has further amended the Foreign Institutional Investor Regulations on May 22, 2008 whereby inter alia, SEBI has broadened the scope of who can apply in order to be granted a registration and the criteria that would be followed and has stated that a foreign institutional investor shall be responsible and liable for all acts of commission and omission of all its sub-accounts and other deeds and things done by such sub-accounts in their capacity as sub-accounts under these regulations. Further, SEBI has laid down conditions for issuance of offshore derivative instruments by foreign institutional investors.

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Investors in ADSs do not need to seek the specific approval from the government of India to purchase, hold or dispose of their ADSs. In our ADS offering, we obtained the in-principle approval of the relevant stock exchanges for listing of the equity shares underlying the ADSs. We were not required to obtain the prior approval of the Foreign Investment Promotion Board or the RBI. Notwithstanding the foregoing, if a foreign institutional investor, Non-Resident Indian or overseas corporate body were to withdraw its equity shares from the ADS program, its investment in the equity shares would be subject to the general restrictions on foreign ownership noted above and may be subject to the portfolio investment restrictions, including the portfolio investment limitations mentioned above. The implications of these limitations, however, are not clear. Secondary purchases of securities of Indian companies in India by foreign direct investors or investments by Non-Resident Indians, persons of Indian origin, overseas corporate bodies and foreign institutional investors above the ownership levels set forth above require the government of India's approval on a case-by-case basis. Furthermore, if an investor withdraws equity shares from the ADS program and its direct or indirect holding in us is equal to or exceeds 15.0% of our total equity, such investor may be required to make a public offer to the remaining shareholders under the Takeover Code.

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ADDITIONAL INFORMATION

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and the copy charges. The SEC filings are also available to the public from commercial document retrieval services and at the internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To The Board of Directors and Shareholders of

HDFC Bank Limited:

We have audited the accompanying consolidated balance sheets of HDFC Bank Limited (the Bank ) as of March 31, 2007 and 2008, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three year period ended March 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of March 31, 2007 and 2008, and the results of its operations and cash flows for each of the years in the three year period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 (b) to the consolidated financial statements, these consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in certain material respects from accounting principles generally accepted for banks in India, which form the basis of the Bank's general purpose financial statements.

Our audits also comprehended the translation of India rupee amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 (w). Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Bank adopted: (1) Statement of Financial Accounting Standards ( SFAS ) No. 123 (Revised 2004), Share-Based Payment , effective April 1, 2006, which changed its method of accounting for stock-based compensation; (2) Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes effective April 1, 2007, which changes the accounting for uncertain tax positions. Also, as discussed in Note 21 to the consolidated financial statements, effective March 31, 2007, the Bank adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans which changed its method of accounting and pension and postretirement benefits.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of March 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 23, 2008 expressed an unqualified opinion on the Bank's internal control over financial reporting.

/s/ Deloitte Haskins & Sells  
Chartered Accountants  
Mumbai, India  
September 23, 2008

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To The Board of Directors of

HDFC Bank Limited:

We have audited the Internal Control over Financial Reporting of HDFC Bank Limited (the Bank) as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bank’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Bank’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

An entity’s internal control over financial reporting is a process designed by, or under the supervision of, the entity’s principal executive and principal financial officers, or persons performing similar functions, and effected by the entity’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2008 of the Bank and our report dated September 23, 2008 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Haskins & Sells  
Chartered Accountants  
Mumbai, India  
September 23, 2008



**Table of Contents****HDFC BANK LIMITED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of March 31, 2007 and 2008

	2007	As of March 31, 2008	2008
	(In millions except number of shares)		
<b>ASSETS:</b>			
Cash and cash equivalents	Rs. 80,546.4	Rs. 147,208.0	US\$ 3,678.4
Term placements	12,815.8	5,917.6	147.9
Investments held for trading, at fair value	4,284.1	113,557.8	2,837.5
Investments available for sale, at fair value (includes restricted investments of Rs. 119,824.7 and Rs. 222,280.8 (US\$ 5,554.2) respectively)	304,241.1	419,008.8	10,470.0
Securities purchased under agreements to resell		2,405.7	60.1
Loans (net of allowance of Rs. 8,014.5 and Rs. 12,736.0 (US\$ 318.4) respectively)	536,730.9	715,345.3	17,874.7
Accrued interest receivable	15,742.9	11,297.7	282.3
Property and equipment, net	10,397.6	13,961.5	348.9
Other assets	48,427.1	79,286.5	1,981.2
<b>Total assets</b>	<b>Rs. 1,013,185.9</b>	<b>Rs. 1,507,988.9</b>	<b>US\$ 37,681.0</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>			
<b>Liabilities:</b>			
Interest-bearing deposits	Rs. 484,542.9	Rs. 718,646.9	US\$ 17,957.2
Non-interest-bearing deposits	197,805.1	287,263.2	7,178.0
Total deposits	682,348.0	1,005,910.1	25,135.2
Securities sold under repurchase agreements	10,500.0	44,000.0	1,099.5
Short-term borrowings (including current portion of long term debt)	95,762.2	129,477.6	3,235.3
Accrued interest payable	17,035.7	16,742.3	418.3
Long-term debt (excluding current portion)	33,311.7	32,685.1	816.7
Accrued expenses and other liabilities	108,398.6	159,466.5	3,984.7
<b>Total liabilities</b>	<b>947,356.2</b>	<b>1,388,281.6</b>	<b>34,689.7</b>
Commitments and contingencies (See Note 25)			
Minority interest	321.6	462.0	11.5
<b>Shareholders equity:</b>			
Equity shares: par value Rs. 10 each; authorized 450,000,000 shares and 550,000,000 shares; issued and outstanding 319,389,608 shares and 354,432,920 shares, respectively	3,193.9	3,544.3	88.6
Additional paid in capital	30,226.6	70,675.5	1,766.0
Retained earnings	24,503.3	31,065.7	776.3
Statutory reserve	11,218.2	15,193.7	379.7
Accumulated other comprehensive income (loss)	(3,633.9)	(1,233.9)	(30.8)
<b>Total shareholders equity</b>	<b>65,508.1</b>	<b>119,245.3</b>	<b>2,979.8</b>
<b>Total liabilities and shareholders equity</b>	<b>Rs. 1,013,185.9</b>	<b>Rs. 1,507,988.9</b>	<b>US\$ 37,681.0</b>

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See accompanying notes to consolidated financial statements

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**Table of Contents****HDFC BANK LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

For each of the years ended March 31, 2006, 2007 and 2008

	2006	Years ended March 31,		2008
		2007	2008	
	(In millions, except share and per share amounts)			
<b>Interest and dividend revenue:</b>				
Loans	Rs. 28,853.8	Rs. 46,823.5	Rs. 72,595.9	US\$ 1,814.1
Trading securities	195.6	1,148.2	3,449.3	86.2
Available for sale securities, including dividend	12,969.6	19,408.0	25,261.4	631.2
Other	1,509.0	2,681.9	2,943.1	73.5
<b>Total interest and dividend revenue</b>	<b>43,528.0</b>	<b>70,061.6</b>	<b>104,249.7</b>	<b>2,605.0</b>
<b>Interest expense:</b>				
Deposits	15,590.1	26,175.9	42,667.1	1,066.1
Short-term borrowings	3,469.7	4,800.4	4,093.6	102.3
Long term debt	562.0	2,164.8	2,646.0	66.1
Other		4.0	7.3	0.2
<b>Total interest expense</b>	<b>19,621.8</b>	<b>33,145.1</b>	<b>49,414.0</b>	<b>1,234.7</b>
<b>Net interest revenue</b>	<b>23,906.2</b>	<b>36,916.5</b>	<b>54,835.7</b>	<b>1,370.3</b>
Provision for credit losses	5,032.0	8,250.3	13,367.7	334.0
<b>Net interest revenue after provision for credit losses</b>	<b>18,874.2</b>	<b>28,666.2</b>	<b>41,468.0</b>	<b>1,036.3</b>
<b>Non-interest revenue, net:</b>				
Fees and commissions	10,949.6	13,371.9	18,443.1	460.9
Trading securities gains (losses), net	(44.8)	(134.7)	243.3	6.1
Realized gain (losses) on sales of available for sale securities, net	420.3	(456.9)	168.4	4.2
Foreign exchange transaction gains	994.0	1,903.5	1,445.0	36.1
Derivative transaction gains (losses), net	(402.9)	165.1	(1,054.9)	(26.4)
Other, net	231.7	150.8	1,101.7	27.5
<b>Total non-interest revenue, net</b>	<b>12,147.9</b>	<b>14,999.7</b>	<b>20,346.6</b>	<b>508.4</b>
<b>Total revenue, net</b>	<b>31,022.1</b>	<b>43,665.9</b>	<b>61,814.6</b>	<b>1,544.7</b>
<b>Non-interest expense:</b>				
Salaries and staff benefits	5,420.9	11,430.6	19,169.6	479.0
Premises and equipment	3,125.9	4,130.5	4,729.3	118.2
Depreciation and amortization	1,812.1	2,273.3	2,816.0	70.4
Administrative and other	7,487.9	9,591.7	15,546.9	388.5
<b>Total non-interest expense</b>	<b>17,846.8</b>	<b>27,426.1</b>	<b>42,261.8</b>	<b>1,056.1</b>
<b>Income before income tax expense</b>	<b>13,175.3</b>	<b>16,239.8</b>	<b>19,552.8</b>	<b>488.6</b>
Income tax expense	3,965.7	5,142.9	6,307.6	157.6

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Net income before minority interest	Rs.	9,209.6	Rs.	11,096.9	Rs.	13,245.2	US\$	331.0
Minority interest		22.5		57.2		91.0		2.3
<b>Net income</b>	<b>Rs.</b>	<b>9,187.1</b>	<b>Rs.</b>	<b>11,039.7</b>	<b>Rs.</b>	<b>13,154.2</b>	<b>US\$</b>	<b>328.7</b>
Per share information: (See Note: 28)								
Earnings per equity share basic	Rs.	29.45	Rs.	35.10	Rs.	38.24	US\$	0.96
Earnings per equity share diluted	Rs.	29.08	Rs.	34.60	Rs.	37.75	US\$	0.94
Per ADS information (where 1 ADS represents 3 shares): (See Note 28)								
Earnings per ADS basic	Rs.	88.36	Rs.	105.30	Rs.	114.72	US\$	2.87
Earnings per ADS diluted	Rs.	87.24	Rs.	103.80	Rs.	113.25	US\$	2.83

See accompanying notes to consolidated financial statements

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**Table of Contents****HDFC BANK LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For each of the years ended March 31, 2006, 2007 and 2008

	Years ended March 31,			
	2006	2007	2008	2008
	(In millions)			
<b>Cash flows from operating activities:</b>				
Net income	Rs. 9,187.1	Rs. 11,039.7	Rs. 13,154.2	US\$ 328.7
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	5,032.0	8,250.3	13,367.7	334.0
Depreciation and amortization	1,812.1	2,273.3	2,816.0	70.4
Amortization of deferred stock based compensation	46.6			
Amortization of deferred acquisition costs	1,523.2	3,597.1	2,916.5	72.9
Amortization of premium (discount) on investments	2,462.5	2,051.4	2,642.2	66.0
Other than temporary impairment of investment	714.3	105.9	211.3	5.3
Provision for deferred income taxes	455.2	(675.9)	(2,354.7)	(58.8)
Share based compensation expense		976.3	1,667.4	41.7
(Gain) loss on securitization of loans	31.3	(52.5)	(13.3)	(0.3)
Net realized (gain) loss on sale of available for sale securities	(420.3)	456.9	(379.7)	(9.5)
(Gain) loss on disposal of property and equipment, net	(2.7)	10.5	(7.3)	(0.2)
Net change in:				
Investments held for trading	(1,667.1)	(1,338.5)	(109,273.7)	(2,730.5)
Accrued interest receivable	(3,750.6)	(7,080.2)	4,445.2	111.1
Other assets	(12,162.5)	(25,813.5)	(29,766.6)	(743.8)
Accrued interest payable	2,421.1	8,771.6	(293.4)	(7.4)
Accrued expense and other liabilities	26,933.9	31,256.7	51,208.3	1,279.6
Net cash provided by operating activities	32,616.1	33,829.1	(49,659.9)	(1,240.9)
<b>Cash flows from investing activities:</b>				
Net change in term placements	(1,544.2)	(2,572.1)	6,898.2	172.4
Purchase of subsidiary	155.8			
Activity in available for sale securities:				
Purchases	(170,373.4)	(214,645.5)	(259,919.0)	(6,494.7)
Proceeds from sales	62,820.2	156,310.3	73,274.8	1,831.0
Maturities, prepayments and calls	33,299.5	22,625.1	73,069.7	1,825.8
Net change in repurchase options and reverse repurchase options	(4,200.0)	14,700.0	31,094.3	777.0
Proceeds from loans securitized	19,733.3	6,535.8	2,913.9	72.8
Loans purchased	(8,952.3)	(16,382.1)	(15,076.5)	(376.7)
Repayments on loans purchased	5,216.0	7,482.8	14,306.5	357.5
Increase in loans originated, net of principal collections	(159,840.8)	(147,290.9)	(197,034.3)	(4,923.4)
Additions to property and equipment	(3,752.9)	(3,245.1)	(6,470.4)	(161.7)
Proceeds from sale or disposal of property and equipment	51.5	20.7	97.8	2.4
Net cash used in investing activities	(227,387.3)	(176,461.0)	(276,845.0)	(6,917.6)
<b>Cash flows from financing activities:</b>				
Net increase in deposits	193,762.9	125,042.6	323,562.1	8,085.0

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Net increase (decrease) in short-term borrowings	13,597.6	20,667.0	34,005.2	849.7
Proceeds from issuance of debt	12,020.0	16,806.0		
Repayments of debt	(19.5)	(1,104.4)	(916.4)	(22.9)
Proceeds from issuance of equity shares for options exercised	625.8	2,540.2	1,292.3	32.3
Proceeds from issuance of shares			37,839.6	945.5
Payment of dividends and dividend tax	(1,597.1)	(1,967.4)	(2,616.3)	(65.4)
<b>Net cash provided by financing activities</b>	<b>218,389.7</b>	<b>161,984.0</b>	<b>393,166.5</b>	<b>9,824.2</b>
Net change in cash and cash equivalents	23,618.5	19,352.1	66,661.6	1,665.7
Cash and cash equivalents, beginning of year	37,575.8	61,194.3	80,546.4	2,012.7
<b>Cash and cash equivalents, end of year</b>	<b>Rs. 61,194.3</b>	<b>Rs. 80,546.4</b>	<b>Rs. 147,208.0</b>	<b>US\$ 3,678.4</b>
<b>Supplementary cash flow information:</b>				
Interest paid	Rs. 17,200.7	Rs. 24,373.5	Rs. 49,707.4	US\$ 1,242.1
Income taxes paid	Rs. 5,421.6	Rs. 4,150.0	Rs. 8,376.0	US\$ 209.3

See accompanying notes to consolidated financial statements

**Table of Contents****HDFC BANK LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

For each of the years ended March 31, 2006, 2007 and 2008

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Advance Received Pending Allotment Of Shares	Retained Earnings	Statutory Reserve	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (loss)	Comprehensive income	Total Shareholders Equity
	(In millions, except for equity shares)									
<b>Balance at March 31, 2005</b>	309,875,308	Rs. 3,098.7	Rs. 25,789.2	Rs. 423.3	Rs. 12,871.6	Rs. 6,187.6	Rs. (66.1)	Rs. 1,033.7		Rs. 49,338.0
Shares issued upon exercise of options	3,267,100	32.7	1,016.5	(423.3)						625.9
Dividends, including dividend tax					(1,597.1)					(1,597.1)
Amortization of deferred stock-based compensation							46.6			46.6
Transfer to statutory reserve					(2,177.0)	2,177.0				
Net income					9,187.1				Rs. 9,187.1	9,187.1
Unrealized gain reclassified to earnings [net of tax Rs (40.9)]								(80.6)	(80.6)	(80.6)
Change in the unrealized net gain on available for sale securities [net of tax Rs. (1142.8) ]								(2,252.4)	(2,252.4)	(2,252.4)
Comprehensive income									<b>Rs. 6,854.1</b>	
<b>Balance at March 31, 2006</b>	313,142,408	Rs. 3,131.4	Rs. 26,805.7	Rs.	Rs. 18,284.6	Rs. 8,364.6	Rs. (19.5)	Rs. (1,299.3)		Rs. 55,267.5
Shares issued upon exercise of options	6,247,200	62.5	2,477.7							2,540.2
Dividends, including dividend tax					(1,967.4)					(1,967.4)
			(33.1)				19.5			(13.6)

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Adjustment on initial application of IAS 123 (R)											
Transfer to statutory reserve					(2,853.6)	2,853.6					
Net income					11,039.7				Rs. 11,039.7		11,039.7
Unrealized loss reclassified to earnings [net of tax Rs. 192.3]								378.9	378.9		378.9
Change in the unrealized net gain on available for sale securities [net of tax Rs. 1,365.0]								(2,690.6)	(2,690.6)		(2,690.6)
Share based compensation			976.3								976.3
Application of IAS 158, [net of tax Rs. 11.6]								(22.9)			(22.9)
Comprehensive income									<b>Rs. 8,728.0</b>		
<b>Balance at March 31, 2007</b>	319,389,608	Rs. 3,193.9	Rs. 30,226.6	Rs.	Rs. 24,503.3	Rs. 11,218.2	Rs.	Rs. (3,633.9)		Rs.	65,508.1
Shares issued upon exercise of options	1,677,800		16.8		1,275.5						1,292.3
Shares issued in public offering	19,783,512		197.8		23,740.8						23,938.6
Shares issued on preferential basis	13,582,000		135.8		13,765.2						13,901.0
Dividends, including dividend tax					(2,616.3)						(2,616.3)
Transfer to statutory reserve					(3,975.5)	3,975.5					
Net income					13,154.2				13,154.2		13,154.2
Unrealized loss reclassified to earnings [net of tax Rs. 117.3]								227.7	227.7		227.7
Change in the unrealized net loss on available for sale securities, net of tax Rs. 1,144.6]								2,172.3	2,172.3		2,172.3
Share based compensation			1,667.4								1,667.4



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Comprehensive income											Rs. 15,554.2			
<b>Balance at March 31, 2008</b>	354,432,920	Rs.	3,544.3	Rs.	70,675.5	Rs.	Rs.	31,065.7	Rs.	15,193.7	Rs.	Rs. (1,233.9)	Rs.	119,245.3
<b>Balance at March 31, 2008</b>	354,432,920	US\$	88.6	US\$	1,766.0	US\$	US\$	776.3	US\$	379.7	US\$	US\$ (30.8)	US\$	2,979.8

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Bank**

HDFC Bank Limited (the Bank) was incorporated in August 1994 with its registered office in Mumbai, India. The Bank is a banking company governed by India's Banking Regulations Act, 1949. The Bank's shares are listed on the Bombay Stock Exchange Ltd., The National Stock Exchange of India Limited and its ADSs are listed on the New York Stock Exchange.

The Bank's largest shareholder is Housing Development Finance Corporation Limited (HDFC Limited), which, along with its subsidiaries, owns 23.3% of the Bank's equity as of March 31, 2008. The remainder of the Bank's equity is widely held by the public and by foreign and Indian institutional investors.

During the current fiscal, the Bank allotted to HDFC Limited, the Bank's largest shareholder, a further 13.582 million shares on a preferential basis at a price of Rs. 1,023.49 per share. The Bank also issued 6,594,504 American Depository Shares (ADS) representing 19,783,512 equity shares at a price of US\$ 92.10 per ADS. The total number of shares issued pursuant to exercise of stock options during the period is 1.678 million shares.

On March 27, 2008, the shareholders of the Bank accorded their consent to a scheme of amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited. The shareholders of the Bank approved the issuance of one equity share of Rs. 10/- each of HDFC Bank Limited for every twenty nine equity shares of Re. 1/- each held in Centurion Bank of Punjab Limited. The shareholders also accorded their consent to issue equity shares and/or warrants convertible into equity shares at the rate of Rs. 1,530.13 each to HDFC and/or other promoter group companies on preferential basis. The Shareholders of the Bank also approved an increase in the authorized capital from Rs. 4,500 million to Rs. 5,500 million. Necessary regulatory approvals in regard to the said matters have been received. As per Reserve Bank of India (RBI) order dated May 20, 2008 the scheme of amalgamation is effective from May 23, 2008.

On June 24, 2008 the Share Allotment Committee of the Bank approved the allocation of 69,883,956 equity shares of Rs. 10/- each to the shareholders of Centurion Bank of Punjab Limited pursuant to the share swap ratio of one (1) equity share of Rs. 10/- each of HDFC Bank Limited for every twenty nine (29) equity shares of Re. 1/- each held in Centurion Bank of Punjab Ltd. by them as on the record date viz. June 16, 2008. Pursuant to the shareholders consent accorded on March 27, 2008 the Bank issued 26,200,220 warrants to HDFC Limited on a preferential basis during the quarter ended June 30, 2008.

The Bank's principal business activities are retail banking, wholesale banking and treasury operations. The Bank's retail banking division provides a variety of deposit products as well as loans, credit cards, debit cards, third party mutual funds and insurance, investment advisory services, depository services, trade finance, foreign exchange and derivative services and sale of gold bars. Through its wholesale banking operations, the Bank provides loans, deposit products, documentary credits, guarantees, bullion trading, foreign exchange, and derivative products. It also provides 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. The Bank's treasury group manages its debt securities and money market operations and its foreign exchange and derivative products.

**2. Summary of Significant Accounting Policies**

*a. Principles of consolidation*

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. Income from investments in other companies is recognized when dividends are received. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46 (R)). All significant inter-company accounts and transactions are eliminated on consolidation.

*b. Basis of presentation*

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These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India s Banking Regulations Act and related regulations issued by the Reserve Bank of India ( RBI ) (collectively Indian GAAP ), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences insofar as they relate to the Bank include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees and derivative financial instruments, and the presentation format and disclosures of the financial statements and related notes.

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*c. Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses and the valuation of unquoted investments and derivatives.

*d. Cash and cash equivalents*

The Bank considers all highly liquid financial instruments, which are readily convertible into cash and have original maturities of three months or less on the date of purchase, to be cash equivalents.

*e. Customer acquisition costs*

Customer acquisition costs principally consist of commissions paid to third party referral agents who obtain retail loans and such costs are deferred and amortized as a yield adjustment over the life of the loans. Advertising and marketing expenses incurred to solicit new business are expensed as incurred.

*f. Investments in securities*

Investments consist of securities purchased as part of the Bank's treasury operations, such as government securities and other debt and equity securities, and investments purchased as part of the Bank's wholesale banking operations, such as credit substitute securities issued by the Bank's wholesale banking customers.

Credit substitute securities typically consist of commercial paper, short-term debentures and preference shares issued by the same customers with whom the Bank has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and the Bank bears the same customer credit risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Bank with the issuer. As the Bank's exposures to such securities are similar to its exposures on its loan portfolio, additional disclosures have been provided on impairment status in Note 8 and on concentrations of credit risk in Note 12.

All other securities including mortgage and asset-backed securities are actively managed as part of the Bank's treasury operations. The issuers of such securities are either government, public financial institutions or private issuers. These investments are typically purchased from the market, and debt securities are generally publicly rated.

Securities that are held principally for resale in the near term are classified as held for trading ( HFT ) and are carried at fair value, 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 ) and are carried at amortized cost.

Equity securities with readily determinable fair values and all debt securities that are not classified as HTM or HFT are classified as available for sale ( AFS ) and are carried at fair value. 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.

Fair values are based on market quotations where a market quotation is available or otherwise based on present values at current interest rates for such investments.

Where management determines that an HTM security's credit rating has been irrevocably downgraded, and continued holding to maturity is likely to result in increased losses, it transfers the security to AFS or sells the security at the best available price.

Transfers between categories are recorded at fair value on the date of the transfer.

*g. Impairment of securities*

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Declines in the fair values of held to maturity and available for sale securities below their carrying values that are other than temporary are reflected in earnings as realized losses, based on management's best estimate of the fair value of the investment. The

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Bank identifies 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 carrying values and the financial condition and economic prospects of the issuer. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. The Bank does not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increases and where the Bank has the ability and intent to hold the security until the forecasted recovery.

### *h. Loans*

The Bank grants retail and wholesale loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for an allowance for credit losses.

Interest is accrued on the unpaid principal balance and is included in interest income. Loans are placed on non-accrual status when interest or principal payments are past due for a specified period, at which time no further interest is accrued and overdue interest is written off against interest income. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are placed on non-accrual status when interest or principal payments are one quarter past due in line with international practices.

### *i. Allowance for credit losses*

The Bank provides an allowance for credit losses based on management's best estimate of losses inherent in the loan portfolio. The allowance for credit losses consists of allowances for retail loans and wholesale loans.

#### *Retail*

The Bank's retail loan loss allowance consists of specific and unallocated allowances.

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 Bank also records unallocated allowance for its retail loans by product type. The Bank's retail loan portfolio comprises groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the expected amount of losses inherent in such product. In making such estimates, among other factors considered, the Bank stratifies such loans based on the number of days past due and takes into account historical losses for such product, the nature of security available and loan to value ratios.

#### *Wholesale*

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by management and is based upon management's view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, are credited to the provision.

The Bank grades its wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

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The Bank establishes specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, 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 the collateral if the loan is collateral dependent.

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Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

In light of the significant growth in the size and diversity of its wholesale loan portfolio, the Bank has also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its wholesale unallocated allowance based on an internal credit slippage matrix, which measures the Bank's historic losses for its standard loan portfolio.

*j. Sales/Transfer of receivables*

The Bank sells finance receivables to qualifying special purpose entities ( QSPEs ) in securitization transactions. Recourse is in the form of the Bank's investment in subordinated securities issued by these QSPEs, cash collateral and other credit and liquidity enhancements. Securitised receivables are derecognized in the balance sheet when they are sold and consideration has been received by the Bank. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings. The Bank also enters into securitisation transactions, which are similar to asset-backed securitization transactions through the QSPE route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

Gains or losses from the sale of receivables are recognized in the income statement in the period the sale occurs based on the relative fair value of the portion sold and the portion allocated to retained interests, and are reported net of the estimated cost of servicing by the Bank.

Fair values are determined based on the present value of expected future cash flows, using best estimates for key assumptions, such as prepayment and discount rates, commensurate with the risk involved.

For further information, see note 11.

*k. Property and equipment*

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of fixed assets on a straight-line basis at the following rates:

Type of Asset	Rate of depreciation
Buildings	1.63%
Leasehold improvements	Lower of asset life or period of lease
ATMs	12.50%
Very small aperture terminals ( VSATs )	10.00%
Office equipment	16.21%
Computer equipment	33.33%
Automobiles	25.00%
Software and system development expenditure	25.00%
Assets at the residence of executives of the Bank	25.00%
Point of Sales (POS) Terminals	20.00%

*l. Impairment or disposal of tangible long lived assets*

Whenever events or circumstances indicate that the carrying amount of tangible long lived assets may not be recoverable, the Bank subjects such long lived assets to a test of recoverability based on the undiscounted cash flows from use or disposition of the asset. Such events or circumstances would include changes in the market, technology obsolescence, adverse changes in profitability or regulation. If the asset is impaired, the Bank recognizes an impairment loss estimated as the difference between carrying value and the net realizable value.

*m. Foreclosed or repossessed assets*



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Assets acquired through or in lieu of foreclosure or through repossession are generally held for sale and initially recorded at fair value on the date of foreclosure or repossession. On subsequent dates, such assets are periodically evaluated by management for changes in fair value, and are carried at the lower of the fair value on the date of foreclosure or repossession and the net realizable value on the balance sheet date. Net realizable value represents the anticipated sale price less the estimated costs of disposal. Revenues and expenses from the operation of such assets and changes in the fair value are recognised in earnings.

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*n. Income tax*

Income tax expense/benefit consists of the current tax provision and the net change in the deferred tax asset or liability in the year.

Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Effective April 1, 2007, the Bank adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48). The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and 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. FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax.

Some of the provisions of tax laws that have been recently promulgated remain open to interpretations. The Bank uses a conservative estimate to make provisions for these taxes since no precedents exist or decided cases which could be used as points in reference.

*o. Revenue recognition*

Interest income from loans and from investments is recognized on an accrual basis when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. The Bank generally does not charge upfront 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 are recognized when declared.

Realized gains and losses on sale 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. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

*p. Foreign currency transactions*

The Bank's functional currency is the Indian rupee. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into Indian rupees using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on foreign currency transactions are included in the determination of net income.

*q. Stock-based compensation*

The Bank has implemented the provisions of SFAS No. 123(R) Accounting for Stock-Based Compensation with effect from April 1, 2006. Accordingly the fair value method is used to account for the compensation cost of stock options and awards granted to employees of the Bank with effect from April 1, 2006. The Bank elected the modified prospective method as prescribed in SFAS 123 (R) and therefore the prior periods were not restated. Accordingly modified prospective method was applied to new awards granted after April 1, 2006 and to unvested portion of previously granted stock options and awards.

Until March 31, 2006 had compensation cost for the Bank's stock option plans been determined based on the fair value approach, the Bank's net income and earnings per share for fiscal 2006 would have been as per the proforma amounts indicated below:

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		<b>Year ended March 31, 2006</b>	
		<b>(In millions, except per share amounts)</b>	
Net Income:	<i>As reported</i>	Rs.	9,187.1
Add: Stock-based employee compensation expense included in net income	<i>As reported</i>		46.6
Less: Stock-based compensation expense determined under fair value based method:	<i>Pro forma</i>		(1,276.5)
 Net Income:	 <i>Pro forma</i>	 Rs.	 7,957.2
 Basic earnings per share	 <i>As reported</i>	 Rs.	 29.45
	<i>Pro forma</i>		25.51
Diluted earnings per share	<i>As reported</i>	Rs.	29.08
	<i>Pro forma</i>		25.19
Basic earnings per ADS	<i>As reported</i>	Rs.	88.36
	<i>Pro forma</i>		76.53
Diluted earnings per ADS	<i>As reported</i>	Rs.	87.24
	<i>Pro forma</i>		75.56

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**Table of Contents***r. Debt issuance costs*

Issuance costs of long-term debt are amortized over the tenure of the debt.

*s. Earnings per share*

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the period. For the purpose of determining the weighted average number of equity shares outstanding, the Bank treats advances received from optionees who exercise their options as issued shares even if the administrative formalities of allocating equity shares have not been completed. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period, using the treasury stock method, except where the result would be anti-dilutive. The Bank also reports basic and diluted earnings per ADS, where each ADS represents three equity shares. Earnings per ADS have been computed as earnings per equity share multiplied by the number of equity shares per ADS. A reconciliation of the number of shares used in computing earnings per share has been provided in Note 28.

*t. Segment information*

The Bank operates in three reportable segments, namely retail banking, wholesale banking and treasury services. Segment-wise information has been provided in Note 24.

*u. Derivative financial instruments*

The Bank recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the balance sheet and measures them at fair value, unless those instruments qualify to be accounted for as hedge contracts. The Bank has not designated any derivatives as hedges. As such, all changes in fair value of derivative instruments are recognized in net income in the period of change.

The Bank enters into forward exchange contracts, currency swaps and currency options with its customers and typically transfers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on market quotations.

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

*v. (i) Recently issued accounting pronouncements not yet effective*

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 generally accepted accounting principles (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 for financial statements issued for fiscal years beginning after November 2007. In February 2008, the FASB issued FASB Staff Position No. SFAS 157-2 (FSP FAS 157-2) which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for items within the scope of this FSP. The bank does not expect the application of the standard will have a significant impact on the bank's future financial position or results of operation.

In February, 2007, the FASB issued Statement No. 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 fiscal year beginning after November 15, 2007. The bank does not expect the application of the standard will have a significant impact on the bank's future financial position or results of operation.

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On November 5, 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value through Earnings (SAB 109). SAB 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 is on a prospective basis and effective for the Bank's loan commitments measured at fair value through earnings which are issued or modified in fiscal quarters beginning after December 15, 2007. The Bank does not expect the application of the staff's view to have a significant impact on the Bank's future financial position or results of operation.

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On December 4, 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, SFAS 141R requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS 141R also modifies the accounting for certain acquired income tax assets and liabilities. SFAS 141R applies to business combinations for which the acquisition date is on or after the beginning of annual reporting periods beginning on or after December 15, 2008. Early adoption is not permitted.

On December 4, 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 an amendment of ARB 51- Consolidated Financial Statements requires all entities to report noncontrolling (i.e., minority) interests in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also establishes accounting and reporting standards for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also requires expanded disclosure that distinguishes between the interests of the controlling owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is not permitted. We are currently evaluating the impact, if any, that the future application of this pronouncement may have on our financial statements.

On March 19, 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. This Statement expands the disclosure requirements in Statement 133 about an entity's derivative instruments and hedging activities. Such disclosures, as well as existing Statement 133 required disclosures, generally will need to be presented for every annual and interim reporting period for which a statement of financial position and a statement of financial performance are presented. SFAS 161 improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect the adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60-*Accounting and Reporting by Insurance Enterprise*. The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts issued by enterprises included within the scope of Statement 60. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Bank is currently evaluating the potential impact of adopting the statement.

***(ii) Recently Adopted Accounting Standards***

Effective April 1, 2007, the Bank adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions considered or to be considered in income tax returns. Refer note 19 for additional information relating to impact of adoption of FIN 48.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment to SFAS Statement No. 140 to simplify accounting for separately recognized servicing assets and servicing liabilities. Additionally, SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, although early adoption is permitted. An entity is to apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date of this Statement. The Bank adopted SFAS No. 156 on April 1, 2007 with no material impact on the financial statements.

In February 2006, the FASB issued SFAS No. 155 Accounting for Certain Hybrid Instruments which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 permits, but does not require, fair value accounting for any hybrid



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financial instrument that contains an embedded derivative and would otherwise require bifurcation in accordance with FAS 133. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. This statement is effective for all financial instruments acquired or issued in financial years beginning after September 15, 2006. We adopted SFAS No. 155 on April 1, 2007, with no material impact on our financial statements.

### *w. Convenience translation*

The accompanying financial statements have been expressed in Indian rupees ( Rs. ), the Bank's functional currency. For the convenience of the reader, the financial statements as of and for the year ended March 31, 2008 have been translated into U.S. dollars at U.S.\$1.00 = Rs. 40.02 based on the noon buying rate for cable transfers on March 31, 2008 as certified for customs purposes by the Federal Reserve Bank of New York. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

### **3. Cash and cash equivalents**

Cash and cash equivalents as of March 31, 2007 and 2008 include balances of Rs. 44,359.7 million, Rs. 116,130.9 million respectively, maintained with the RBI to meet the Bank's cash reserve ratio requirement. The Bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. The cash reserve ratio has to be maintained on an average basis for a two-week period and should not fall below 70% of the required cash reserve ratio on any particular day.

### **4. Term placements**

Term placements consist of placements with banks and financial institutions in the ordinary course of business. These placements have original maturities for periods between 3 months and 7 years.

### **5. Investments, held for trading**

The portfolio of trading securities at March 31, 2007 and 2008 is as follows:

	Amortized Cost	As of March 31, 2007		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 1,639.3	Rs. 3.5	Rs. 5.0	Rs. 1,637.8
Total Debt Securities	1,639.3	3.5	5.0	1,637.8
Mutual fund units	2,644.2	2.5	0.4	2,646.3
Total	Rs. 4,283.5	Rs. 6.0	Rs. 5.4	Rs. 4,284.1

	Amortized Cost	As of March 31, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 12,572.9	Rs. 3.3	Rs. 41.1	Rs. 12,535.1
Securities issued by Government of India sponsored institutions	4,835.1	3.3	31.4	4,807.0
Securities issued by State government sponsored institutions	0.6			0.6
Deposit Certificates issued by banks	3,795.1			3,795.1



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Total Debt Securities	21,203.7	6.6	72.5	21,137.8
Equity securities	89.9	2.1	3.8	88.2
Mutual fund units	92,328.8	3.0		92,331.8
Total	Rs. 113,622.4	Rs. 11.7	Rs. 76.3	Rs. 113,557.8
Total	US\$ 2,839.1	US\$ 0.3	US\$ 1.9	US\$ 2,837.5

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**Table of Contents****6. Investments, available for sale**

The portfolio of available for sale securities at March 31, 2007 and 2008 is as follows:

	Amortized Cost	As of March 31, 2007		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
	(In millions)			
Government of India securities	Rs. 234,077.0	Rs. 319.8	Rs. 5,182.8	Rs. 229,214.0
Securities issued by Government of India sponsored institutions	29,517.3	104.5	462.4	29,159.4
State government securities	447.4		19.5	427.9
Securities issued by state government sponsored institutions	716.8		7.9	708.9
Credit substitutes (See Note 8)	6,893.0	21.0	155.0	6,759.0
Other corporate/financial institution bonds	749.0		12.2	736.8
Debt securities	272,400.5	445.3	5,839.8	267,006.0
Mortgage-backed securities	14,801.3	88.7	175.6	14,714.4
Asset-backed securities	22,365.7	24.8	164.5	22,226.0
Equity securities	173.3	126.6	15.2	284.7
Mutual fund units	10.0			10.0
Total	Rs. 309,750.8	Rs. 685.4	Rs. 6,195.1	Rs. 304,241.1
Securities with gross unrealized losses				Rs. 240,292.1
Securities with gross unrealized gains				63,949.0
				Rs. 304,241.1

	Amortized Cost	As of March 31, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
	(In millions)			
Government of India securities	Rs. 351,042.5	Rs. 481.8	Rs. 2,516.5	Rs. 349,007.8
Securities issued by Government of India sponsored institutions	22,315.6	22.4	79.1	22,258.9
State government securities	434.5		10.7	423.8
Securities issued by state government sponsored institutions	406.6	0.1	5.4	401.3
Credit substitutes (See Note 8)	5,059.2	20.1	32.4	5,046.9
Other corporate/financial institution bonds	460.3	15.5	1.9	473.9
Deposit Certificates issued by banks	12,157.9			12,157.9
Debt securities	391,876.6	539.9	2,646.0	389,770.5
Mortgage-backed securities	11,526.3	204.5	87.4	11,643.4
Asset-backed securities	17,324.5	109.0	21.8	17,411.7
Equity securities	173.2		1.5	171.7
Mutual fund units	10.0	1.5		11.5
Total	Rs. 420,910.6	Rs. 854.9	Rs. 2,756.7	Rs. 419,008.8

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Total	US\$ 10,519.5	US\$ 29.4	US\$ 68.9	US\$ 10,470.0
Securities with gross unrealized losses				Rs. 239,055.5
Securities with gross unrealized gains				179,953.3
				Rs. 419,008.8
				US\$ 10,470.0

Investments include Rs. 119,824.7 million as of March 31, 2007 and Rs. 222,280.8 million (US\$ 5,554.2 million) as of March 31, 2008 respectively, which have been kept as margins for clearing, collateral borrowing and lending obligation (CBLO) and real time gross settlement (RTGS). These have been kept with the Clearing Corporation of India Limited and RBI.

The Bank conducts a review each year to identify and evaluate investments that have indications of possible impairment. An investment in an equity or debt security is impaired if its fair value falls below its cost and the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include length of time and extent to which fair value has been below cost, the financial condition and near term prospects of the issuer, and the Bank's ability and intent to hold the investment for a period sufficient to allow for any anticipated recovery. The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 211.3 million (US\$ 5.3 million) (previous year Rs. 105.9 million) as other than temporary impairment in fiscal 2008. The Bank believes that the other unrealized losses on its investments in equity and debt securities as of March 31, 2008 are temporary in nature. The Bank's review of impairment generally entails:

identification and evaluation of investments that have indications of possible impairment;

analysis of individual investments that have fair values of less than 95% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;

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analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other-than temporary impairment; and

documentation of the results of these analysis, as required under business policies.

The gross unrealized losses and fair value of available for sale securities at March 31, 2008 is as follows:

	As of March 31, 2008			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In millions)				
Government of India securities	Rs. 0.3	Rs. 23.0	Rs. 207,337.4	Rs. 2,516.5
Securities issued by Government of India sponsored institutions	6,497.5	23.0	12,149.5	56.1
State government securities			423.2	10.7
Securities issued by state government sponsored institutions			396.5	5.4
Credit substitutes (See Note 8)			2,923.3	32.4
Other corporate/financial institution bonds			304.5	1.9
<b>Debt securities</b>	<b>6,497.8</b>	<b>23.0</b>	<b>223,534.4</b>	<b>2,623.0</b>
Mortgage-backed securities	245.8	7.8	5,752.0	79.6
Asset-backed securities	284.4	8.8	2,741.1	13.0
Equity securities		1.5		
<b>Total</b>	<b>Rs. 7,028.0</b>	<b>Rs. 41.1</b>	<b>Rs. 232,027.5</b>	<b>Rs. 2,715.6</b>
<b>Total</b>	<b>US\$ 175.6</b>	<b>US\$ 1.0</b>	<b>US\$ 5,797.8</b>	<b>US\$ 67.9</b>

The contractual residual maturity of available for sale debt securities as of March 31, 2008 is set out below:

	As of March 31, 2008		
	Amortized Cost	Fair Value	Fair Value
	(In millions)		
Within one year	Rs. 52,156.4	Rs. 52,071.7	US\$ 1,301.1
Over one year through five years	230,004.7	228,942.1	5,720.7
Over five years through ten years	64,488.3	64,064.4	1,600.8
Over ten years	45,227.2	44,692.3	1,116.8
<b>Total</b>	<b>Rs. 391,876.6</b>	<b>Rs. 389,770.5</b>	<b>US\$ 9,739.4</b>

AFS investments of Rs. 229,641.9 million and Rs. 349,431.6 million as of March 31, 2007 and March 31, 2008, respectively, are held to meet the Bank's statutory liquidity ratio requirements. These balances are subject to withdrawal and usage restrictions, but may be freely traded by the Bank within those restrictions.

Gross realized gains and gross realized losses from sales of such securities and dividends and Interest on available for sale securities are set out below:

Year ended March 31,

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	2006	2007	2008	2008
	(In millions)			
Gross realized gains on sale	Rs. 694.3	Rs. 297.6	Rs. 522.3	US\$ 13.0
Gross realized losses on sale	(274.0)	(754.5)	(353.9)	(8.8)
Realized gains (losses), net	420.3	(456.9)	168.4	4.2
Dividends and interest	12,969.6	19,408.0	25,261.4	631.2
<b>Total</b>	<b>Rs. 13,389.9</b>	<b>Rs. 18,951.1</b>	<b>Rs. 25,429.8</b>	<b>US\$ 635.4</b>

**7. Investments, held to maturity**

There were no HTM securities as of March 31, 2007 and March 31, 2008.

Under Indian GAAP transfer from HTM portfolio to AFS portfolio are permitted by RBI regulations once every year and the Bank has made transfers in accordance with the regulations. However the Bank has not established a HTM portfolio under US GAAP and therefore the investment classification made under U.S. GAAP and Indian GAAP varies materially.

**Table of Contents****8. Credit Substitutes**

Credit substitutes consist of securities that the Bank invests in as part of an overall extension of credit to certain customers. Such securities share many of the risk and reward characteristics of loans and are managed by the Bank together with other credit facilities extended to the same customers. The fair values of credit substitutes by type of instrument as of March 31, 2007 and March 31, 2008 are as follows:

	2007		As of March 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In millions)				
<b>Available for sale credit substitute securities:</b>				
Debentures	Rs. 6,415.5	Rs. 6,382.4	Rs. 4,656.2	Rs. 4,645.0
Preferred shares	378.1	277.2	53.2	52.1
Commercial paper	99.4	99.4	349.8	349.8
<b>Total</b>	<b>Rs. 6,893.0</b>	<b>Rs. 6,759.0</b>	<b>Rs. 5,059.2</b>	<b>Rs. 5,046.9</b>
			US\$ 126.4	US\$ 126.1

The bank has no credit substitutes in the held to maturity category.

The fair values of credit substitutes have been analyzed as follows:

	2007	As of March 31, 2008	2008
		(In millions)	
Performing	Rs. 6,759.0	Rs. 5,046.9	US\$ 126.1
Impaired gross balance	95.4	5.1	0.1
Less amounts provided for other than temporary impairments	(95.4)	(5.1)	(0.1)
Impaired credit substitutes, net			
<b>Total credit substitutes, net</b>	<b>Rs. 6,759.0</b>	<b>Rs. 5,046.9</b>	<b>US\$ 126.1</b>

Impaired credit substitutes as of March 31, 2007 and March 31, 2008:

	2007	As of March 31, 2008	2008
		(In millions)	
<b>Gross impaired credit substitutes:</b>			
on accrual status	Rs. 95.4	Rs. 5.1	US\$ 0.1
on non-accrual status			
<b>Total</b>	<b>Rs. 95.4</b>	<b>Rs. 5.1</b>	<b>US\$ 0.1</b>
<b>Gross impaired credit substitutes by industry:</b>			
Electronics	Rs. 95.4	Rs. 5.1	US\$ 0.1
Drugs and Pharmaceuticals			

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Total	Rs. 95.4	Rs. 5.1	US\$ 0.1
Average impaired credit substitutes	Rs. 95.4	Rs. 50.3	US\$ 1.3
Interest foregone on impaired credit substitutes	Rs.	Rs.	US\$
Interest income recognized on impaired credit substitutes	Rs.	Rs.	US\$
Interest income recognized on impaired credit substitutes on a cash basis	Rs.	Rs.	US\$

As of March 31, 2008, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

### 9. Repurchase and Resale Agreements

Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized transactions. Interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

#### a. Securities purchased under agreements to resale

Securities purchased under agreements to resell are classified separately from investments and generally mature within 14 days of the transaction date. Such resell transactions are recorded at the amount of cash advanced on the transaction. Resell transactions outstanding as of March 31, 2007 and March 31, 2008 are Rs. Nil, and Rs. 2,405.7 million respectively.

#### b. Securities sold under repurchase agreements

Securities sold under agreements to repurchase are classified separately from investments and generally mature within 14 days of the transaction date. Such repurchase transactions are recorded at the amount of cash received on the transaction. Repurchase transactions outstanding as of March 31, 2007 and March 31, 2008 are Rs. 10,500.0 million and Rs. 44,000.0 million respectively.

**Table of Contents****10. Loans**

Loan balances include Rs. 68,094.0 million and Rs. 84,877.1 million as of March 31, 2007 and March 31, 2008 for assets which have been pledged as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2007 and March 31, 2008 are as follows:

	2007	As of March 31, 2008 (In millions)	2008
<b>Retail Loans:</b>			
Auto loans	Rs. 87,701.2	Rs. 132,145.2	US\$ 3,302.0
Commercial vehicle and construction equipment finance	52,070.6	67,864.5	1,695.8
Personal loans	57,370.6	71,900.1	1,796.6
Loans against securities	12,720.3	13,355.7	333.7
Two-wheeler loans	22,340.1	18,734.7	468.1
Retail business banking	54,374.4	86,053.8	2,150.3
Credit cards	20,104.9	31,566.1	788.8
Other retail loans	11,924.0	19,692.3	492.1
Subtotal	Rs. 318,606.1	Rs. 441,312.4	US\$ 11,027.4
<b>Wholesale loans:</b>			
Working capital finance	Rs. 76,421.6	Rs. 118,766.9	US\$ 2,967.7
Term loans	149,717.7	168,002.0	4,198.0
Sub total	Rs. 226,139.3	Rs. 286,768.9	US\$ 7,165.7
Gross loans	544,745.4	728,081.3	18,193.1
Less: Allowance for credit losses	8,014.5	12,736.0	318.4
Total	Rs. 536,730.9	Rs. 715,345.3	US\$ 17,874.7

The contractual residual maturity of gross loans as of March 31, 2008 is set out below:

	Working Capital Finance	As of March 31, 2008		Total
		Term Loans	Retail Loans	
<b>Maturity profile of loans:</b>				
(In millions)				
Within one year	Rs. 68,427.9	Rs. 106,632.4	Rs. 169,784.5	Rs. 344,844.8
Over one year through five years	50,339.0	50,549.4	256,124.2	357,012.6
Over 5 years		10,820.2	15,403.7	26,223.9
Total gross loans	Rs. 118,766.9	Rs. 168,002.0	Rs. 441,312.4	Rs. 728,081.3
	US\$ 2,967.7	US\$ 4,198.0	US\$ 11,027.4	US\$ 18,193.1

Gross loans analyzed by performance are as follows:



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	2007	As of March 31, 2008 (In millions)	2008
Performing	Rs. 538,489.8	Rs. 719,252.0	US\$ 17,972.5
Impaired	6,255.6	8,829.3	220.6
Total gross loans	Rs. 544,745.4	Rs. 728,081.3	US\$ 18,193.1

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Impaired loans as of March 31, 2007 and March 31, 2008 by facility are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Retail loans	Rs. 4,785.7	Rs. 7,446.1	US\$ 186.1
Wholesale loans	1,469.9	1,383.2	34.6
Gross impaired loans	6,255.6	8,829.3	220.7
Less: Specific allowance for credit losses	4,224.2	5,841.6	146.0
Impaired loans, net of specific allowance	Rs. 2,031.4	Rs. 2,987.7	US\$ 74.7
Gross impaired loans:			
without valuation allowance	Rs. 2,031.4	Rs. 2,987.7	US\$ 74.7
with valuation allowance	4,224.2	5,841.6	146.0
Total	Rs. 6,255.6	Rs. 8,829.3	US\$ 220.7
Gross impaired loans:			
on accrual status	Rs.	Rs.	US\$
on non-accrual status	6,255.6	8,829.3	220.7
Total	Rs. 6,255.6	Rs. 8,829.3	US\$ 220.7
Gross impaired loans by industry:			
Automotive	Rs. 642.9	Rs. 642.9	US\$ 16.1
Land Transport	266.7	1,226.9	30.7
Others (none > than 5% of impaired loans)	5,346.0	6,959.5	173.9
Total	Rs. 6,255.6	Rs. 8,829.3	US\$ 220.7

Summary information relating to impaired loans as of March 31, 2006, 2007 and 2008 is as follows:

	2006	As of March 31, 2007 (In millions)	2008	2008
Average impaired loans, net of allowance	Rs. 1,085.1	Rs. 1,805.1	Rs. 2,509.6	US\$ 62.7
Interest foregone on impaired loans	Rs. 208.5	Rs. 198.3	Rs. 207.0	US\$ 5.2
Interest income recognized on impaired loans	Rs. 5.3	Rs. 15.9	Rs. 14.6	US\$ 0.4
Interest income recognized on impaired loans on a cash basis	Rs. 5.3	Rs. 15.9	Rs. 14.6	US\$ 0.4

As of March 31, 2008, the Bank had no additional funds committed to borrowers whose loans were impaired.

Changes in the allowance for credit losses are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Specific allowance for credit losses, beginning of period	Rs. 3,204.6	Rs. 4,224.2	US\$ 105.5

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Gross provision for credit losses	6,980.8	10,361.8	258.9
Allowance no longer required due to:			
Cash recoveries	(72.1)	(98.2)	(2.4)
Write-offs	(5,889.1)	(8,646.2)	(216.0)
Specific allowance for credit losses, end of period	Rs. 4,224.2	Rs. 5,841.6	US\$ 146.0
Unallocated allowance for credit losses, beginning of period	2,448.7	3,790.3	94.7
Additions during the period	1,341.6	3,104.1	77.7
Unallocated allowance for credit losses, end of period	3,790.3	6,894.4	172.4
Total allowance for credit losses, end of period	Rs. 8,014.5	Rs. 12,736.0	US\$ 318.4

Interest and fees on loans by facility are as follows:

	2006	Years ended March 31,		2008
		2007	2008	
	(In millions)			
Wholesale	Rs. 13,989.4	Rs. 17,161.5	Rs. 25,801.9	US\$ 644.7
Retail loans	14,864.4	29,662.0	46,794.0	1,169.4
Total	Rs. 28,853.8	Rs. 46,823.5	Rs. 72,595.90	US\$ 1,814.1

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**Table of Contents****11. Sales/Transfer of receivables**

The following table summarizes pre-tax gains on securitizations and certain cash flows received from customers and paid to QSPEs for sales that were completed during the years ended March 31, 2006, March 31, 2007 and March 31, 2008:

	2006	Years ended March 31,		2008
		2007	2008	
(In millions)				
Sale consideration from new securitizations/transfer	Rs. 19,733.3	Rs. 6,535.8	Rs. 2,913.9	US\$ 72.8
Less: Book value of finance receivables derecognized	19,752.9	6,467.1	2,900.6	72.5
Less: Estimated costs of servicing	11.7	16.2		
Pre-tax gains(loss) on securitizations	Rs. (31.3)	Rs. 52.5	Rs. 13.3	US\$ 0.3
<b>Cash flow information</b>				
Collections against securitized receivables	Rs. 28,902.8	Rs. 26,030.2	Rs. 14,855.7	US\$ 371.2
Payments made to QSPEs	Rs. 28,861.6	Rs. 26,213.5	Rs. 14,678.6	US\$ 366.8
Cash flows on retained interests	Rs. 304.7	Rs. 231.6	Rs. 48.5	US\$ 1.2

The Bank has relied upon market information and its past experience for the purpose of determining the assumptions below. Key assumptions used in measuring the retained interests in finance receivables of sales completed during the years ended March 31, 2007 and March 31, 2008 as of the dates of such sales were as follows:

	For the year ended March 31, 2007	For the year ended March 31, 2008
<b>Key assumptions: (rates per annum)</b>		
Annual prepayment rate	5.0%	5.0%
Expected credit losses	0.8%	1.7%

Credit losses and prepayment losses as a percentage to the gross loans disbursed are estimated on the basis of historical losses on a similar portfolio.

Other key disclosures are as follows:

	2007	As of March 31,	2008
		2008	
(In millions)			
Finance receivables held by QSPEs	Rs. 20,262.4	Rs. 6,817.5	US\$ 170.4
Delinquencies	522.9	563.4	14.1
Credit losses	317.2	458.7	11.5
Retained interest in sold receivables, consisting of subordinated securities	362.3	281.2	7.0

The table below outlines the economic assumptions and the sensitivity of the estimated fair value of retained interests in finance receivables as of March 31, 2007 and March 31, 2008, to immediate 10% and 20% changes in those assumptions:

	2007	As of March 31,	2008
		2008	
(In millions)			
<b>Carrying value/fair value of retained interests</b>			
Annual prepayment rate:			
Impact of 10% adverse change	Rs. 0.5	Rs. 0.7	US\$

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Impact of 20% adverse change	1.0	1.3	
Expected credit losses:			
Impact of 10% adverse change	17.2	11.6	0.3
Impact of 20% adverse change	34.3	23.2	0.6

The discount rate used for the valuation of retained interests is the rate of return to the transferees of the various pools of securitized receivables and, therefore, is not subject to change. Weighted average life in years of the securitized receivables is also not subject to change except in case of a change in the prepayment rate assumption. Consequently, the above sensitivity analysis does not include the impact on the estimated fair values of the retained interests due to adverse change in the weighted average life in years and the discount rate.

These sensitivities are hypothetical and should be used with appropriate caution. A 10% change in the assumptions may not result in lineally proportionate changes in the fair values of retained interests. Adverse changes assumed in the above analysis and the resultant change in the fair values of retained interests are calculated independent of each other. In reality, any change in one factor may cause change in the other factors.

**Table of Contents****12. Concentrations of credit risk**

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank manages its credit risk collectively for its loan portfolio and credit substitute securities as these instruments are invested in as part of an overall lending program for corporate customers; accordingly, information on concentrations of credit risk has been provided for these exposures together.

The Bank's portfolio of loans and credit substitute securities is broadly diversified along industry and product lines, and as of March 31, 2007 and 2008 the exposures are as set forth below. The Bank does not consider retail loans a specific industry for this purpose. However, retail business banking loans are classified in the appropriate categories below and loans to commercial vehicle operators are included in land transport below.

Category	As of March 31, 2007				
	Gross loans	Fair Values	Total	Total	%
		Of Credit			
		Substitutes			
		(In millions, except percentages)			
Land transport	Rs. 61,407.3	Rs.	Rs. 61,407.3	US\$ 1,424.7	11.1%
Activities allied to agriculture	27,237.3		27,237.3	632.0	4.9
Trade	26,364.3	40.6	26,404.9	612.6	4.8
Automotive manufacturers	26,165.0		26,165.0	607.1	4.7
Food processing	13,586.0		13,586.0	315.2	2.5
Engineering	12,912.7	98.1	13,010.8	301.9	2.4
Fertilisers	12,081.9	202.9	12,284.8	285.0	2.2
Others (none > than 2%)	364,990.9	6,417.4	371,408.3	8,617.4	67.4
<b>Total</b>	<b>Rs. 544,745.4</b>	<b>Rs. 6,759.0</b>	<b>Rs. 551,504.4</b>	<b>US\$ 12,795.9</b>	<b>100.0%</b>

Category	As of March 31, 2008				
	Gross loans	Fair Values	Total	Total	%
		Of Credit			
		Substitutes			
		(In millions, except percentages)			
Land transport	Rs. 54,454.9	Rs.	Rs. 54,454.9	US\$ 1,360.6	7.4%
Automotive manufacturers	52,169.8		52,169.8	1,303.5	7.1
Trade	41,075.6	43.5	41,119.1	1,027.5	5.6
Activities allied to agriculture	27,201.1		27,201.1	679.7	3.7
Food processing	16,967.3		16,967.3	424.0	2.3
Metal and metal products	15,184.5	477.5	15,662.0	391.4	2.1
Engineering	15,023.9		15,023.9	375.4	2.1
Others (none > than 2%)	506,004.2	4,525.9	510,530.1	12,756.9	69.7
<b>Total</b>	<b>Rs. 728,081.3</b>	<b>Rs. 5,046.9</b>	<b>Rs. 733,128.2</b>	<b>US\$ 18,319.0</b>	<b>100.0%</b>

The Bank has a geographic concentration of credit risk, with exposure to borrowers based in Western India (including Mumbai), comprising 42.4% and 46.7% of the total loan and credit substitute security portfolio as of March 31, 2007 and March 31, 2008 respectively. While such borrowers are based in Western India they may use the funds provided by the Bank for a variety of uses that may or may not be related to the economy in Western India.

Loan and credit substitute exposures as of March 31, 2007 and 2008 based on the region in which the instruments are originated are as follows (which may be or may not be where funds are used):

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Region of origination	As of March 31, 2007			
	Gross Loans	Fair Values Of Credit		%
		Substitutes	Total Exposure	
(In millions, except percentages)				
Mumbai	Rs. 145,208.5	Rs. 5,835.2	Rs. 151,043.7	27.4%
Western region, other than Mumbai	82,387.3	262.2	82,649.5	15.0
Northern region	130,775.0	502.4	131,277.4	23.8
Eastern region	36,258.6		36,258.6	6.6
Southern region	150,116.0	159.2	150,275.2	27.2
Total	Rs. 544,745.4	Rs. 6,759.0	Rs. 551,504.4	100.0

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Region of origination	As of March 31, 2008				
	Gross Loans	Fair Values		Total Exposure	%
		Of Credit Substitutes	Total Exposure		
(In millions, except percentages)					
Mumbai	Rs. 179,789.8	Rs. 4,685.8	Rs. 184,475.6	US\$ 4,609.6	25.1%
Western region, other than Mumbai	158,562.6	47.1	158,609.7	3,963.3	21.6
Northern region	134,635.2	5.1	134,640.3	3,364.3	18.4
Eastern region	50,478.4		50,478.4	1,261.3	6.9
Southern region	204,615.3	308.9	204,924.2	5,120.6	28.0
Total	Rs. 728,081.3	Rs. 5,046.9	Rs. 733,128.2	US\$ 18,319.1	100.0%

The Bank's exposures to its ten largest borrowers as of March 31, 2008, computed as per RBI guidelines, which include the aggregate of the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures, are as follows:

	March 31, 2007			March 31, 2008			Total Exposure
	Funded Exposure	Non-Funded Exposure	Total Exposure	Funded Exposure (In millions)	Non-Funded Exposure	Total Exposure	
Borrower 1	Rs.	Rs.	Rs.	Rs. 20,500.0	Rs. 5,562.8	Rs. 26,062.8	US\$ 651.2
Borrower 2	8,106.8	631.6	8,738.4	978.6	14,249.0	15,227.6	380.5
Borrower 3				1,100.0	10,107.9	11,207.9	280.1
Borrower 4				2,567.1	8,622.4	11,189.5	279.6
Borrower 5	871.2	7,000.0	7,871.2	9.7	10,915.2	10,924.9	273.0
Borrower 6	14,819.8		14,819.8	9,797.2		9,797.2	244.8
Borrower 7	3,866.2	1,420.0	5,286.2	959.0	8,180.5	9,139.5	228.4
Borrower 8				440.0	6,300.0	6,740.0	168.4
Borrower 9				2,900.0	3,700.6	6,600.6	164.9
Borrower 10	Rs. 3,997.2	Rs. 1,000.0	Rs. 4,997.2	Rs. 4,864.6	Rs. 1,668.4	Rs. 6,533.0	US\$ 163.2

Information in respect of earlier years is not provided for the above borrowers if they were then not among the top ten exposures as of March 31, 2007.

**13. Property and equipment**

Property and equipment by asset category is as follows:

	As of March 31,		2009
	2007	2008 (In millions)	
Land and premises	Rs. 3,677.1	Rs. 7,077.0	US\$ 176.8
Software and systems	2,636.1	3,716.3	92.9
Equipment and furniture	13,416.4	15,202.9	379.9
Property and equipment, at cost	19,729.6	25,996.2	649.6
Less: Accumulated depreciation	9,332.0	12,034.7	300.7
Property and equipment, net	Rs. 10,397.6	Rs. 13,961.5	US\$ 348.9

Depreciation charged for the years ended March 31, 2006, 2007 and 2008 was Rs. 1,812.1 million, Rs. 2,273.3 million and Rs. 2,816.0 million (US\$70.4 million), respectively.



**14. Other assets**

Other assets include the following:

	2007	As of March 31, 2008 (In millions)	2008
	Rs.	Rs.	US\$
Checks in the course of collection	65.9		
Security deposits for leased property	1,292.0	1,941.7	48.5
Sundry accounts receivable	4,129.4	4,600.6	115.0
Advance tax (net of provision for taxes)	4,430.2	4,006.7	100.1
Advances	560.0	634.0	15.8
Prepaid expenses	543.0	464.3	11.6
Restricted cash/ securitization margin for credit enhancement and securitized transactions	1,465.1	646.6	16.2
Fair value of derivatives and foreign exchange	29,924.0	60,297.2	1,506.7
Other	6,017.5	6,695.4	167.3
<b>Total</b>	<b>Rs. 48,427.1</b>	<b>Rs. 79,286.5</b>	<b>US\$ 1,981.2</b>

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Deposits include demand deposits, which are non-interest-bearing, and savings and time deposits, which are interest-bearing. Deposits as of March 31, 2007 and 2008 are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Interest-bearing:			
Savings deposits	Rs. 195,847.9	Rs. 261,470.2	US\$ 6,533.5
Time deposits	288,695.0	457,176.7	11,423.7
Total interest-bearing deposits	484,542.9	718,646.9	17,957.2
Non-interest bearing deposits	197,805.1	287,263.2	7,178.0
Total	Rs. 682,348.0	Rs. 1,005,910.1	US\$ 25,135.2

As of March 31, 2007 and March 31, 2008, time deposits of Rs. 167,856.9 million and Rs. 363,872.0 million, respectively, have a residual maturity of less than one year. The balance of the deposits mature between one and five years.

As of March 31, 2007 and March 31, 2008, time deposits in excess of Rs. 0.1 million aggregated Rs. 255,223.7 million and Rs. 390,814.6 million, respectively.

**16. Short-term borrowings**

Short-term borrowings are mainly comprised of money market borrowings. These borrowings are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2007 and March 31, 2008 are comprised of the following:

	2007	As of March 31, 2008 (In millions)	2008
Borrowed in the call market	Rs. 7,987.4	Rs. 8,528.6	US\$ 213.1
Term borrowings from institutions/banks	2,050.0		
Foreign currency borrowings	17,341.0	35,924.6	897.6
Bills rediscounted	23,924.0	35,500.0	887.1
Interbank risk participation	44,170.0	49,377.1	1,233.8
Total	Rs. 95,472.4	Rs. 129,330.3	US\$ 3,231.6
Current portion of long-term debt	289.8	147.3	3.7
Short-term borrowings (including current portion of Long-term debt)	Rs. 95,762.2	Rs. 129,477.6	US\$ 3,235.3
Total borrowings outstanding:			
Maximum amount outstanding	Rs. 119,785.7	Rs. 161,157.0	US\$ 4,026.9
Average amount outstanding	Rs. 75,391.1	Rs. 69,514.7	US\$ 1,737.0
Weighted average interest rate	6.4%	5.9%	5.9%

**17. Long-term debt**

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Long-term debt as of March 31, 2007 and March 31, 2008 is comprised of the following:

	2007	As of March 31, 2008 (In millions)	2008
Subordinated debt	Rs. 32,826.0	Rs. 32,491.0	US\$ 811.9
Others	775.5	341.4	8.5
<b>Total</b>	<b>Rs. 33,601.5</b>	<b>Rs. 32,832.4</b>	<b>US\$ 820.4</b>
Current portion	289.8	147.3	3.7
Long-term debt (excluding current portion)	33,311.7	Rs. 32,685.1	US\$ 816.7

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The scheduled maturities of long-term debt are set out below:

	As of March 31, 2008 (In millions)	
Due in the fiscal year ending March 31:		
2009	Rs. 147.3	US\$ 3.7
2010		
2011	194.1	4.9
2012		
2013		
Thereafter (1)	30,491.0	761.9
Total	Rs. 30,832.4	US\$ 770.5

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 2.0 billion. Subordinated debt (lower tier II capital), upper tier II capital and innovative perpetual debt instruments outstanding as at March 31, 2008 are Rs. 20,120.0 million (previous year: Rs 20,120.0 million), Rs. 10,371.0 million (previous year: Rs. 10,706.0 million) and Rs. 2,000.0 million (previous year: Rs. 2,000.0 million) respectively.

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

During fiscal 2007, the Bank raised Rs. 6,359.0 million as Upper Tier II capital at an annualized coupon ranging between 8.80 % to 9.20 %. The Bank also raised foreign currency borrowing of USD 100 million as Upper Tier II capital at an annualized coupon rate of 6-month USD LIBOR plus 120 bps. The Bank raised Rs. 4,100.0 million as Lower Tier II capital at an annualized coupon ranging between 8.45% to 9.10%. The Bank raised a further Rs. 2,000.0 million as unsecured non-convertible subordinated perpetual bonds (Innovative perpetual debt instruments) in the nature of debentures for inclusion as Tier I capital at an annualized coupon 9.92 % payable semi annually.

Based on the balance term to maturity as at March 31, 2008, 100% of the book value of subordinated debt (lower tier II capital) and upper tier II capital is considered as Tier 2 capital for the purpose of capital adequacy computation.

Other long-term debt includes foreign currency borrowings from Citibank and a loan from the Indian Renewable Energy Development Authority used to finance solar equipment.

**18. Accrued expenses and other liabilities**

Accrued expenses and other liabilities include the amounts set forth below.

	2007	As of March 31, 2008 (In millions)	
Bills payable	Rs. 36,580.8	Rs. 31,572.1	US\$ 788.9
Remittances in transit	25,793.1	42,961.3	1,073.5
Accrued expenses	3,253.0	5,694.5	142.3
New account deposits	1,707.8	2,746.9	68.6
Accounts payable	8,224.2	12,260.6	306.4
Fair value on derivatives and foreign exchange	27,317.3	58,028.6	1,450.0
Others	5,522.4	6,202.5	154.9

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Total Rs. 108,398.6 Rs. 159,466.5 US\$ 3,984.7

**19. Income taxes**

The income tax expense comprises the following:

	2006	Years ended March 31,		2008
		2007	2008	
		(In millions)		
Current income tax expense	Rs. 3,622.2	Rs. 5,818.8	Rs. 8,662.3	US\$ 216.4
Deferred income tax (benefit) expense	343.5	(675.9)	(2,354.7)	(58.8)
Income tax expense	Rs. 3,965.7	Rs. 5,142.9	Rs. 6,307.6	US\$ 157.6

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The following is the reconciliation of estimated income taxes at the Indian statutory income tax rate to income tax expense as reported:

	2006	Years ended March 31,		2008
		2007	2008	
	(In millions)			
Net income before taxes	Rs. 13,175.3	Rs. 16,239.8	Rs. 19,552.8	US\$ 488.6
Effective statutory income tax rate	33.66%	33.66%	33.99%	33.99%
Expected income tax expense	4,434.8	5,466.3	6,646.0	166.1
Adjustments to reconcile expected income tax to actual tax expense:				
Permanent differences:				
Stock-based compensation (net of forfeitures)	15.7	324.0	566.7	14.2
Income exempt from taxes	(531.2)	(648.8)	(1,067.6)	(26.7)
Other, net	39.4	1.4	173.1	4.3
Effect of change in statutory tax rate	7.0		(10.6)	(0.3)
Income tax expense	Rs. 3,965.7	Rs. 5,142.9	Rs. 6,307.6	US\$ 157.6

The tax effects of significant temporary differences are as follows:

	2007	As of March 31,	
		2008	2008
	(In millions)		
Tax effect of:			
Deductible temporary differences:			
Allowance for loan losses	Rs. 2,387.7	Rs. 3,790.0	US\$ 94.7
Unrealized loss on securities available for sale	2,085.3	937.8	23.4
Foreign exchange and derivatives	209.7	776.5	19.4
Accrued expenses and compensatory absences	296.6	548.2	13.7
Other	469.6	793.1	19.8
Deferred tax asset	5,448.9	6,845.6	171.0
Taxable temporary differences:			
Property and equipment	854.0	758.0	18.9
Unrealized gain on securities available for sale	492.2	291.5	7.3
Loan origination cost	1,165.2	1,559.2	39.0
Deferred tax liability	2,511.4	2,608.6	65.2
Net deferred tax (asset) liability	Rs. (2,937.5)	Rs. (4,237.0)	US\$ (105.8)

Management believes that the realization of the recognized deferred tax assets is more likely than not based on expectations as to future taxable income.

For the years ended March 31, 2007 and 2008 the Bank has recorded income tax expense of Rs. 5,142.9 million and Rs. 6,307.6 million resulting in annual effective tax rate of 31.6 % and 32.3% respectively.

Effective April 1, 2007, the Bank adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Under FIN 48, income tax benefits are recognized and measured based upon a two-step

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model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with this FIN 48 model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. As a result of the implementation of FIN 48, the Bank did not recognize any increase/decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods.

The adoption of FIN 48 did not have any impact on the retained earnings or provision for taxation as of April 1, 2007. Upon initial adoption, the provisions of FIN 48 were applied to all income-tax positions since 1996-97 pending in appeal/assessment. The Bank's evaluation included assessment years 2006-07 to 2008-09 in respect of which income-tax returns have been filed but remain subject to assessment order from the taxation authorities.

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As of March 31, 2008, no material changes have occurred in the Bank's uncertain tax positions since the adoption of FIN 48 on April 1, 2007. The total unrecognized tax benefits as on April 1, 2007 (the date of adoption of FIN 48) and March 31, 2008 were Rs. 78.1 million. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	<b>Amount (In millions)</b>
Balance as of April 1, 2007	Rs. 78.1
Increases/decreases related to prior year tax positions	
Increases/decreases related to current year tax positions	
Decreases related to settlements with taxing authorities	
Decreases related to lapsing of statute of limitations	
Balance as of March 31, 2008	Rs. 78.1

The Bank's total unrecognized tax benefits, if recognized, would reduce the tax provisions by Rs. 78.1 million as of March 31, 2008 and thereby would affect the Bank's effective tax rate.

Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax examinations with various tax authorities.

Upon adoption of FIN 48, the Bank's policy to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes did not change. For the period ended March 31, 2008, no amount has been charged as interest and penalty cost to the income statement.

While the Bank has evaluated the position taken by it in respect of various matters that are in dispute and is confident that it is more-likely-than-not to be sustained upon settlement in its favour, the final outcome of the dispute is dependent upon the decision taken by the Revenue authorities. The amount of tax on such matters in dispute is Rs. 2,300.6 million.

The major income tax jurisdiction for the Bank is India.

**20. Stock-based compensation**

The stock-based compensation plans of the Bank are as follows:

*Employees Stock Option Scheme:*

The shareholders of the Bank approved in January 2000 Plan A, in June 2003 Plan B, in June 2005 Plan C and in June 2007 Plan D of the Employees Stock Option Scheme (the Plan). Under the terms of each of these Plans, the Bank may issue stock options to employees and directors of the Bank, each of which is convertible into one equity share. The Bank reserved 10 million equity shares, with an aggregate nominal value of Rs. 100 million, for issuance under each Plan A, B and C. Under Plan D the Bank reserved 15.0 million equity shares, with an aggregate nominal value of Rs. 150.0 million. The Compensation Committee has since approved to grant in aggregate a total of 8,305,500 options for the employees of the Bank under schemes X (672,000 options), XI (1,418,500 options) and XII (6,215,000 options) respectively.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the Compensation Committee) at an average of the daily closing prices on the Mumbai Stock Exchange during the 60 days preceding the date of grant of options, which was the minimum prescribed option price under regulations then issued by the Securities and Exchange Board of India (SEBI).

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



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

During the period an amendment in the Indian tax legislation included the Fringe Benefit Tax ( FBT ) on Employee Stock Options. FBT is assessed on all stock options that are exercised on or after April 1, 2007, and is based on the intrinsic value of the stock options on the vesting date. However, the FBT liability is triggered only if the options are exercised. The employer can seek reimbursement of the tax from the employee, but cannot transfer the obligation to the employee. The Shareholders of the Bank at its 13th Annual General Meeting held on June 16, 2007 have empowered the Bank to recover the requisite FBT amount from the employees. Accordingly, the Bank is recovering such tax from the employees.

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The Bank's obligation to pay FBT arises only upon the exercise of stock options and hence the FBT liability and the related recovery are recorded at the time of the exercise. The FBT on options payable to the government of India are recorded as an operating expense and the recovery of the FBT on options from the employees is treated as additional exercise price and recorded in shareholders' equity. The options granted subsequent to the introduction of the FBT are fair valued after considering the FBT as an additional component of the exercise price at the grant date. For the year ended March 31, 2008, FBT amount of Rs. 232.2 million (USD 5.8 million) recovered from the employees is treated as additional exercise price and recorded in shareholders' equity.

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	Years ended March 31,		
	2006	2007	2008
Dividend yield	0.7%	0.6%	0.6%
Expected volatility	21.25%	31.75%	25.20%
Risk free interest rate			
ESOS Plan	6.1%-6.6%	7.8%-7.9%	7.7%-7.9%
Expected lives:			
ESOS Plan	1-7 yrs	1-5 yrs	1-4 yrs

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	Options available to be granted Years ending March 31,		
	2006	2007	2008
Options available to be granted, beginning of year	3,432,200	6,876,900	2,909,800
Equity shares allocated for grant under the plan	10,000,000		15,000,000
Options granted	(8,097,300)	(6,633,300)	(8,305,500)
Forfeited/lapsed	1,542,000	2,666,200	1,011,500
Options available to be granted, end of year	6,876,900	2,909,800	10,615,800

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	2006		Years ended March 31, 2007		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	10,313,500	Rs. 344.88	13,601,700	Rs. 503.18	11,321,600	Rs. 803.10
Granted	8,097,300	630.60	6,633,300	994.85	8,305,500	1,217.90
Exercised	(3,267,100)	321.19	(6,247,200)	406.61	(1,677,800)	631.81
Forfeited	(1,542,000)	499.10	(2,666,200)	679.11	(1,011,500)	967.60
Options outstanding, end of year	13,601,700	Rs. 503.18	11,321,600	Rs. 803.10	16,937,800	Rs. 1,013.60
Options exercisable, end of year	1,898,500	Rs. 342.18	1,690,000	Rs. 498.89	3,288,900	Rs. 740.34
Weighted average fair value of options granted during the year		Rs. 630.60		Rs. 994.85		Rs. 206.82

The following summarizes information about stock options outstanding as of March 31, 2008

Plan	Range of exercise price	As of March 31, 2008		
		Number Of Shares Arising Out Of Options	Weighted Average Remaining Life	Weighted Average Exercise Price
Plan A	Rs. 366.30 (or US\$9.2)	123,100	3.56	Rs. 366.30
Plan B	Rs. 358.60 to Rs. 1,238.3 (or US\$9.0 to US\$30.9)	3,752,900	2.85	971.88
Plan C	Rs. 630.60 to Rs. 1,238.3 (or US\$15.8 to US\$30.9)	6,995,300	2.27	870.31
Plan D	Rs. 1,238.3 (or US\$30.9)	6,066,500	2.73	1,217.90

The intrinsic value of options exercised during the year ended March 31, 2006, 2007 and 2008 was Rs. 47.1 million, Rs. 77.8 million and Rs. 6.9 million respectively. Aggregate intrinsic value of options outstanding and options exercisable as at March 31, 2008 was Rs. 47.8 million and Rs. 18.1 million respectively. Total stock compensation cost recognized under these plans is Rs. 976.3 million and Rs. 1,667.4 million during the year ended March 31, 2007 and March 31, 2008 respectively. As at March 31, 2008, the total estimated compensation cost to be recognized in future periods is Rs. 1,185.0 million, this is expected to be recognized over a weighted average period of 0.6 years.

## 21. Retirement benefits

### *Gratuity*

In accordance with Indian law, the Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement, death while in employment or on termination of employment in an amount equivalent to 15 days eligible salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by Insurance companies for amounts notified by said insurance companies. The contributions are invested in specific designated instruments as permitted by Indian law. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on an actuarial valuation done on March 31 every year.

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The Bank has implemented SFAS No. 158 Employers Accounting for Defined Benefit Pension And Other Post Retirement Plans An Amendment Of FASB Statements No. 87, 88, 106 and 132 R with effect from April 1, 2006. Accordingly changes in the funded status of the plan are recognized in the year in which the changes occur and are reported in comprehensive income as a separate component of stock holders equity. Further, certain gain and losses that were not previously recognized in the financial statements are reported in comprehensive income.

The following table presents the incremental effect of applying SFAS No. 158 on the consolidated financial statements as of March 31, 2007.

	Before application of SFAS 158	Adjustments ( in million)	After application of SFAS 158
Deferred income taxes	Rs. 2,925.9	Rs. 11.6	Rs. 2,937.5
Total Assets	1,013,174.3	11.6	1,013,185.9
Accrued expenses and other current liabilities	108,364.1	34.5	108,398.6
Total Liabilities	947,643.3	34.5	947,677.8
Accumulated other comprehensive income, net of tax	(3,611.0)	(22.9)	(3,633.9)
Total Shareholders equity	Rs. 65,531.0	Rs. (22.9)	Rs. 65,508.1

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Bank's financial statements as of March 31, 2007 and March 31, 2008:

	2007	As of March 31, 2008 (In millions)	2008
<b>Change in benefit obligations:</b>			
Projected benefit obligation ( PBO ), beginning of the period	Rs. 202.9	277.7	US\$ 6.9
Service cost	32.4	46.6	1.2
Interest cost	15.9	22.0	0.5
Actuarial loss	35.5	53.0	1.3
Benefits paid	(9.0)	(18.3)	(0.5)
Projected benefit obligation, end of the period	277.7	381.0	9.4
<b>Change in plan assets:</b>			
Fair value of plan assets, beginning of the period	103.7	157.1	3.9
Actual return on plan assets	10.6	4.9	0.1
Employer contributions	52.8	80.0	2.0
Benefits paid	(9.0)	(18.3)	(0.5)
Actuarial (loss) gain	(1.0)		
Fair value of plan assets, end of the period	157.1	223.7	5.5
Funded Status	Rs. (120.6)	(157.3)	US\$ (3.9)

The Bank's expected contribution to the gratuity fund for the next fiscal year is estimated at Rs. 83.5 million. The accumulated benefit obligation as of March 31, 2007 and 2008 was Rs. 104.6 million and Rs. 164.7 million, respectively. The vested accumulated benefit obligation as on March 31, 2008 is Rs. 107.8 million.

Net gratuity cost for the years ended March 31, 2006, 2007 and 2008 comprises the following components:

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	2006	Years ended March 31,		2008
		2007	2008	
	(In millions)			
Service cost	Rs. 21.8	Rs. 32.4	Rs. 46.6	US\$ 1.2
Interest cost	9.7	15.9	22.0	0.5
Expected return on plan assets	(5.9)	(10.4)	(15.6)	(0.4)
Actuarial (gain) loss	31.3	32.4	107.6	2.7
<b>Net gratuity cost</b>	<b>Rs. 56.9</b>	<b>Rs. 70.3</b>	<b>Rs. 160.6</b>	<b>US\$ 4.0</b>

The assumptions used in accounting for the gratuity plan are set out below:

	Years ended March 31,		
	2006	2007	2008
	(% per annum)		
Discount rate*	7.0	8.0	8.2
Rate of increase in compensation levels of covered employees	10.0	10.0	10.0
Rate of return on plan assets	7.0	8.0	8.2

\* weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

The following benefit payments, which reflect expected future service, as appropriate are expected to be paid.

Year ending March 31,	Benefit payments (In millions)
2009	Rs. 4.04
2010	2.45
2011	14.1
2012	6.45
2013	8.33
2014-2018	87.49

The expected benefits are based on the same assumptions used to measure the Bank's benefit obligations as of March 31, 2008.

**Table of Contents***Superannuation*

Eligible employees of the Bank are entitled to receive retirement benefits under the Bank's superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee's eligible annual salary (15% for the Managing Director) to the Life Insurance Corporation of India, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred. The bank contributed Rs. 38.5 million, Rs. 65.9 million and Rs. 128.8 million to the superannuation plan for the years ended March 31, 2006, 2007 and 2008, respectively.

*Provident fund*

In accordance with Indian law, eligible employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of an employee's eligible salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that out of employer's contribution, an amount, equal to 8.33% of the lower of employee's monthly eligible salary or Rs. 6,500, is contributed by the Bank to the Pension Scheme administered by the Regional Provident Fund Commissioner. Employees are credited with interest, which is subject to a government specified minimum rate. The Bank has no liability for future provident fund benefits other than its annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund's assets, and recognizes such contributions as an expense in the year incurred. The bank contributed Rs. 162.4 million, Rs. 246.6 million, Rs. 439.3 million to the provident fund for the years ended March 31, 2006, 2007 and 2008, respectively.

*Compensated absences*

The Bank provides for unutilized leave balances standing to the credit of each employee at each balance sheet date on an actual basis.

**22. Financial instruments***Foreign exchange and derivative contracts*

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in rupees against another currency and exchange of notional principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates, during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counter-parties. The extent of loss on account of a counter-party default will depend on the replacement value of the contract at the ongoing market rates.

Fair values for derivative financial instruments are based on quoted market prices, except in the case of certain options and currency swaps where pricing models are used.

The following table presents the aggregate notional principal amounts of the Bank's outstanding foreign exchange and interest rate derivative contracts as of March 31, 2007 and March 31, 2008, together with the fair values on each reporting date.

2007		As of March 31,				2008	
Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
(In millions)							

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Interest rate swaps and forward rate agreements	Rs. 1,794,090.4	Rs. (27.9)	Rs. 3,571,932.1	Rs. (1,039.5)	US\$ 89,253.7	US\$ (26.0)
Forward exchange contracts, currency swaps, currency options and interest rate caps and floors	Rs. 1,377,440.9	Rs. 2,591.4	Rs. 2,102,441.7	Rs. 3,308.1	US\$ 52,534.8	US\$ 82.7

The bank has not designated the above derivative contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in earnings.

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**Table of Contents***Guarantees*

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill his financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards 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 credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

In terms of FIN No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others the bank has recognized a liability of Rs. 455.8 million as of March 31, 2008 in respect of guarantees issued or modified after December 31, 2002. Based on historical trends, in terms of SFAS No. 5 Accounting For Contingencies the Bank has recognized a liability of Rs 152.9 million as of March 31, 2008.

Details of guarantees and documentary credits outstanding are set out below:

	2007	As of March 31, 2008 (In millions)	2008
<b>Nominal values:</b>			
<b>Bank guarantees:</b>			
Financial guarantees	Rs. 23,631.4	Rs. 34,617.7	US\$ 865.0
Performance guarantees	20,330.7	25,916.0	647.6
Documentary credits	26,050.5	101,718.9	2,541.7
<b>Total</b>	<b>Rs. 70,012.6</b>	<b>Rs. 162,252.6</b>	<b>US\$ 4,054.3</b>
<b>Estimated fair values:</b>			
Guarantees	Rs. (248.8)	Rs. (455.8)	US\$ (11.4)
Documentary credits	(41.7)	(119.7)	(3.0)
<b>Total</b>	<b>Rs. (290.5)</b>	<b>Rs. (575.5)</b>	<b>US\$ (14.4)</b>

As part of its risk management activities, the Bank continuously monitors the credit-worthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss.

*Loan sanction letters*

The Bank issues sanction letters indicating its intent to provide new loans to certain customers. The aggregate of loans contemplated in these letters that had not yet been made was Rs. 50,246.7 million as of March 31, 2008. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. The Bank has no commitment to lend under these letters. Among other things, the making of a loan is subject to a review of the creditworthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan.

**23. Estimated fair value of financial instruments**

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates



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presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2007 and March 31, 2008. The estimated fair value amounts as of March 31, 2007 and March 31, 2008 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

### *Financial instruments valued at carrying value:*

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash and amounts due from banks, interest-bearing deposits in banks, securities purchased and sold under resale and repurchase agreements, accrued interest receivable, short-term borrowings, acceptances, accrued interest payable, and certain other assets and liabilities that are considered financial instruments. Carrying values were assumed to approximate fair values for these financial instruments as they are short-term in nature and their recorded amounts approximate fair values or are receivable or payable on demand.

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*Trading securities:*

Trading securities are carried at fair value based on quoted market prices. For more information on the fair value of these securities, refer to Note 5.

*Available for sale securities:*

Available for sale investments principally comprise debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using market yield on balance period to maturity on similar instruments and similar credit risk. The fair values of asset backed and mortgage backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. For more information on the fair value of these securities, refer to Note 6.

*Held to maturity securities:*

Held to maturity securities are carried at amortized cost less other than temporary impairments, if any. Fair values of these securities were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using market yield on balance period to maturity on similar instruments and similar credit risk. For more information on these securities of the portfolio, refer to Note 7.

*Loans:*

The fair values of consumer installment loans and other consumer loans that do not reprice frequently were estimated using discounted cash flow models. The discount rates were based on current market pricing for loans with similar characteristics and risk factors. Since substantially all individual lines of credit and other variable rate consumer loans reprice frequently, with interest rates reflecting current market pricing, the carrying values of these loans approximate their fair values.

The fair values of commercial loans that do not reprice or mature within relatively short time frames were estimated using discounted cash flow models. The discount rates were based on current market interest rates for loans with similar remaining maturities and credit ratings. For commercial loans that reprice within relatively short time frames, the carrying values approximate their fair values.

For purposes of these fair value estimates, the fair values of impaired loans were computed by deducting an estimated market discount from their carrying values to reflect the uncertainty of future cash flows.

*Deposits:*

The fair value of demand deposits, savings deposits, and money market deposits without defined maturities are the amounts payable on demand. For deposits with defined maturities, the fair values were estimated using discounted cash flow models that apply market interest rates corresponding to similar deposits and timing of maturities. For variable-rate deposits with fixed repricing dates, the first repricing date was considered the maturity date for purposes of fair value calculation.

*Long-term debt:*

The fair values of the Bank's unquoted long-term debt instruments were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

*Term Placements:*

The fair values of term placements were estimated using discounted cash flow models. The discount rates were based on current market pricing for placements with similar characteristics and risk factors.

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A comparison of the fair values and carrying values of financial instruments other than derivatives (see Note 22) is set out below:

	2007		As on March 31,		2008		Estimated Fair Value
	Carrying Value	Estimated Fair Value	Carrying Value	Carrying Value	Estimated Fair Value	Estimated Fair Value	
(In million)							
<b>Financial Assets:</b>							
Cash and cash equivalents	Rs. 80,546.4	Rs. 80,546.4	Rs. 147,208.0	US\$ 3,678.4	Rs. 147,208.0	US\$ 3,678.4	
Term placements	12,815.8	12,225.3	5,917.6	147.9	4,938.1	123.4	
Investments held for trading	4,284.1	4,284.1	113,557.8	2,837.5	113,557.8	2,837.5	
Investments available for sale	304,241.1	304,241.1	419,008.8	10,470.0	419,008.8	10,470.0	
Securities purchased under agreements to resell			2,405.7	60.1	2,405.7	60.1	
Loans	536,730.9	539,811.9	715,345.3	17,874.7	734,697.9	18,358.3	
Accrued interest receivable	15,742.9	15,742.9	11,297.7	282.3	11,297.7	282.3	
<b>Financial Liabilities:</b>							
Interest-bearing deposits	484,542.9	483,026.5	718,646.9	17,957.2	718,746.2	17,959.7	
Non-interest-bearing deposits	197,805.1	197,805.1	287,263.2	7,178.0	287,263.2	7,178.0	
Securities sold under repurchase agreements	10,500.0	10,500.0	44,000.0	1,099.5	44,000.0	1,099.5	
Short term borrowings	95,472.4	95,472.4	129,477.6	3,235.3	129,477.6	3,235.3	
Accrued interest payable	17,035.7	17,035.7	16,742.3	418.3	16,742.3	418.3	
Long-term debt	33,601.5	31,019.8	32,685.1	816.7	31,077.1	776.5	
Accrued expenses and other liabilities	108,398.6	108,398.6	159,466.5	3,984.7	159,466.5	3,984.7	

**24. Segment Information**

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in Note 2. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans, provides credit cards and debit cards, distributes third-party financial products such as mutual funds and insurance, and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The wholesale banking segment provides loans and transaction services to corporate customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading both on the proprietary account and customer flows. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations. Revenues from foreign exchange and derivative operations and customer flows is classified under retail or wholesale segment depending on the profile of the customer.

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

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Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated equally to each segment. Income taxes for each segment have been allocated based on the effective rate applicable to the Bank, adjusted for specifically identifiable permanent differences relating to each segment.

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Summarized segment information for the years ended March 31, 2006, 2007 and 2008 is as follows:

	2006			Years ended March 31, 2007						2008		
	Wholesale Banking	Treasury Services	Total	Retail Banking	Wholesale Banking	Treasury Services (In millions)	Total	Retail Banking	Wholesale Banking	Treasury Services	Total	
1,177.4	Rs. 6,239.1	Rs. (510.3)	Rs. 23,906.2	Rs. 26,226.4	Rs. 8,907.4	Rs. 1,782.7	Rs. 36,916.5	Rs. 38,103.1	Rs. 14,008.8	Rs. 2,723.8	Rs. 54,177.4	
956.0	76.0		5,032.0	8,386.9	(136.6)	8,250.3	13,606.5	(238.8)			13,606.5	
221.4	6,163.1	(510.3)	18,874.2	17,839.5	9,044.0	1,782.7	28,666.2	24,496.6	14,247.6	2,723.8	41,221.4	
071.8	2,092.9	(16.8)	12,147.9	12,702.6	2,764.1	(467.0)	14,999.7	17,846.2	3,792.8	(1,292.4)	20,071.8	
482.4	(2,802.0)	(562.4)	(17,846.8)	(22,494.0)	(4,065.3)	(866.8)	(27,426.1)	(34,862.4)	(6,969.3)	(430.1)	(42,482.4)	
810.8	Rs. 5,454.0	Rs. (1089.5)	Rs. 13,175.3	Rs. 8,048.1	Rs. 7,742.8	Rs. 448.9	Rs. 16,239.8	Rs. 7,480.4	Rs. 11,071.1	Rs. 1,001.3	Rs. 19,810.8	
583.8	Rs. 313,603.1	Rs. 38,318.8	Rs. 633,505.7	Rs. 390,732.7	Rs. 452,509.8	Rs. 30,371.2	Rs. 873,613.7	Rs. 507,899.8	Rs. 681,767.2	Rs. 62,429.3	Rs. 1,252,583.8	

**25. Commitments and contingencies**

Commitments and contingent liabilities other than for off balance sheet financial instruments (see Note 22) are as follows:

*Capital commitments*

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2007 and March 31, 2008 aggregated Rs. 670.3 million and Rs. 1,407.4 million, respectively.

*Contingencies*

The Bank is party to various legal and tax-related proceedings in the normal course of business. The amount of claims against the bank which are not acknowledged as debts as of March 31, 2008 aggregated to Rs. 658.4 million. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's results of financial condition, operations or cash flows.

**Table of Contents****26. Related party transactions**

The Bank's principal related parties consist of HDFC Limited, its principal shareholder, and its associates. The Bank enters into transactions with its related parties, such as providing banking services, sharing costs and service providers, purchasing services, making joint investments, and borrowing from related parties and subletting premises. The Bank is prohibited from making loans to companies with which it has directors in common. The Bank also makes loans at concessional rates to its employees. The Bank's related party balances and transactions are summarized as follows:

Balances payable to related parties are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Balances in current account	Rs. 102.5	Rs. 1,386.1	US\$ 34.6
Balances in fixed deposits	217.4	982.8	24.6
<b>Total</b>	<b>Rs. 319.9</b>	<b>Rs. 2,368.9</b>	<b>US\$ 59.2</b>

Balances receivable from related parties are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Deposits to secure leased property	Rs. 36.9	Rs. 36.9	US\$ 0.9
Loans and overdrafts	3.0		
Loans to officers and employees	1,805.7	2,560.6	64.0
Other deposits	0.1	0.1	
Accounts receivable	126.0	118.6	3.0
<b>Total</b>	<b>Rs. 1,971.7</b>	<b>Rs. 2,716.2</b>	<b>US\$ 67.9</b>

The Bank had retained HDFC Asset Management Company Ltd., an entity controlled by HDFC Limited, to invest its funds up to an amount approved by the board of directors, primarily in debt instruments under an arrangement upto June, 2006. The amount of investments outstanding as on March 31, 2007 and March 31, 2008 was Rs. 1.6 billion and Rs. Nil, respectively. Purchases of fixed assets from related parties for the years ended March 31, 2007 and 2008 were Rs. 113.9 million and Rs. 212.0 million, respectively.

Included in the determination of net income are the following significant transactions with related parties:

	2006	Years ended March 31, 2007 2008 (In millions)		2008
Service charges income	Rs. 1,441.8	Rs. 1,606.3	Rs. 3,128.4	US\$ 78.2
Dividend income	5.8	52.2	13.8	0.3
Service charges expense	(45.6)	(81.2)	(167.1)	(4.2)
Interest income	0.1	0.3	0.3	
Rent and maintenance expense	(12.3)	(13.3)	(19.3)	(0.5)
<b>Net expense incurred to related parties for service provided</b>	<b>Rs. 1,389.8</b>	<b>Rs. 1,564.3</b>	<b>Rs. 2,956.1</b>	<b>US\$ 73.8</b>

**27. Regulatory Capital and capital adequacy**

The Bank is a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on the Bank and its financial position.

The Bank's regulatory capital and capital adequacy ratios are measured in accordance with Indian GAAP and are as follows:

	2007	As of March 31, 2008 (In millions)	2008
Tier 1 capital	Rs. 63,527.1	Rs. 110,629.6	US\$ 2,764.4
Tier 2 capital	33,399.9	35,483.7	886.6
<b>Total capital</b>	<b>Rs. 96,927.0</b>	<b>Rs. 146,113.3</b>	<b>US\$ 3,651.0</b>
Total risk weighted assets and contingents	Rs. 740,819.2	Rs. 1,074,479.9	US\$ 26,848.6
<b>Capital ratios of the Bank:</b>			
Tier 1	8.57%	10.30%	10.30%
Total capital	13.08%	13.60%	13.60%
<b>Minimum capital ratios required by the RBI:</b>			
Tier 1	4.50%	4.50%	4.50%
Total capital	9.00%	9.00%	9.00%

**Table of Contents***Dividends*

Any dividends declared by the Bank are based on the profit available for distribution as reported in the statutory financial statements of the Bank prepared in accordance with Indian GAAP. Additionally, the Banking Regulation Act and related regulations require the Bank to transfer 25% of its Indian GAAP profit after tax to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval. As per RBI guidelines dividend payout (excluding dividend tax) for March 31, 2008 cannot exceed 35% of net income of Rs. 15,901.8 million as calculated under Indian GAAP. Accordingly, the net income reported in these financial statements may not be fully distributable in that year. Dividends for the years ended March 31, 2006, 2007 and 2008 were Rs. 5.50, Rs. 7.00 and Rs. 8.50 per equity share, respectively.

**28. Earnings per equity share**

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. There were no potential equity shares (stock options) which were excluded from the calculation of diluted earnings per share for the year ended March 31, 2008.

	As of March 31,		
	2006	2007	2008
Weighted average number of equity shares used in computing basic earnings per equity share	311,939,366	314,563,347	344,020,927
Effect of potential equity shares for stock options outstanding	3,984,648	4,504,056	4,402,894
Weighted average number of equity shares used in computing diluted earnings per equity share	315,924,014	319,067,403	348,423,821

For the purpose of determining the weighted average number of equity shares outstanding, the Bank treats cash received from optionees who exercise their option as issued equity shares even if the administrative formalities to allocate equity shares have not been completed.

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS:

	Years ended March 31,			
	2006	2007	2008	2008
Basic earnings per share	Rs. 29.45	Rs. 35.10	Rs. 38.24	US\$ 0.96
Effect of potential equity shares for stock options outstanding	0.37	0.50	0.49	0.02
Diluted earnings per share	Rs. 29.08	Rs. 34.60	Rs. 37.75	0.94
Basic earnings per ADS	Rs. 88.36	Rs. 105.30	Rs. 114.72	US\$ 2.87
Effect of potential equity shares for stock options outstanding	1.12	1.50	1.47	0.04
Diluted earnings per ADS	Rs. 87.24	Rs. 103.80	Rs. 113.25	US\$ 2.83

**29. Subsidiaries**

During the year ended March 31, 2008, the Bank invested in 100 million equity shares of HDB Financial Services Limited (HDBFSL) of Rs. 10.0 each at par aggregating to Rs. 1,000 million. HDBFSL is a non-banking financial company and a subsidiary of the Bank. It is yet to commence full-fledged operations. As at March 31, 2008, the stake-holding of the Bank in HDBFSL was 95.3%. The financial statements of HDBFSL are consolidated.

HDFC Securities Ltd. (HSL) offers trading facilities in a range of equity, fixed income and derivative products to its clients. As at March 31, 2008 the Bank holds 64.9% effective equity interest. The financial statements of HSL are consolidated.



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Atlas Documentary Facilitators Company Private Ltd ( ADFC ) specializes in back-office processing. The Bank regularly transacts business with ADFC. As on March 31, 2008, HDFC Bank Ltd. and Subsidiaries hold 46.5% effective equity interest. Members of the Bank management team as well as other employees also hold a stake in the equity share capital. The financial statements of ADFC are consolidated.

HBL Global Private Ltd ( HBL ) is a subsidiary of ADFC which holds 98.0% of its equity. HBL provides direct sales support for certain of products of the Bank. The financial statements of HBL are consolidated.

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**Table of Contents****30. Investments in Affiliates**

The Bank frequently partners with other HDFC group companies when making investments. The Bank currently has three strategic investments in which HDFC group companies are co-investors. Without the prior approval of the RBI, the Bank cannot hold more than 30% equity stake in another company. The following is a list of investments made by the Bank and HDFC group companies:

<b>Company</b>	<b>Type of Business</b>	<b>HDFC Bank Ltd. and Subsidiaries Investment (in millions)</b>	<b>HDFC Bank Ltd. and Subsidiaries Ownership %</b>	<b>Total HDFC Group Ownership %</b>
Computer Age Management Services Private Limited ( CAMS )	Unit capital accounting and transfer agency services	Rs. 11.1	16.1%	31.2%
SolutionNET India Private Limited	Information technology consulting and services	Rs. 10.4	26.0%	50.0%
Softcell Technologies Limited ( Softcell ).	Business-to-business software services	Rs. 30.3	14.0%	26.0%

During the year we sold 1,040,730 equity shares in CAMS thereby reducing our shareholding from 25.0% to 16.1%. During the year we also sold our entire strategic holding in Flexcel International Pvt. Ltd. ( Flexcel ) thereby reducing our shareholding from 40.0% to Nil.

The holdings in the above listed companies are accounted under equity method of accounting. Net increase in carrying value in these companies is Rs. 113.7 million. This is accounted under non-interest income.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of **HDFC Bank Limited**, (the Bank) is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control system was designed to provide reasonable assurance to the Bank's management, its Audit Committee and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any internal control or system of control, however well designed, including the possibility of human error and the possible circumvention or overriding of such controls or systems. Moreover, because of changing conditions, the reliability of internal controls may vary over time. As a result, even effective internal controls can provide no more than reasonable assurance with respect to the accuracy and completeness of financial statements and their process of preparation.

The Bank management assessed the effectiveness of the Bank's internal control over financial reporting as of March 31, 2008. In making this assessment, it has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on those criteria and our assessment we believe that, as of March 31, 2008, the Bank's internal control over financial reporting was effective.

The Bank's independent public accountant, Deloitte Haskins & Sells, has issued an audit report on the Bank's internal control over financial reporting.

**HDFC BANK LIMITED**

**HDFC Bank House**

**Senapati Bapat Marg,**

**Lower Parel,**

**Mumbai 400 013, India.**

**September 23, 2008**

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HDFC Bank Limited

/s/ Sashi Jagdishan

Name: Sashi Jagdishan

Title Head Finance

Date: September 23, 2008

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EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description of Document</b>
1.1	HDFC Bank Memorandum of Association, as amended (incorporated by reference to HDFC Bank Limited's Registration Statement on Form F-1 filed on July 12, 2002 (Registration No. 333-13718))
1.2	HDFC Bank Articles of Association, as amended (incorporated by reference to HDFC Bank Limited's Registration Statement on Form F-1 filed on July 12, 2002 (Registration No. 333-13718))
1.3	Amendment to Memorandum and Articles of Association
2.1	Deposit Agreement among HDFC Bank, JPMorgan Chase Bank, N.A. and the holders from time to time of American Depositary Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt) (incorporated herein by reference to HDFC Bank Limited's Registration Statement on Form F-1 filed on July 12, 2002 (Registration No. 333-13718))
2.2	HDFC Bank's Specimen Certificate for Equity Shares (incorporated herein by reference to HDFC Bank Limited's Registration Statement on Form F-1 filed on July 12, 2002 (Registration No. 333-13718))
4.1	Scheme of Amalgamation of Centurion Bank of Punjab Limited with HDFC Bank Limited.
12.1	Certification of the Managing Director pursuant to Rule 13a-14(b)
12.2	Certification of the Chief Financial Officer of HDFC Bank pursuant to Rule 13a-14(b)
13	Certifications by the Managing Director and Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
	HDFC Bank Limited agrees to furnish to the Securities and Exchange Commission upon its request, the instruments relating to the long-term debt for securities authorized thereunder that do not exceed 10% of HDFC Bank Limited's total assets.