

Shelf Memorandum of Information

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(This Shelf Memorandum of Information is neither a Prospectus nor a Statement in Lieu of Prospectus. This is only an information brochure intended for private use and should not be construed to be a prospectus and/or an invitation to the public for subscription to bonds.)



HDFC BANK LIMITED

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(A Banking Company incorporated under the Companies Act, 1956 and also governed by the Banking Regulation Act, 1949)

Private Placement of Unsecured Redeemable Non-Convertible Subordinated (Upper Tier II) Bonds.

GENERAL RISK: Investors are advised to read the Risk Factors carefully before taking an investment decision in this offering. For taking an investment decision, the investors must rely on their own examination of the Issuer and the Offer including the risks involved. The Offer/ Issue being made on private placement basis, this Shelf Memorandum of Information has not been filed with Securities & Exchange Board of India (SEBI) and the Registrar of Companies. The Bonds have not been recommended or approved by SEBI nor does SEBI guarantee the accuracy or adequacy of this document. Specific attention of the investors is invited to the Risk Factors mentioned on pages i to vii in the Shelf Memorandum of Information.

ISSUER'S ABSOLUTE RESPONSIBILITY: The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Shelf Memorandum of Information contains all information with regard to the Issuer and the Issue, which is material in the context of the Issue, that the information contained in this Shelf Memorandum of Information is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

CREDIT RATING:

CARE 'CARE AAA' – This rating indicates investment is of best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margins. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such instruments.

CRISIL 'AAA/Stable' – This rating denotes the highest safety of timely payment of interest and principal. Though the circumstances providing the degree of safety is likely to change, such changes as can be envisaged are most likely to affect adversely the fundamentally strong position of such issues.

LISTING: The Unsecured Redeemable Subordinated (Upper Tier II) Bonds are proposed to be listed on The National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE).

ISSUE SCHEDULE

Issue opens on: to be finalized prior to the issue

Issue closes on: to be finalized prior to the issue

TRUSTEE TO THE BONDHOLDERS



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ABBREVIATIONS

Term	Meaning/ Definition/ Complete Term
ALM	Asset Liability Management.
ALCO	Asset Liability Committee
AMC	Asset Management Company
AMFI	Association of Mutual Funds of India
ATM	Automated Teller Machine
BoD/ BOD	Board of Directors of the Bank or a Committee thereof
BGs	Bank Guarantees
BIS	Bank of International Settlements
Bps	Basis points
CARE	Credit Analysis and Research Limited
CDSL	Central Depository Services (India) Limited
CAR	Capital Adequacy Ratio
CRAR	Capital to Risk weighted Assets Ratio
CAGR	Compounded Annual Growth Rate
CIBIL	Credit Information Bureau (India) Limited
CDs	Certificate(s) of Deposit(s)
CDR	Corporate Debt Restructuring
CPs	Commercial Papers
DPGs	Deferred Payment Guarantees
DICGC	Deposit Insurance and Credit Guarantee Corporation
DDA	Deemed Date of Allotment for the Bonds
DRR	Debenture/ Bond Redemption Reserve
DRT	Debt Recovery Tribunal
ECGC	Export Credit Guarantee Corporation
FITCH	Fitch Ratings India Private Limited
FY/ F.Y.	Financial Year
FIs	Financial Institutions
FIIs	Foreign Institutional Investors
FB	Fund Based
FIMMDA	Fixed Income Money Market & Derivatives Association of India
Flexcel	Flexcel International Private Limited
GOI/ GoI	Government of India
HDFC AMC	HDFC Asset Management Company Limited
HDFC Standard Life Insurance	HDFC Standard Life Insurance Company Limited
HSL	HDFC Securities Limited
HRD	Human Resource Development
HTM	Held Till Maturity
IT	Income Tax
IS	Information Systems
LIC	Life Insurance Corporation of India
LCs	Letters of Credit
MF/ MFs	Mutual Fund(s)
NSDL	National Securities Depository Limited
NRI	Non Resident Indians
NPA/ NPAs	Non Performing Asset(s)
NSE	National Stock Exchange of India Limited
NBFCs	Non-Banking Finance Companies
NCLT	National Company Law Tribunal
NFB	Non-Fund Based
OCBs	Overseas Corporate Bodies
PLR	Prime Lending Rate
PAN	Permanent Account Number
PSC	Priority Sector Credit
RBI	Reserve Bank of India
ROC/ RoC	Registrar of Companies, Maharashtra at Mumbai
RNBCs	Residuary Non-Banking Companies
SEBI	Securities and Exchange Board of India
SARFAESI	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SSIs	Small Scale Industries
SLR	Statutory Liquidity Ratio
TDS	Tax Deducted at Source
VRS	Voluntary Retirement Scheme
W/O	Written Off

DEFINITIONS

<i>Act</i>	<i>The Act shall mean the Companies Act, 1956 as amended from time to time till date.</i>
<i>Application Form</i>	<i>The Application Form means the form in terms of which, the investors shall apply for the Unsecured Redeemable Subordinated Bonds of the Bank</i>
<i>Articles</i>	<i>Articles mean the Articles of Association of the Bank.</i>
<i>The Bank/ The Issuer Company/ the Issuer/ HDFC Bank/ We / Us</i>	<i>The Bank / the Issuer Company / the Issuer / HDFC Bank / We / Us shall mean HDFC Bank Limited, a Banking Company incorporated under the Companies Act, 1956 and also governed by the Banking Regulation Act, 1949, and having its Registered Office at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013</i>
<i>Board</i>	<i>The Board means the Board of Directors of the Bank or a Committee thereof.</i>
<i>Bond(s)</i>	<i>The Bonds means Unsecured Redeemable Non-Convertible Subordinated (Upper Tier II) Bonds offered through private placement route under the terms of this Shelf Memorandum of information.</i>
<i>Bondholder(s)</i>	<i>Bondholder(s) shall mean the Holder(s) of the Bond(s) in dematerialised form</i>
<i>Beneficial Owner(s)</i>	<i>Bondholder(s) holding Bond(s) in dematerialized form (Beneficial Owner of the Bond(s) as defined in clause (a) of sub-section of Section 2 of the Depositories Act, 1996)</i>
<i>Information Memorandum / Offer Document/Disclosure Document</i>	<i>Shelf Memorandum of Information dated May 29, 2006 for Private Placement of Unsecured Redeemable Subordinated Bonds (Upper Tier II) to be issued by HDFC Bank Limited.</i>
<i>Issue/ Offer/ Offering</i>	<i>Private Placement of Unsecured Redeemable Subordinated offered under the terms of this Shelf Memorandum of information.</i>
<i>Memorandum</i>	<i>Memorandum of Association of the bank</i>
<i>The Stock Exchange, Mumbai / BSE</i>	<i>Exchange, Bombay Stock Exchange Limited</i>
<i>The National Stock Exchange / NSE</i>	<i>The National Stock Exchange of India Limited</i>
<i>Registrars TO the Issue</i>	<i>MCS Limited</i>
<i>Registrar/ Registrar and Transfer Agents</i>	
<i>Trustees / Trustee to the</i>	<i>IDBI Trusteeship Services Limited</i>
<i>Bondholder(s)</i>	

RISK FACTORS AND MANAGEMENT PERCEPTIONS THEREOF

The investors should carefully consider the following risk factors as well as the other information contained in this Shelf Memorandum of Information in evaluating our business and us.

Risks Relating to Our Business and Management Perception thereof

Internal Risk Factors

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

Our asset growth rate has been significantly higher than the Indian GDP growth rate as well as the growth rate in the Indian banking industry over the last five fiscal years. For example, our total assets in the three-year period ended March 31, 2006 grew at a compound annual growth rate of 34.24%. Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls. An inability to manage our growth effectively could have a material adverse effect on our business and our future financial performance.

Management Perception

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 and market risk, which includes liquidity risk and price risk. We also face operational risk. We have developed and implemented comprehensive policies and procedures to identify, monitor and manage risk universally across the bank.

Our business is vulnerable to volatility in interest rates. A decline in the returns may adversely affect our financial results.

Our results of operations depend to a great extent on our net interest income. During the financial year ended March 31, 2006, net interest revenue represented 69.37% 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. This difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. In addition, a rise in interest rates could negatively affect demand for our retail loans and other products. Interest rates are highly sensitive to many factors beyond our control, including the RBI's monetary policies, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business and our future financial performance.

Management Perception

The Asset Liability Committee (ALCO) of the bank actively manages the interest rate risk. It reviews our 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 of the bank and decides on future business strategy with respect to interest rates. It reviews and sets funding policy. It also reviews developments in the markets and the economy and their impact on our balance sheet and business. Finally, it ensures adherence to market risk limits and decides on the bank's inter segment transfer pricing policy.

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

As of March 31, 2006, the bank's ratio of gross non-performing assets to total customer assets was 1.17% and the ratio of net non-performing assets to total customer assets was 0.36%. 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 young bank and have not experienced a significant, prolonged downturn in the economy. A number of factors, which are not in 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 directed lending. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to further 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.

Management Perception

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. We follow non-performing loan and general loan provisioning policies that generally result in greater provisioning and are generally more conservative than those required by the RBI. The level of non-performing loans is among the lowest in the industry. Our net non-performing assets represented 0.36% of our customer assets portfolio as at March 31, 2006.

A decline in our capital adequacy ratio could restrict our further business growth.

The RBI has stipulated a minimum capital adequacy ratio of 9% to our total risk weighted assets. We need to continuously maintain the minimum capital adequacy to support continuous growth. The implementation of the Basel II Capital Adequacy Standards could also result in a decline in our capital adequacy ratio.

Management Perception

The capital adequacy ratio of the bank has been calculated after factoring therein, the capital requirement for market risk on the trading book and available for sale portfolio. We have focussed on growth in quality assets by optimum utilisation of available capital, resulting in an increase in our risk weighted assets and contingents from Rs. 41,271 crore as on March 31, 2005 to Rs. 60,218 crore on March 31, 2006. During the year, we have raised Rs.1,202 crore subordinated debt to augment our capital funds.

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. Some of the other private sector banks in India are also larger than we are, based on such measurements. In addition, we compete directly with foreign banks, some of which are part 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.

Management Perception

We have positioned ourselves to become a one stop financial shop. We have laid emphasis on customer satisfaction as well as convenience banking through channels like ATM, phone banking and net banking. We offer a complete suite of financial products. We have scaleable technology to support business growth. We plan to increase our banking channels and distribution network and actively cross sell our various products. We also distribute third party products like mutual funds, RBI Relief Bonds, insurance products etc.

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 has 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.

Management Perception

Liquidity is managed on a daily basis by the treasury group under the direction of the Asset Liability Committee to ensure that that we have adequate liquidity, ensuring that our funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap. We maintain a substantial portfolio of liquid high-quality Indian government securities. The expected maturities of our core liabilities are based on behavioural studies using time tested statistical tools. Therefore, the liquidity required to manage these expected outflows is realistic. In extreme cases, depositors do not roll over deposited funds when they lose confidence in the bank's management or the bank's capability to repay. To provide comfort on our deposit programs we generally get our deposits programs rated. The bank has its deposit programs rated by two rating agencies – Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited. The Bank's Fixed Deposit Programme has been rated 'CARE AAA (FD)' [Triple A] by CARE, which represents instruments considered to be "of the best quality, carrying negligible investment risk". CARE has also rated the bank's Certificate of Deposit (CD) program "PR 1+" which represents "superior capacity for repayment of short term promissory obligations". Fitch Ratings India Pvt. Ltd. (100% subsidiary of Fitch Inc.) has assigned the "tAAA (ind)" rating to the Bank's deposit programme, with the outlook on the rating as "stable". This rating indicates "highest credit quality" where "protection factors are very high". The bank also has its long term unsecured, subordinated (Tier 2) Bonds rated by CARE and Fitch Ratings India Private Limited. CARE has assigned rating of "CARE AAA" for the Tier 2 Bonds while Fitch Ratings India Pvt.Ltd. has assigned the rating "AAA (ind)" with the outlook on the rating as "stable".

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

Treasury revenue is vulnerable to volatility in the market caused by changes in exchange rates, interest rates, equity 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 interest revenue. Any decrease in our income due to volatility in income from these activities could have a material adverse effect on the profits of the bank.

Management Perception

We have in place risk management systems, policies and procedures to monitor market risk and review the market risk limits in relation to prudential limits. The exposures are monitored against the regulatory limits.

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

The bank calculates customer and industry exposure in accordance with the policies established by the RBI. In the case of customer exposures, the bank aggregates higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds and equity shares). As of March 31, 2006, the bank's ten largest customer exposures totalled approximately Rs. 5,337 crore, representing approximately 78% of the capital funds of the bank, and none of these were classified as non-performing. Our largest single customer exposure as of that date was Rs. 1,199 crore, representing 23.90% of our capital funds as reckoned as on March 31, 2005 and 17.45% of the capital funds of the bank reckoned as of March 31, 2006. However, if any of the ten largest customer exposures of the bank were to become non-performing, the quality of the portfolio and the business of the bank could be adversely affected.

The bank monitors concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2006, our largest concentrations to industries/sectors as proportion to gross loans were as follows: automobiles (10.7%), transportation (9.6%), retail trade (3.7%), engineering (3.4%), agriculture (3.0%), and NBFC/Investment Companies (2.7%). In addition, as of that date, approximately 41.3% of the concentration for exposure was retail (except were other wise classified above).

Management Perception

We follow a policy of portfolio diversification by industry. As at March 31, 2006, our exposure in any single industry did not exceed 10% of our funded exposure. We have proactive risk management systems. None of our top borrower group as well as our top ten borrower accounts is classified as non-performing as on March 31, 2006.

Significant fraud, systems 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.

Management Perception

We seek to protect our computer systems and network infrastructure from physical break-ins as well as fraud and systems failures. Although we have established a remote disaster recovery site at Bangalore, which replicates certain applications, which are 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.

Creation of Redemption Reserve is not envisaged for the proposed issue of bonds and the Bonds proposed to be issued are unsecured i.e. they are not proposed to be secured against any asset of the bank.

Management Perception

Ours is a banking company within the meaning of the Banking Regulation Act, 1949. The resources through current issue of bonds are being raised by the bank for augmenting the Tier-II Capital for strengthening the Capital Adequacy and enhancing its long-term resources. Department of Company Affairs, Ministry of Law Justice and Company Affairs, Government of India has vide circular No. 9/2002 dated 18/04/2002, clarified that banks need not create Debenture Redemption Reserve as specified under section 117C of the Companies Act, 1956. Also as per extant RBI guidelines in respect of issue of Tier-II bonds issued vide its circular no. DBOD. BP.BC.5/21.01.002/98-99 dated 08-02-1999, the Tier-II bonds are to be issued as unsecured and subordinated bonds for being eligible for inclusion in Tier II capital of the Issuing Bank. The bank has appointed a Trustee to protect the interest of the investors.

Our contingent liabilities could affect our financial position.

As on March 31, 2006, the contingent liabilities of the bank were at Rs. 214,782 crore comprising claims against the bank not acknowledged as debts (Rs. 257 crore), liability on account of outstanding derivative contracts (Rs. 131,970 crore), liability on account of outstanding forward exchange contracts (Rs. 73,473 crore), guarantees on behalf of constituents (Rs. 3,089 crore), acceptances, endorsements and other obligations (Rs. 2,410 crore) and others (Rs. 3,583 crore).

Management Perception

The contingent liabilities have arisen in the normal course of business of the bank and are according to the prudential norms prescribed by RBI. The main component of contingent liabilities are foreign exchange and derivative contracts constituting 95.7% of our total contingent liabilities. This does not represent the net foreign exchange position of the bank. It is quite common to have such magnitude of contingent liabilities in the business of banking. In fact, typically for a one year foreign exchange contract, which constitutes the principal portion of the foreign exchange contracts of the business, the capital adequacy credit risk weight on a customer related foreign exchange contract is only 2%, whereas it is even lower for an interbank contract at 0.4%.

Our regional concentration could effect our operations.

We have a regional concentration in western and southern parts of the country. Approximately 35.3% and 30.3% of our total advances as at March 31, 2006 relate to the bank's western and southern regions respectively. The regional presence of the bank may compromise its competitive position vis-à-vis its national level competitors.

Management Perception

Our regional presence may not be a hindrance to our growth prospects. Our deposits have grown at a compounded rate of 33.33% for the last 4 years from Rs. 22,376.07 crore as on March 31, 2003 to Rs. 55,796.82 crore as on March 31, 2006 and net advances have grown at a compounded rate of 50.6% for the last 4 years from Rs. 11,754.86 crore as on March 31, 2003 to Rs.35,061.26 crore as on March 31, 2006. The bank has 535 branches and 1,323 ATMs as on March 31, 2006 with presence in all the states. The bank is endeavouring to increase its presence in other parts of the country. Also, the bank has scaleable technology to support business growth and increase its reach and presence.

Credit Analysis and Research Limited has assigned a 'CARE AAA' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore. Instruments with this rating are considered to be of the best credit quality, offering highest safety of timely servicing of debt obligations. CRISIL has assigned a 'AAA / Stable' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore. This rating indicates highest degree of safety with regard to timely payment of interest and principal on the instrument.

Management Perception:

Investors may please note that, the rating is not a recommendation to buy, sell or hold securities and investors should take their own decision. The rating may be subject to revision, suspension or withdrawal at any time by the assigning rating agency and each rating should be evaluated independently of any other rating. The ratings obtained are subject to revision at any point of time in the future. The rating agency has the right to suspend, withdraw or revise the rating at any time on the basis of new information etc. Credit rating of listed and unlisted taxable bonds/ debentures/ commercial paper/deposits/certificate of deposits issued by the bank have been disclosed under the head 'Credit Rating' mentioned elsewhere in this Shelf Memorandum of Information.

There were outstanding litigations against us that could affect our financial position.

There are outstanding litigations against the bank. For details, please refer to the section on Outstanding Litigations, Defaults and Material Development in the Shelf Memorandum of Information.

Management Perception

The management believes that these claims are not tenable and will not impact either the operations or the financial conditions of the bank.

Resignations of our key managerial personnel and executive officers may have an impact on our operations.

We are highly dependent on our management team, including the continued efforts of our Chairman, our Managing Director, and other executive officers. 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 the past, a few of our key managerial personnel and executive officers have resigned. Such employee turnover may impact our operations.

Management Perception

The Compensation Committee of our board and our Human Resources department take steps to ensure management continuity. We have been able to identify and attract talent internally and externally to ensure smooth business operations.

Utilisation of Funds is at our discretion.

The utilisation of the funds proposed to be raised through this private placement is entirely at our discretion and no monitoring agency has been appointed to monitor the deployment of funds.

Management Perception

The funds raised through this private placement are not meant for any specific project and hence a monitoring agency may not be required. The bank is managed by professionals under the supervision of its Board of Directors. Further, we are subject to a number of regulatory checks and balances as stipulated in our regulatory environment. Therefore, the management believes that the funds raised via this private placement would be utilised only towards satisfactory fulfillment of the 'Objects of the Issue' as stated elsewhere in the Shelf Memorandum of Information.

External Risk Factors

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

HDFC Limited and its group companies owned 21.99% of our equity as on March 31, 2006. So long as HDFC Limited and its subsidiaries hold at least a 20.00% equity stake in us, HDFC Limited is entitled to nominate directors who are not required to retire by rotation to our board including the chairman and the 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.

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.

Material changes in Indian banking regulations and infrastructure 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 and our future financial performance.

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 cheques must generally be returned to the city from which written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, cheque 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. The RBI has recently introduced a new inter-bank settlement system called the Real Time Gross Settlement (RTGS) system. The system facilitates real time settlements primarily between banks, initially in select locations. This system is currently not fully operational. Once fully operational, this 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.

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 provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares and initial public offering finance for retail customers, stock exchange clearing services and depository accounts. As of March 31, 2006, our capital market exposure was Rs. 1,594 crore. This was within the ceiling prescribed by the RBI. As a result of our exposure to this industry, a significant or prolonged downturn on the Indian stock exchanges could have a material adverse effect on our business.

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 realise 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 specialised 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. 100 million and above, 60% of creditors by number in addition to the support of 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining lenders. In situations where we own 25% or less of the debt of a borrower, we could be forced to agree to a long-drawn restructuring of debt, in preference to foreclosure of security or a one-time settlement, which has generally been our practice.

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

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. A slowdown in Indian economy could adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets, and our ability to implement our strategy. In particular, because India depends significantly on imported oil for its energy needs, the Indian economy could be adversely affected by the continuing high oil prices. India's economy could also be adversely affected by a general rise in interest rates, weather conditions adversely affecting agriculture or other factors.

In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sectors is declining. 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 has remained significant. The leadership of India has changed many times since 1996. The current central government, which came to power in May 2004, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous central governments. We cannot assure you that these liberalisation 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. A 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. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect our business.

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 determines their impact on the Indian economy. Further prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business.

Any downgrading 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.

There are regulatory restrictions on us and limitations of the powers of our bondholders.

There are a number of restrictions as per the Banking Regulations Act, 1949, which impede flexibility of our operations and affect/restrict investors' right. These are as under:

- i. We can carry on business/activities as specified in the Banking Regulation Act, 1949. There is no flexibility to pursue profitable avenues if they arise, in contrast with companies under the Companies Act, 1956, where shareholders can amend the Objects Clause by a special resolution.
- ii. In terms of Section 8 of The Banking Regulation Act, 1949, we are prohibited from trading in goods, which may act as an operational constraint.
- iii. In terms of Section 17(1) of The Banking Regulation Act, 1949, every banking company shall create a Reserve Fund and shall, out of the balance of profit of each year as disclosed in the Profit & Loss a/c prepared under Section 29 and before any dividend is declared, transfer to the Reserve Fund a sum equivalent to not less than twenty five percent of such profit.
- iv. In terms of Section 19 of The Banking Regulation Act, 1949 there are some restrictions on the banking companies regarding opening of subsidiaries which may deny us from exploiting emerging business opportunities.
- v. In terms of Section 23 of The Banking Regulation Act, 1949 there are certain restrictions on the banking companies regarding opening of new place of business and transfer of existing place of business, which may hamper the operational flexibility of the bank.
- vi. In terms of Section 25 of The Banking Regulation Act, 1949 each banking company has to maintain assets in India which is not less than 75% of its demand and time liabilities in India which in turn may prohibit us from creating overseas assets and exploiting overseas business opportunities.
- vii. There are restrictions in the Banking Regulation Act regarding,
 - a. Management of a bank including appointment of directors.
 - b. Borrowings and creation of floating charge thereby hampering leverage.
 - c. Expansion of business, as the branches need to be licensed.



- d. Disclosures in the profit & loss account and balance sheet.
- e. Production of documents and availability of records for inspection by shareholders.
- f. Reconstruction of banks through amalgamation.
- g. Further issues of capital including issue of bonus shares/rights shares.

Note to Risk Factors

RBI carries out regular inspection of all the banks and financial institutions. The reports of RBI are strictly confidential. The bank continuously interacts with RBI and furnishes information/ clarifications required by them as part of their inspection. RBI does not allow disclosure of its inspection report and all the disclosures in the Shelf Memorandum of Information are based on Management and Audit reports of the issuer.

PART I

HDFC Bank Limited

Registered Office: HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013

Tel.: +91 22 6652 1000

Website: www. hdfcbank.com E-Mail : investor.tier2@hdfcbank.com

(A Banking Company incorporated under the Companies Act, 1956 and also governed by the Banking Regulation Act, 1949)

Private Placement of Unsecured Redeemable Non-Convertible Subordinated Bonds.

A. GENERAL INFORMATION

OFFER OF BONDS

HDFC Bank Ltd. is seeking offer for subscription of Unsecured Redeemable Non-Convertible Subordinated Bonds. This offer of Bonds is made in India to Companies, Corporate Bodies, Trusts registered under the Indian Trusts Act, 1882, Societies registered under the Societies Registration Act, 1860 or any other applicable laws, provided that such Trust/ Society is authorised under constitution/ rules/ bye-laws to hold debentures in a Company, Indian Mutual Funds registered with SEBI, Indian Financial Institutions, Insurance Companies, Provident Funds, Gratuity Funds, Superannuation Funds, Commercial Banks including Regional Rural Banks and Co-operative Banks (subject to RBI Permission) as defined under Indian laws. The Shelf Memorandum of Information does not, however, constitute an offer to sell or an invitation to subscribe to securities offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Shelf Memorandum of Information comes is required to inform himself about and to observe any such restrictions.

AUTHORITY FOR THE PRESENT ISSUE

This present issue of Bonds is being made pursuant to the resolutions of the Board of Directors of the bank, passed at its meeting held on 17th April, 2006 and is within the general borrowings limits set out in resolution passed under section 293(1)(d) of the Companies Act, 1956, at the Annual General Meeting of the bank held on September 14, 1994 as amended by the resolution of the shareholder passed at the Annual General Meeting of the Bank held on May 26, 2004.

REGISTRATION AND GOVERNMENT APPROVALS

This present issue of Bonds is being made in accordance with extant RBI guidelines vide its circular no. DBOD. BP.BC 57/21.01.002/ 2005- 06 dated 25th January, 2006 for issue of Tier-II Bonds as amended from time to time. The bank can undertake the activities proposed by it in view of the present approvals and no further approval from any government authority(ies)/ Reserve Bank of India (RBI) is required by the bank to undertake the proposed activities save and except those approvals which may be required to be taken in the normal course of business from time to time.

DISCLAIMER CLAUSE

This Memorandum of Information for Private Placement (“Shelf Memorandum of Information”) is neither a prospectus nor a statement in lieu of prospectus and does not constitute an offer to the public generally to subscribe for or otherwise acquire the Bonds to be issued by HDFC Bank Ltd.(HDFC Bank/ the Issuer/ the Bank/ the Company). This information is not intended to be circulated to more than 49 persons. The Shelf Memorandum of Information is for the exclusive use of the institutions to whom it is delivered and it should not be circulated or distributed to third parties or should not be reproduced. Potential investors are required to make their independent evaluation and judgment before making the investment.

This Shelf Memorandum of Information for issue of bonds on private placement basis has been prepared in conformity with the extant SEBI circular no. SEBI/MRD/SE/AT/36/2003/30/09 dated September 30, 2003 and SEBI circular no. SEBI/MRD/SE/AT/46/2003 dated December 22, 2003. Therefore, as per the applicable provisions, copy of this Shelf Memorandum of Information has not been filed or submitted to SEBI. It is to be distinctly understood that the Shelf Memorandum of Information should not, in any way, be deemed or construed that the same has been cleared or vetted by SEBI. SEBI does not take any responsibility either for the financial soundness of any scheme or the project for which the Issue is proposed to be made, or for the correctness of the statements made or opinions expressed in the Shelf Memorandum of Information. The Issuer certifies that the disclosures made in this Shelf Memorandum of Information are generally adequate and are in conformity with the captioned SEBI circular. This requirement is to facilitate investors to take an informed decision for making investment in the proposed Issue.

It should also be clearly understood that the Issuer Company is primarily responsible for the correctness, adequacy and disclosure of all relevant information in the Shelf Memorandum of Information. The Issuer Company herein also certifies that it has disclosed various material information including those relating to litigation like commercial disputes etc in the Shelf Memorandum of Information for the said Issue.

Further the Issuer Company confirms that:

- this Shelf Memorandum of Information is in conformity with the documents, materials and papers relevant to the Issue;
- all the legal requirements connected with the said Issue as also the guidelines, instructions, etc., issued by SEBI, the government and any other competent authority in this behalf have been duly complied with; and
- the disclosures made in this Shelf Memorandum of Information are true, fair and adequate to enable the investors to make a well informed decision as to the investment in the proposed Issue.

The Issue of Bonds being made on private placement basis, filing of this Shelf Memorandum of Information is not required, however the same does not absolve the Issuer Company from any liabilities under Section 63 or Section 68 of the Companies Act, 1956 or from the requirement of obtaining such statutory and other clearances as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up at any point of time, with the Issuer Company, any irregularities or lapses in this Shelf Memorandum of Information.

DISCLAIMER STATEMENT FROM THE ISSUER

The Issuer accepts no responsibility for statements made otherwise than in the Shelf Memorandum of Information or any other material issued by or at the instance of the Issuer and anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

FILING OF SHELF MEMORANDUM OF INFORMATION

As per extant SEBI guidelines/ regulations, filing of this Shelf Memorandum of Information is not required either with SEBI and Registrar of Companies (RoC) or any other regulatory authority(ies). The present issue of bonds being made on private placement basis, the provisions of Section 60 of the Companies Act, 1956 shall not be applicable and accordingly, a copy of this Shelf Memorandum of Information along with the documents as specified under the head “Material Contracts and Documents for Inspection” have not been filed with the RoC and the SEBI.

DISCLAIMER CLAUSE OF THE STOCK EXCHANGE

Application would be submitted to The Stock Exchange, Mumbai (BSE) and National Stock Exchange (NSE) to list the Bonds now being privately placed through this Shelf Memorandum of Information and to seek a permission to deal in such Bonds. The bank shall comply with the requirements of the listing agreement to the extent applicable to it on a continuous basis. It is to be distinctly understood that the submission of this Shelf Memorandum of Information to BSE and NSE or hosting of this Shelf Memorandum of Information by BSE and NSE on their respective websites should not in any way be deemed or construed that this Shelf Memorandum of Information has been cleared or approved by BSE and/or NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Shelf Memorandum of Information; nor do it warrant that this Issuer’s securities will be listed or continue to be listed on the Exchange; nor does it take responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/ acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

DISCLAIMER IN RESPECT OF JURISDICTION

Any disputes arising out of this issue will be subject to the exclusive jurisdiction of the courts at Mumbai (Maharashtra). All information considered adequate and relevant about the Issuer and the Issuer Company has been made available in this Shelf Memorandum of Information for the use and perusal of the potential investors and no selective or additional information would be available for a section of investors in any manner whatsoever.

LISTING

The equity shares of the bank are listed on Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE). The American Depositary Shares (ADS) of the bank are listed on the New York Stock Exchange.

The bank proposes to seek listing of the Bonds to be issued and allotted under this Shelf Memorandum of Information on the National Stock Exchange of India Limited (NSE) and the Stock Exchange, Mumbai (BSE). The bank shall complete all the formalities relating to listing of the Bonds within 70 days from the date of closure of each tranche/issue. If such permission is not granted within 70 days from the Date of Closure of the Issue or where such permission is refused before the expiry of the 70 days the bank shall forthwith repay without interest, all monies received from the applicants in pursuance of the Shelf Memorandum of Information, and if such money is not repaid within 8 days after the bank becomes liable to repay it (i.e. from the date of refusal or 70 days from the date of closing of the subscription list, whichever is earlier), then the bank and every director of the bank who is an officer in default shall, on and from expiry of 8 days, will be liable to repay the money, with interest at the rate of 15 per cent per annum on application money, as prescribed under Section 73 of the Companies Act, 1956.

MINIMUM SUBSCRIPTION

As the Issue of Bonds is being made on private placement basis, the requirement of minimum subscription shall not be applicable.

ISSUE SCHEDULE

Opening Date : to be finalized prior to the Issue
Closing Date : to be finalized prior to the Issue
Date of earliest closing of the Issue : to be finalized prior to the Issue

STATUTORY AUDITORS

M/s. P. C. Hansotia & Co.
Chartered Accountants,
Dr. Annie Besant Road,
Opposite Shiv Sagar Estate
Worli,
Mumbai - 400 018.

REGISTRAR TO THE ISSUE

MCS Limited,
Harmony
Plot No. - 6
Sector - 1
Khanda Colony - 140206
Tel No: +91 22 27492003 - 10
Fax: +91 22 27492005
Email: mcssvb@eth.net

TRUSTEES FOR THE BONDHOLDERS

IDBI Trusteeship Services Limited
Asia Bulding
Ground Floor
17 / R Kamani Marg
Ballard Estate
Mumbai 400 001
Tel No. 91 22 66311771/ 76

BANKERS TO THE ISSUE

HDFC Bank Limited
HDFC Bank House,
Senapati Bapat Marg,
Mumbai 400 013
Tel.: +91 22 5652 1000
Fax No: +91 22 2496 0696 / 2460 0973

BROKERS TO THE ISSUE

There are no brokers to the issue.

CREDIT RATING

Credit Analysis and Research Limited (hereinafter referred to as CARE) has assigned a 'CARE AAA' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore having a maturity of 15-25 years vide its letter dated May 02, 2006. Instruments with this rating are considered to be of the best credit quality, offering highest safety of timely servicing of debt obligations. The text of the rating letter from CARE is reproduced elsewhere in this Shelf Memorandum of Information.

CRISIL has assigned a 'AAA / Stable' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore vide its letter dated May 04, 2006. This rating indicates highest degree of safety with regard to timely payment of interest and principal on the instrument. The text of the rating letter from CRISIL is reproduced elsewhere in this Shelf Memorandum of Information.

Please note that, the rating is not a recommendation to buy, sell or hold securities and investors should take their own decision. The rating may be subject to revision or withdrawal at any time by the assigning rating agency and each rating should be evaluated independently of any other rating. The ratings obtained are subject to revision at any point of time in the future. The rating agency has the right to suspend, withdraw the rating at any time on the basis of new information etc.

Other Credit Ratings

Rating Notified on	Security Type	Amount	Rating Code	Notes
February 24, 2006	Subordinated Bonds	Rs. 1000 crore	CARE AAA	This rating indicates investment is of best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margins. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such instruments.
February 24, 2006	Subordinated Bonds	Rs. 1000 crore	FITCH AAA(ind)	This rating denotes the highest rating assigned in the agency's national rating scale for India. This rating is assigned to the 'best' credit risk relative to all other issuers or issues in India and will normally be assigned to all financial commitments issued or guaranteed by the sovereign state.
December 29, 2003	Subordinated Bonds	Rs. 400 crore	CARE AAA	This rating indicates investment is of best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margins. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such instruments.
December 30, 2003	Subordinated Bonds	Rs. 400 crore	FITCH AAA(ind)	This rating denotes the highest rating assigned in the agency's national rating scale for India. This rating is assigned to the 'best' credit risk relative to all other issuers or issues in India and will normally be assigned to all financial commitments issued or guaranteed by the sovereign state.

During the fiscal 2005, the bank received a 'Triple-A rating' from CARE for its fixed deposit program. The bank's certificate of deposit program also received a 'PR One Plus rating' from CARE. The deposit program of the bank also has been notified a 'Triple-A rating' from Fitch. The bank received a rating of 'CRSIL GVC – Level 1' from CRISIL Limited, indicating the bank's capability with respect to wealth creation for all its stakeholders while adopting sound corporate governance practices.

UNDERWRITING

The issuance of Upper Tier II bonds under this shelf information memorandum may or may not be on an underwritten (part or full) basis. The underwriting status will be decided at the time of issue of each tranche (or series).

COMPLIANCE OFFICER AND COMPANY SECRETARY

Sanjay Dongre,
 Vice - President (Legal) &
 Company Secretary,
 HDFC Bank Limited,
 2nd Floor, Process House,
 Kamala Mills Compound,
 Lower Parel (West),
 Mumbai - 400 013
 Telephone No.: +91 22 2498 8484 Extn.: 3473
 Fax No.: +91 22 2496 5235
 Email: sanjay.dongre@hdfcbank.com

The investors can contact the Compliance Officer in case of any pre-issue/ post-issue related problems such as non-credit of letter(s) of allotment/ bond certificate(s) in the demat account, non-receipt of refund order(s), interest warrant(s)/ cheque(s) etc.

B. CAPITAL STRUCTURE

		(Rs. crore)	
As on March 31, 2006		Nominal Value	Issue Amount
1. SHARE CAPITAL			
A	Authorised Equity Share Capital 45,00,00,000 Equity Shares of Rs. 10/- each	450.00	450.00
B	Issued Equity Share Capital 31,31,42,408 Equity Shares of Rs. 10/- each	313.14	313.14
C	Subscribed & Paid-up Equity Share Capital 31,31,42,408 Equity Shares of Rs. 10/- each	313.14	313.14
2. SIZE OF THE PRESENT ISSUE			
Information shall be provided as the time of issuance.			
3. UNSECURED LOANS			
	Unsecured non-convertible debt (subordinate for Tier II capital)		1,702.00
	Deposits		55,796.82
	Borrowings from banks and other institutions / agencies in India		1,410.78
	Borrowings outside India		1,447.70
	TOTAL		60,357.30
4. PAID UP EQUITY SHARE CAPITAL AFTER THE PRESENT ISSUE			
	31,31,42,408 Equity Shares of Rs. 10/- each	313.14	313.14
5. SHARE PREMIUM ACCOUNT			
a.	Before the Issue		2,376.71
b.	After the Issue		2,376.71

NOTES TO CAPITAL STRUCTURE

1. PROMOTER'S CONTRIBUTION AND LOCK-IN

Sr. No.	Date of Allotment	Date when made fully paid-up	Consideration (Cash, bonus, kind etc.)	No. of shares	Face Value	Issue Price	% of Post-Issue paid-up capital	Lock-In Period
1.	30.09.94	30.09.94	Cash	3,15,50,000	Rs. 10/-	Rs. 10/-	NA	NA
2.	30.09.94	30.09.94	Cash	2,00,00,000	Rs. 10/-	Rs. 10/-	NA	NA
3.	28.03.00	28.03.00	Cash	1,33,10,000	Rs. 10/-	Rs. 10/-	NA	NA

2. PROMOTERS CONTRIBUTION AND LOCK-IN IN RESPECT OF PROMOTERS WHOSE NAME FIGURE IN THE SHELF MEMORANDUM OF INFORMATION AS PROMOTERS IN THE PARAGRAPH ON "PROMOTERS AND THEIR BACKGROUND"

Sr. No.	Name of the Promoter	Date of Allotment	Date when made fully paid-up	Consideration (Cash, bonus, kind etc.)	No. of shares	Face Value	Issue Price	% of Post-Issue paid-up capital	Lock-In Period
1.	HDFC Ltd	30.09.94	30.09.94	Cash	3,15,50,000	Rs. 10/-	Rs. 10/-	NA	NA
2.	HDFC Investment Limited	30.09.94	30.09.94	Cash	2,00,00,000	Rs. 10/-	Rs. 10/-	NA	NA
3.	HDFC Holding Limited	28.03.00	28.03.00	Cash	1,33,10,000	Rs. 10/-	Rs. 10/-	NA	NA

Note: NA = Not Applicable.

3. LIST OF TOP 10 SHAREHOLDERS AND THE NUMBER OF SHARES HELD BY THEM AS AT MARCH 31, 2004:

Sr. No.	Name of Share Holder	No. of Shares held	% to share Capital
1	Housing Development Finance Corporation	3,88,60,000	13.64
2	ADS Depository (J. P. Morgan Chase Group)	3,73,65,252	13.12
3	HDFC Investments Limited	3,00,00,000	10.53
4	Life Insurance Corporation of India Limited	1,43,25,916	5.03
5	The Standard Life Investments Ltd. A/c SLAC (Mauritius Investments Ltd.)	1,21,64,098	4.27
6	The India Private Equity Fund (Mauritius)	1,16,20,886	4.08
7	Smallcap World Fund Inc.	1,12,92,240	3.96
8	Bennett, Coleman & Company Limited	88,49,929	3.11
9	Emerging Markets Growth Fund Inc.	45,00,452	1.58
10	Indocean Financial Holding Limited	39,82,752	1.4

4. LIST OF TOP 10 SHAREHOLDERS AND THE NUMBER OF SHARES HELD BY THEM AS AT MAY 20, 2006:

Sr. No.	Name of Share Holder	No. of Shares held	% to share Capital
1	J P Morgan Chase Bank (ADS)	6,03,38,247	19.23
2	HDFC Limited	3,88,60,000	12.38
3	HDFC Investments Limited	3,00,00,000	9.56
4	Crown Capital Limited	1,54,89,634	4.93
5	BDS Bank Limited	1,16,20,886	3.7
6	Life Insurance Corporation of India	1,00,49,927	3.2
7	Bennett Coleman Co. Limited	88,49,929	2.82
8	J P Morgan Asset Mgmt (Europe) S A R L	40,48,636	1.29
9	Morgan Stanley & Co Int Ltd A/ c Morgan Stanley Dean Writter Mauritius Company Limited	40,36,643	1.28
10	Indocean Financial Holding Limited	39,82,752	1.27

5. LIST OF TOP 10 SHAREHOLDERS AND THE NUMBER OF SHARES HELD BY THEM AS AT MARCH 31, 2006:

Sr. No.	Name of Shaer Holder	No. of Shares held	% to share Capital
1	J P Morgan Chase Bank (ADS)	6,03,38,247	19.23
2	HDFC Limited	3,88,60,000	12.38
3	HDFC Investments Limited	3,00,00,000	9.56
4	Crown Capital Limited	1,54,89,634	4.93
5	BDS Bank Limited	1,16,20,886	3.7
6	Life Insurance Corporation of India	95,18,096	3.04
7	Bennett Coleman Co. Limited	88,49,929	2.82
8	FID Funds (Mauritius) Limited	61,88,781	1.98
9	Small Cap World Fund INC	52,06,500	1.66
10	J P Morgan Fleming Asset Management (Europe) S A R L A/c Flagship Indian Investment Company (Mauritius) Limited	40,48,636	1.29

6. SHAREHOLDING PATTERN (as at March 31, 2006):

Sr. No.	Category	Number of Shares Held	% Shareholding
A	Promoter's Holding		
1.	Promoter Companies	6,88,61,000	21.99
2.	Directors of Promoter Companies	412,816	0.13
3.	Persons acting in Concert	-	-
	Sub Total	6,92,73,816	22.12
B.	Non-Promoters Holding		
4.	Institutional Investors:-		
a.	Mutual Funds & UTI	37,43,283	1.20
b.	Banks, Financial Institutions, Insurance Companies (Central/ State Govt. Institutions/ Non Government Institutions)	124,05,198	3.96
c.	Foreign Institutional Investors (excluding ADS and J P Morgan Advisors)	1,017,16,476	32.48
	Sub Total	11,78,64,957	37.64
5.	Others:		
a.	Private Corporate Bodies	63,01,529	2.01
b.	Indian Public	3,73,82,586	11.94
c.	NRIs/ OCBs	18,06,113	0.58
d.	Strategic Investors	39,82,752	1.27
e.	Bennett & Coleman Group	1,61,92,408	5.17
f.	ADS holders (J P Morgan Chase Bank)	6,03,38,247	19.27
	Sub Total	12,60,03,635	40.24
	Grand Total	31,31,42,408	100.00

7. No transfer has been effected by the promoter companies during the preceding 6 months.
8. Promoter holding and lock-in provisions: the promoter holding after this issue would remain intact at 21.99%. Further, the present issue is a debt issue and therefore the provisions of lock-in do not apply.
9. The Issuer Company has not issued any shares or debentures or agreed to issue any shares or debentures for consideration other than cash other than that mentioned elsewhere in the Shelf Memorandum of Information, within the two years preceding the date of this Shelf Memorandum of Information.
10. The number of shareholders of the Issuer Company as on March 31, 2006 was 1,81,468.
11. At any given time there shall be only one denomination for the shares of the bank and the bank shall comply with such disclosure and accounting norms as specified by SEBI from time to time.
12. Reservation for small investors in allotment: The present Issue of bonds being made on private placement basis, there shall be no reservation for small/ individual investors and the allotment for bonds shall be finalized by the bank at its sole and absolute discretion.
13. The Issuer Company has not raised any bridge loan or any other similar financial arrangement against the proceeds of the Issue.
14. The Promoters and the Directors of the Issuer Company have not entered into any standby, buy-back or similar arrangements for purchase of securities offered through this Shelf Memorandum of Information.

C. TERMS OF THE PRESENT ISSUE

The Bonds offered are subject to provisions of the Companies Act, 1956, Securities Contract Regulation Act, 1956, Memorandum and Articles of Association of the Bank, Terms of this Information Memorandum, Instructions contained in the Application Form and other terms and conditions as may be incorporated in the Trustee Agreement and Bond Trust Deed. Over and above such terms and conditions, the Bonds shall also be subject to the applicable provisions of the Depositories Act 1996 and the laws as applicable, guidelines, notifications and regulations relating to the allotment & issue of capital and listing of securities issued from time to time by the Government of India (GoI), Reserve Bank of India (RBI), Securities & Exchange Board of India (SEBI), concerned Stock Exchange(s) or any other authorities and other documents that may be executed in respect of the Bonds.

NATURE & STATUS OF THE BONDS

The Bonds will be issued in the form of Unsecured Redeemable Non-Convertible Subordinated (Upper Tier II) Bonds in the nature of Debentures. The claims of the investors in Upper Tier II instruments shall be superior to the claims of investors in instruments eligible for inclusion in Tier I capital and subordinate to the claims of all other creditors.

In compliance with the guidelines of RBI, these bonds shall not be redeemable at the initiative of the investor and all redemptions shall be made only with the prior approval of RBI and in accordance with the prevailing guidelines. Also these bonds are subject to lock-in-provisions and HDFC Bank shall not be liable to pay either interest or principal, even at maturity, if the bank's Capital to Risk Asset Ratio (CRAR) falls below or remains below the minimum regulatory requirement prescribed by RBI or the impact of such payment results in the bank's Capital to Risk Asset Ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by RBI (RBI circular DBOD.NO.BP.BC.57/21.01.002/2005-2006 dated January 25, 2006)

BASIC TERMS OF THE ISSUE:

The bank proposes to issue Unsecured Subordinated Debentures in the nature of Non-convertible Redeemable Debentures as part of Tier II Capital of the face value of Rs. 10,00,000 each at par, aggregating to Rs. 1,000 crore in one or more tranches. The common terms are given below. The specific terms of each tranche will be finalized at the time of issuance and would be submitted to the stock exchange(s) at that point of time.

TERMS OF THE ISSUE	
Face Value & Issue Price	Rs. 10,00,000/- per Debenture
Instrument	Unsecured Subordinated Debentures in the nature of Non-convertible Redeemable debentures
Amount Payable on Application	Rs. 10,00,000/- per Debenture
Minimum Application Size	To be finalised for each tranche (or series.)
Interest Rate	Either Fixed rate or floating rate in accordance with RBI guidelines To be finalised for each tranche (or series.)
Put Option	None
Call Option	HDFC Bank has the right to issue the Bonds with a call option. Call option for each tranche or series will be finalised at time of issue of each tranche (or series).
Lock-in-clause	It will subjected to a lock in clause in terms of which, HDFC Bank shall not be liable to pay either interest or principal, even at maturity if a) CRAR is below the minimum regulatory requirement prescribed by RBI or b) The impact of such payment results in HDFC Bank's Capital to Risk Asset Ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by RBI.
Step up Option	The Step up option may be exercised only once during the life of the bond, in conjunction with the call option, after the lapse of 10 years from the date of allotment. The step up shall not be more than 100 bps over original coupon of the Bond. Step up option will be finalised at the time of issue of each tranche (or series).
Interest on Application money	Interest rate on application money will be at the Coupon rate (subject to deduction of Tax at Source at the rate prevailing from time to time under the provisions of the Income Tax Act, 1961 or any other statutory modifications or re-enactment thereof) and will be paid on application money to the applicants from the date of realisation of but excluding the deemed date of allotment.
Computation of	Interest payable on the Debentures will be calculated on the basis of actual number of

Interest	days elapsed in a year of 365 (or 366 Days as the case may be).
Holiday Convention	If any of the interest or principal payment date(s) is a holiday in Mumbai, amount will be paid on the succeeding business day in Mumbai
Market Lot Size	1 Debenture
Maturity Date	The Debentures will have a minimum maturity of 15 years Exact Maturity date will be finalised at the time of issue of each tranche (or series).

Depository Arrangements

The Bank has appointed MCS Limited, Harmony, 1st floor, Sector 1, Khanda, New Panvel (West), Dist. Raigad as Registrars & Transfer Agent for the present bond issue. The Bank has made necessary depository arrangements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for issue and holding of Bonds in dematerialized form. Investors shall hold the bonds only in dematerialized form and deal with the same as per the provisions of Depositories Act, 1996 as amended from time to time.

Procedure for applying in demat form

- The applicant must have at least one beneficiary account with any of the Depository Participants (DPs) of NSDL or CDSL prior to making the application.
- The applicant must necessarily fill in the details (including the beneficiary account number and Depository Participant's ID) appearing in the Application Form under the heading 'Details for Issue of Bonds in Electronic/ Dematerialised Form'.
- Bonds allotted to an applicant will be credited directly to the applicant's respective Beneficiary Account(s) with the DP.
- For subscribing the bonds, names in the application form should be identical to those appearing in the account details in the depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the depository.
- Non-transferable allotment advice/refund orders will be directly sent to the applicant by the Registrars to the Issue.
- If incomplete/incorrect details are given under the heading 'Details for Issue of Bonds in Electronic/ Dematerialised Form' in the application form, it will be deemed to be an incomplete application and the same may be held liable for rejection at the sole discretion of the Bank.
- For allotment of Bonds, the address, nomination details and other details of the applicant as registered with his/her/its DP shall be used for all correspondence with the applicant. The Applicant is therefore responsible for the correctness of his/her/its demographic details given in the application form vis-à-vis those with his/her/its DP. In case the information is incorrect or insufficient, the Issuer would not be liable for losses, if any.
- It may be noted that Bonds being issued in electronic form, the same can be traded only on the Stock Exchanges having electronic connectivity with NSDL or CDSL. The National Stock Exchange where the Bonds of the Bank are proposed to be listed has connectivity with NSDL and CDSL.
- Interest or other benefits would be paid to those Bondholders whose names appear on the list of beneficial owners given by the Depositories to the Bank as on Record Date/ Book Closure Date. In case of those Bonds for which the beneficial owner is not identified by the Depository as on the Record Date/ Book Closure Date, the Bank would keep in abeyance the payment of interest or other benefits, till such time that the beneficial owner is identified by the Depository and conveyed to the Bank, whereupon the interest or benefits will be paid to the beneficiaries, as identified, within a period of 30 days.
- Investors may note that pursuant to circular no. SEBI/MRD/SE/AT/36/2003/30/09 dated September 30, 2003 issued by SEBI, the Bonds of the Bank would be issued and traded only in dematerialised form.

Market Lot

The market lot will be one Bond ("Market Lot"). Since the bonds are being issued only in dematerialised form, the odd lots will not arise either at the time of issuance or at the time of transfer of bonds.

Letter(s) of Allotment/ Bond Certificate(s)/ Refund Order(s)

Issue of Letter(s) of Allotment

The beneficiary account of the investor(s) with National Securities Depository Limited (NSDL)/ Central Depository Services (India) Limited (CDSL)/ Depository Participant will be given initial credit within 15 days from the Deemed Date of Allotment. The initial credit in the account will be akin to the Letter of Allotment. On completion of all statutory formalities, such credit in the account will be akin to a Bond Certificate.

Issue of Bond Certificate(s)

Subject to the completion of all legal formalities within 3 months from the Deemed Date of Allotment, or such extended period as may be approved by the Appropriate Authorities, the initial credit akin to a Letter of Allotment in the Beneficiary Account of the investor would be replaced with the number of Bonds allotted.

Despatch of Refund Orders

The Bank shall ensure dispatch of Refund Order(s) by registered post/speed post/courier/hand delivery and adequate funds for the purpose shall be made available to the Registrar to the Issue by the Issuer Company.

Terms of Payment

The full face value of the Bonds applied for is to be paid along with the Application Form. Investor(s) need to send in the Application Form and the cheque(s)/ demand draft(s) for the full face value of the Bonds applied for along with the necessary supporting documents.

Payment of Interest

The interest will be payable as per the terms set out in the term sheet for the respective tranche to the Bondholder(s) whose names appear in the List of Beneficial Owners given by the Depository to the Bank on the Record Date. Payment of interest will be made by way of cheque(s)/ interest warrant(s)/ demand draft(s), which will be dispatched to the sole/ first applicant, 7 days before the due date(s) by registered post/speed post/courier/hand delivery at the sole risk of the applicant. The warrants shall be payable at par at following centres: Mumbai, Delhi, Kolkata, Chennai, Bangalore, Ahmedabad and Hyderabad.

With reference to the RBI circular no. DBOD.No.BP.BC. 57/21.01.002/ 2005-2006 dated January 25, 2006 on the subject of enhancement of banks' capital raising options covering norms for raising of instruments eligible for inclusion under Upper Tier II capital, these Bonds are free of any restrictive clauses and shall not be redeemable at the initiative of the holder. Redemption of these Bonds shall be made only with the prior approval of the RBI. Further these Bonds shall be subjected to a lock-in clause in terms of which the Bank shall not be liable to pay principal even at maturity if (a) the Bank's CRAR is below the minimum regulatory requirement prescribed by the RBI or (b) the impact of such payment results in Bank's Capital to Risk Assets Ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by the RBI. However, the bank may pay interest with the prior approval of RBI when the impact of such payment may result in net loss or increase the net loss provided CRAR remains above the regulatory minimum. The interest amount due and remaining unpaid may be allowed to be paid in the later years in cash/ cheque subject to the bank complying with the above regulatory requirements.

Seniority of claim

The claims of the investor in upper Tier 2 Bonds shall be

- a) Superior to the claims of investors in instrument eligible for inclusion in Tier 1 capital , and
- b) Subordinate to the claims of all other creditors

Tax Deduction at Source (TDS)

Tax as applicable under the Income Tax Act, 1961, or any other statutory modification or re-enactment thereof will be deducted at source. For seeking TDS exemption/ lower rate of TDS, relevant certificate(s)/ document(s) must be lodged 30 days before the coupon date or 31st March whichever is earlier, each financial year with the Company Secretary, HDFC Bank Ltd., 2nd Floor, Process House, Kamala Mills Compound, Lower Parel (West), Mumbai - 400 013, or to such other person(s) at such other address (es) as the Bank may specify from time to time through suitable communication.

Tax exemption certificate on interest on application money, should be submitted along with the Application Form. Where any deduction of Income Tax is made at source, the Bank shall send to the Bondholder(s) a Certificate of Tax Deduction at Source.

Bondholder(s) should also consult their own tax advisers on the tax implications of the acquisition, ownership and sale of Bonds, and income arising thereon.

Put & Call Option

PUT OPTION: Put Option is not available to the Bondholder(s).

CALL OPTION: HDFC Bank has the right to issue Bonds with a call Option subject to strict compliance with each of the following conditions:

- Call option may be exercised only if the Bond has run for at least ten years
- Call option shall be exercised only with the prior approval of RBI (Department of Banking operations and Development).

Call option will be finalised at time of issue of each tranche (or series).

Redemption

The face value of the Debentures will be redeemed at par, as will be provided in the Term Sheet, from the Deemed Date of Allotment However, the bonds shall not be redeemable before maturity at the initiative of the holder or without the consent of the RBI in terms of the Capital Adequacy DBOD.NO.BP.BC.57/ 21.01.002 / 2005-2006 dated January 25, 2006 issued by RBI, as amended from time to time.

In case if the principal redemption date falls on a day which is not a Business Day ('Business Day' being a day on which Commercial Banks are open for Business in the city of Mumbai, Maharashtra), then the payment due shall be made on the next Business Day together with additional interest for the intervening period.

Payment on Redemption

Payment on redemption will be made by cheque(s)/ warrants(s) in the name of the Bondholder whose name appears on the List of Beneficial owners given by Depository to the Bank as on the Record Date. On the Bank dispatching the redemption warrants to such Beneficiary (ies) by registered post/speed post/courier/hand delivery, the liability of the Bank shall stand extinguished.

The Bonds shall be taken as discharged on dispatch of redemption warrants by the Bank on maturity to the list of Beneficial Owners as provided by NSDL/ CDSL/ Depository Participant. The Bank will inform NSDL/ CDSL/ Depository Participant about the redemption and the necessary corporate action would be taken.

The Bank's liability to the Bondholders towards all their rights including for payment or otherwise shall cease and stand extinguished from the due date of redemption in all events. Further the Bank will not be liable to pay any interest or compensation from the date of redemption. On the Bank dispatching the warrants or crediting the beneficiary's account by relevant amount as specified above in respect of the Bonds, the liability of the Bank shall stand extinguished.

Record Date and Beneficial Owners

The Bank shall be at liberty to fix the record date to facilitate payment of interest and / or for redemption of Bonds. The Bank shall request the Depository(ies) to provide a list of Beneficial Owners as at the end of the Record Date. This shall be the list, which shall be considered for payment of interest or repayment of principal amount, as the case may be.

Effect of Holidays

Should any of dates defined above or elsewhere in the Information Memorandum, excepting the Deemed Date of Allotment, fall on a Saturday, Sunday or a Public Holiday, the next working day shall be considered as the effective date(s).

Mode of Transfer of Bonds

Bonds shall be transferred subject to and in accordance with the rules/ procedures as prescribed by the NSE/Depositories/ Depository Participant of the transferor/ transferee and any other applicable laws and rules notified in respect thereof.

Trustees for the Bondholders

The Bank has appointed IDBI Trusteeship Services Limited to act as Trustees for the Bondholders ("Trustees").

The Bank and the Trustees will enter into a Trustee Agreement, inter alia, specifying the powers, authorities and obligations of the Trustees and the Bank. The Bondholder(s) shall, without further act or deed, be deemed to have irrevocably given their consent to the Trustees or any of their agents or authorized officials to do all such acts, deeds, matters and things in respect of or relating to the Bonds as the Trustees may in their absolute discretion deem necessary or require to be done in the interest of the Bondholder(s). Any payment made by the Bank to the Trustees on behalf of the Bondholder(s) shall discharge the Bank pro tanto to the Bondholder(s).

The Trustees will protect the interest of the Bondholders in the event of default by the Bank in regard to timely payment of interest and repayment of principal and they will take necessary action at the cost of the Bank.

Right to Accept or Reject Applications

The Bank reserves the right at its sole and absolute discretion to accept subscription amount(s).

The Board of Directors/ Committee of Directors reserves its full, unqualified and absolute right to accept or reject any application, in part or in full, without assigning any reason thereof. The rejected applicants will be intimated along with the refund warrant, if applicable, to be sent. The Application Forms that are not complete in all respects are liable to be rejected and would not be paid any interest on the application money. Application would be liable to be rejected on one or more technical grounds, including but not restricted to:

- Number of bonds applied for is less than the minimum application size;
- Applications exceeding the issue size;
- Bank account details not given;
- Details for issue of bonds in electronic/ dematerialised form not given;
- PAN/GIR and IT Circle/Ward/District not given;
- In case of applications under Power of Attorney by limited companies, corporate bodies, trusts, etc. relevant documents not submitted;
- In the event, if any Bond(s) applied for is/ are not allotted in full, the excess application monies of such Bonds will be refunded, as may be permitted.

HOW TO APPLY**General**

This Information Memorandum is neither a prospectus nor a statement in lieu of prospectus and does not constitute an offer to the public generally to subscribe for or otherwise acquire the Bonds issued by the Bank. The document

is for the exclusive use of the person(s) to whom it is delivered and it should not be circulated or distributed to third parties. The document would be sent specifically addressed to such persons by the Issuer Bank

The Issue/Offer/Book will open for subscription at the commencement of banking hours and close at the close of banking hours on the dates indicated under the head "Issue Schedule" above or earlier or on such extended date as may be decided by the Bank at its sole and absolute discretion without giving any reasons or prior notice. In such a case, investors will be intimated about the revised time schedule by the Bank. The Bank also reserves the right to keep multiple Deemed Date(s) of Allotment at its sole and absolute discretion without any notice.

Only eligible investors as given hereunder may apply for bonds through the procedure detailed hereunder. Applications should be for a minimum of 10 Bonds and in multiples of 1 Bond thereafter. Applications not completed in the said manner are liable to be rejected. Application Form duly completed in all respects must be submitted with the designated branch of the Bankers to the Issue. The name of the applicant's bank, type of account and account number must be filled in the Application Form. This is required for the applicant's own safety and these details will be printed on the refund orders and interest/ redemption warrants.

The Application Forms must be completed in the prescribed format in BLOCK LETTERS in English as per the instructions contained therein. The applicant or in the case of an application in joint names, each of the applicants, should mention his/her/it's Permanent Account Number (PAN) allotted under the Income-tax Act, 1961 or where the same has not been allotted, the GIR No. and the Income tax Circle/Ward/District No. As per the provision of Section 139A(5A) of the Income Tax Act, PAN/GIR No. needs to be mentioned on the TDS certificates. In case neither the PAN nor the GIR Number has been allotted, the applicant shall mention "Applied for" and in case the applicant is not assessed to income tax, the applicant shall mention 'Not Applicable' (stating reasons for non applicability) in the appropriate box provided for the purpose. Application Forms without this information will be considered incomplete and are liable to be rejected.

Applications may be made in single or joint names (not exceeding three). In the case of joint applications, all payments will be made out in favour of the first applicant. All communications will be addressed to the first named applicant whose name appears in the Application Form at the address mentioned therein.

Unless the Issuer specifically agrees in writing with or without such terms or conditions it deems fit, a separate single cheque/ demand draft must accompany each Application Form. Applicants are requested to write their names and application serial number on the reverse of the instruments by which the payments are made.

Application Form must be accompanied by either demand draft(s) or cheque(s) drawn or made payable in favour of 'HDFC Bank Limited' and crossed 'Account Payee Only'. Cheque(s)/ demand draft(s) may be drawn on any bank including a co-operative bank, which is a member or a sub-member of the Bankers Clearing House located at Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, or New Delhi.

Investors in centres which do not have any bank, including a co-operative bank, which is a member or sub-member of the Banker's Clearing House located at any of the centres mentioned above, will be required to make payments only through demand drafts payable at any one of the above centres. Cash, outstation cheques, money orders, postal orders and stockinvest shall not be accepted. The Bank assumes no responsibility for any applications/ cheques/ demand drafts lost in mail.

No separate receipts shall be issued for the application money. However, Bankers to the Issue at their Designated Branch receiving the duly completed Application Forms will acknowledge the receipt of the applications by stamping and returning the acknowledgment slip to the applicant. Applications shall be deemed to have been received by the Issuer only when submitted to Bankers to the Issue at their designated branch and not otherwise.

Further instructions, will be provided in the Term Sheet at the time of issuance

Who Can Apply

The following categories of investors may apply for the bonds, subject to fulfilling their respective investment norms/ rules by submitting all the relevant documents along with the application form.

- Scheduled Commercial Banks;
- Financial Institutions;
- Insurance Companies;
- Primary/ State/ District/ Central Co-operative Banks (subject to permission from RBI);
- Provident, Gratuity, Pension and Superannuation Funds;
- Regional Rural Banks;
- Mutual Funds;
- Companies, Bodies Corporate authorised to invest in bonds;
- Trusts, Association of Persons, Societies registered under the applicable laws in India which are duly authorised to invest in bonds.

Applications not to be made by

- Partnership Firms or their nominees;
- Overseas Corporate Bodies (OCBs);

Applications under Power of Attorney

A certified true copy of the power of attorney or the relevant authority as the case may be along with the names and specimen signature(s) of all the authorized signatories and the tax exemption certificate/ document, if any, must be lodged along with the submission of the completed Application Form. Further modifications/ additions in the power of attorney or authority should be notified to the Bank or to its Registrars or to such other person(s) at such other address (es) as may be specified by the Bank from time to time through a suitable communication.

Applications by Provident Funds, Superannuation Funds and Gratuity Funds

The Government of India has permitted Provident, Superannuation and Gratuity Funds, subject to their assessment of the risk-return prospects, to invest up to 10 per cent in the Bonds and securities issued by private sector organisation including banks provided that the bonds or securities have an investment grade rating from at least two credit rating agencies. Accordingly, provident, superannuation and gratuity funds can invest up to 10 per cent of their corpus in these bonds.

Application by Mutual Funds

In case of applications by Mutual Funds, a separate application must be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications, provided that the application made by the Asset Management Company/ Trustees/ Custodian clearly indicate their intention as to the scheme for which the application has been made.

Future Borrowings

The Bank shall be entitled to borrow/ raise loans or avail of financial assistance in whatever form as also issue Bonds/ Debentures/ Notes other securities in any manner with ranking as pari-passu basis or otherwise and to change its capital structure, including issue of shares of any class or redemption or reduction of any class of paid up capital, on such terms and conditions as the Bank may think appropriate, without the consent of, or intimation to, the Bondholder(s) or the Trustees in this connection.

Bondholder not a Shareholder

The Bondholders shall not be entitled to any of the rights and privileges available to the Shareholders.

Rights of Bondholders

The Bonds shall not, except as provided in the Companies Act, 1956 confer upon the holders thereof any rights or privileges available to the members of the Bank including the right to receive Notices or Annual Reports of, or to attend and/or vote, at the General Meeting of the Bank. However, if any resolution affecting the rights attached to the Bonds is to be placed before the shareholders, the said resolution will first be placed before the concerned registered Bondholders for their consideration. In terms of Section 219(2) of the Act, holders of Bonds shall be entitled to a copy of the Balance Sheet on a specific request made to the Bank.

The rights, privileges and conditions attached to the Bonds may be varied, modified and/or abrogated with the consent in writing of the holders of at least three-fourths of the outstanding amount of the Bonds or with the sanction of Special Resolution passed at a meeting of the concerned Bondholders, provided that nothing in such consent or resolution shall be operative against the Bank, where such consent or resolution modifies or varies the terms and conditions governing the Bonds, if the same are not acceptable to the Bank.

The registered Bondholder or in case of joint-holders, the one whose name stands first in the Register of Bondholders shall be entitled to vote in respect of such Bonds, either in person or by proxy, at any meeting of the concerned Bondholders and every such holder shall be entitled to one vote on a show of hands and on a poll, his/her/it's voting rights shall be in proportion to the outstanding nominal value of Bonds held by him/her/it on every resolution placed before such meeting of the Bondholders.

The quorum for such meetings shall be at least five Bondholders present in person or as may be prescribed by law from time to time.

The Bonds are subject to the provisions of the Companies Act, 1956, the Memorandum and Articles, the terms of this Information Memorandum and Application Form. Over and above such terms and conditions, the Bonds shall also be subject to other terms and conditions as may be incorporated in the Trustee Agreement/ Letters of Allotment/ Bond Certificates, guidelines, notifications and regulations relating to the issue of capital and listing of securities issued from time to time by the Government of India and/or other authorities and other documents that may be executed in respect of the Bonds.

Save as otherwise provided in this Information Memorandum, the provisions contained in Annexure C and/ or Annexure D to the Companies (Central Government's) General Rules and Forms, 1956 as prevailing and to the extent applicable, will apply to any meeting of the Bondholders, in relation to matters not otherwise provided for in terms of the Issue of the Bonds.

A register of Bondholders will be maintained in accordance with Section 152 of the Act and all interest and principal sums becoming due and payable in respect of the Bonds will be paid to the registered holder thereof for the time being or in the case of joint-holders, to the person whose name stands first in the Register of Bondholders. The Bondholders will be entitled to their Bonds free from equities and/or cross claims by the Bank against the original or any intermediate holders thereof.

Succession

In the event of winding-up of the holder of the Bond(s), the Bank will recognize the executor or administrator of the concerned Bondholder(s), or the other legal representative as having title to the Bond(s). The Bank shall not be bound to recognize such executor or administrator or other legal representative as having title to the Bond(s), unless such executor or administrator obtains probate or letter of administration or other legal representation, as the case may be, from a Court in India having jurisdiction over the matter.

The Bank may, in their absolute discretion, where they think fit, dispense with production of probate or letter of administration or other legal representation, in order to recognize such holder as being entitled to the Bond(s) standing in the name of the concerned Bondholder on production of sufficient documentary proof or indemnity.

Notices

All notices to the Bondholder(s) required to be given by the Bank or the Trustees shall be published in one English and one regional language daily newspaper in Mumbai and/ or, will be sent by post/courier/hand delivery to the sole/ first allottee or sole/ first Beneficial Owner of the Bonds, as the case may be from time to time.

All notice(s) to be given by the Bondholder(s) shall be sent by registered post/speed post/courier/hand delivery to the Bank or to such persons at such address as may be notified by the Bank from time to time through suitable communication.

Joint-Holders

Where two or more persons are holders of any Bond(s), they shall be deemed to hold the same as joint tenants with benefits of survivorship subject to other provisions contained in the Articles.

Sharing of Information

The Bank may, at its option, use on its own, as well as exchange, share or part with any financial or other information about the Bondholders available with the Bank, with its subsidiaries and affiliates and other banks, financial institutions, credit bureaus, agencies, statutory bodies, as may be required and neither the Bank or its subsidiaries and affiliates nor their agents shall be liable for use of the aforesaid information.

Debenture/ Bond Redemption Reserve

The Government of India, Ministry of Company Affairs has vide General Circular No. 9/2002 No.6/3/2001-CL.V dated April 18, 2002 clarified that banks need not create Debenture Redemption Reserve as specified under section 117C of the Companies Act, 1956.

Undertaking by the Issuer

The Issuer Company undertakes that:

- the complaints received in respect of the Issue shall be attended to by the issuer company expeditiously and satisfactorily;
- it shall take all steps for completion of formalities for listing and commencement of trading at all the concerned stock exchange(s) where securities are to be listed and taken within 7 working days of the deemed date of allotment.
- the funds required for despatch of refund orders shall be made available to the Registrar to the Issue by the Issuer Company;
- no further issue of securities shall be made till the securities offered through this Information Memorandum are listed or till the application moneys are refunded on account of non-listing, under-subscription, etc;
- necessary co-operation to the credit rating agency(ies) shall be extended in providing true and adequate information till the debt obligations in respect of the instrument are outstanding.

D. PARTICULARS OF THE ISSUE

OBJECTS OF THE ISSUE

The present issue of bonds is being made for augmenting the Tier-II Capital of the bank for strengthening its Capital Adequacy and for enhancing the long-term resources of the bank. The Main Object Clause of the Memorandum of Association of the bank enables it to undertake the activities for which the funds are being raised through the present issue and also the activities, which the bank has been carrying on till date. The proceeds of this Upper Tier II issue will be used by the bank for its regular business activities.

Capital Adequacy position of the bank

The Capital Adequacy Ratio ("CAR") of the bank as on March 31, 2006 was 11.14% as against the RBI stipulation of 9.00%. Details of capital vis-à-vis risk weighted assets are as under:

(Rs. lac)

As on	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Capital Funds					
Tier I Capital	169,246	198,502	222,970	396,216	514,991
Tier II Capital	48,716	34,147	100,812	105,473	172,071
Total Capital Fund	217,962	232,649	323,782	501,689	687,062
Risk Weighted Assets and contingents	1,565,217	2,091,771	2,777,382	4,127,103	6,021,762
Capital Adequacy Ratio (%)	13.93%	11.12%	11.66%	12.16%	11.41%

Requirement of Enhancement of Capital

The bank expects to post a growth in business in the years to come. As a result, risk weighted assets of the bank are also expected to increase over the years. The implementation of the Basel II capital adequacy standards could also result in an increase in the risk weighted assets of the bank. Increase in Tier I capital through retained earnings alone may not be sufficient to enable the bank to maintain an adequate capital adequacy ratio. In view of this likely increase in its risk weighted assets, the bank proposes to augment its capital base in order to sustain a healthy CAR.

The bank came out with ADR issues of equity shares in July 2001 and January 2005, details of which are given elsewhere in the Shelf Memorandum of Information.

The bank has also raised Tier II Capital by way of Private Placement of unsecured, redeemable bonds to augment capital adequacy. The details of the bonds outstanding as of March 31, 2006 are as under:

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Life Insurance Corporation Of India	2001	23.03.2001	40.00	40	1.00	63	11.00%	22.06.2006
Reliance Capital Trustee Co Ltd	2001	22.03.2001	10.00	10	1.00	63	11.00%	21.06.2006
United India Insurance Company Ltd	1999	01.06.1999	2.50	1	2.50	87	13.75%	31.08.2006
Life Insurance Corporation Of India	1999	30.03.1999	35.00	35	1.00	87	13.75%	29.06.2006
The New India Assurance Company Ltd	1999	01.06.1999	3.00	3	1.00	87	13.75%	31.08.2006
Oriental Insurance Co Ltd	1999	01.06.1999	4.00	4	1.00	87	13.75%	31.08.2006
National Insurance Company Ltd	1999	05.06.1999	2.50	1	2.50	87	13.75%	04.09.2006
General Insurance Corporation Of India	1999	01.06.1999	3.00	3	1.00	87	13.75%	31.08.2006
Life Insurance Corporation Of India	2004	04.02.2004	100.00	1,000	0.10	123	5.90%	03.05.2014
The New India Assurance Company Ltd	2004	04.02.2004	25.00	250	0.10	123	5.90%	03.05.2014
The Federal Bank Limited	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
General Insurance Corporation Of India	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Corporation Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Punjab National Bank	2004	04.02.2004	15.00	150	0.10	123	5.90%	03.05.2014
State Bank Of India	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
UCO Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
State Bank Of Travancore	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
State Bank Of Hyderabad	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Indian Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Allahabad Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Infrastructure Development Finance Company Ltd	2004	04.02.2004	20.00	200	0.10	123	5.90%	03.05.2014
The Jammu & Kashmir Bank Limited	2004	04.02.2004	15.00	150	0.10	123	5.90%	03.05.2014
Oriental Bank Of Commerce	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Reliance Capital Trustee Co Ltd A/C Reliance Monthly Income Plan	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
The Oriental Insurance Co Ltd	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Bank Of India	2004	04.02.2004	25.00	250	0.10	123	5.90%	03.05.2014
Vijaya Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Standard Chartered Trustee Company Pvt. Ltd. A/C Grindlays Super Saver Income Fund	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employee Pension Fund Trust	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employees Gratuity Fund Trust	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employees Provident Fund	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Union Bank Of India	2004	04.02.2004	20.00	200	0.10	123	5.90%	03.05.2014
National Insurance Company Limited	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Canara Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Birla Sunlife Trustee Company Private Ltd A/C Birla Balance	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Bank Of Baroda	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Andhra Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Templeton Mutual Fund A/C. Templeton Monthly Income Plan - H/G	2004	04.02.2004	3.00	30	0.10	123	5.90%	03.05.2014
DSP Merrill Lynch Trustee Company Pvt.Ltd. A/C DSP Merrill Lynch Saving Plus Fund	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Standard Chartered Bank A/C ING Vysya Mutual Fund - INC Vysya Income Fund	2004	04.02.2004	2.00	20	0.10	123	5.90%	03.05.2014
The Oriental Insurance Employees Gratuity Fund	2004	04.02.2004	2.00	20	0.10	159	6.00%	03.05.2017
National Insurance Company Ltd Employee Gratuity Fund	2004	04.02.2004	2.00	20	0.10	159	6.00%	03.05.2017
HDFC Bank Ltd Employees Provident Fund Trust.	2004	04.02.2004	1.00	10	0.10	159	6.00%	03.05.2017
Canara Bank	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Bharat Heavy Electricals Employees Gratuity Fund	2005	27.10.2005	4.00	40	0.10	116	7.50%	27.04.2015
Canara Bank Staff Provident Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Canara Bank Employees Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
RRVK GPF	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
RRVK Superannuation Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
State Bank Of Indore Employees Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
The Army Group Insurance Fund	2005	27.10.2005	20.00	200	0.10	116	7.50%	27.04.2015
The Oriental Insurance Company (Employees) Pension Fund Trust	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
General Insurance Corporation Of India	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Union Bank Of India (Employees') Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Tamilnad Mercantile Bank Ltd.	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
SBBJ Employees' Pension Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
SBBJ Employees' Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Bajaj Auto Ltd.	2005	27.10.2005	20.00	200	0.10	116	7.50%	27.04.2015
Karnataka Bank Ltd. Staff Provident Fund	2005	27.10.2005	4.00	40	0.10	116	7.50%	27.04.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Union Bank Of India Employees' Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Union Bank Of India Employees' Gratuity Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
SBI DFHI Ltd.	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Bank Of Baroda	2005	27.10.2005	25.00	250	0.10	116	7.50%	27.04.2015
Bank Of Baroda Gratuity FUND	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Bank Of Baroda Provident Fund Trust	2005	27.10.2005	10.00	200	0.05	116	7.50%	27.04.2015
Bank Of Baroda (Employees') Pension Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Trustees Allahabad Bank (Employees') Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Trustees Allahabad Bank Staff Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Life Insurance Corporation Of India Provident Fund No.1	2005	27.10.2005	50.00	500	0.10	116	7.50%	27.04.2015
Army Group Insurance Fund	2005	28.11.2005	20.00	200	0.10	117	7.50%	28.06.2015
Indian Overseas Bank Employees Pension Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Indian Overseas Bank Staff Provident Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
RRVK Superannuation Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Canara Bank	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Canara Bank Employees Pension Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Oriental Insurance Company Ltd, Pf	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Air India Employees Provident Fund	2005	05.12.2005	6.00	60	0.10	117	7.50%	28.06.2015
Syndicate Bank Employees Provident Fund	2005	05.12.2005	8.00	80	0.10	117	7.50%	28.06.2015
The Indian Hotels Co. Ltd Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
The Bombay Dying & Staff Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Larsen & Toubro Officers And Supervisory Staff Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Siemens India Ltd. Indian Staff Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
IBP Co. Ltd. Provident Fund	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
The Lakshmi Vilas Bank Ltd	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
The Oriental Insurance Company (Employees) Pension Fund Trusts	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Syndicate Bank	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Union Bank Of India Employees Gratuity Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Vijaya Bank Staff Provident Fund	2005	05.12.2005	3.00	30	0.10	117	7.50%	28.06.2015
Union Bank Of India Employees Provident Fund	2005	05.12.2005	10.00	100	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Pension Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
State Bank Of Indore Employees Pension Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Wipro System Pf Trust	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
Food Corporation Of India Cpf Trust	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Trustees Allahabad Bank Employees Gratuity Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Indian Airlines Employees Provident Fund	2005	05.12.2005	6.00	60	0.10	117	7.50%	28.06.2015
Zensar Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
RRVK Gratuity Fund Trust	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
RRVK Superannuation Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
RRVK GPF Trust	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
U.P. Cooperative Sugar Factories Federation Ltd. Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
U.P. Sugar Cooperative Sugar Factory Federation Ltd. Employees Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Pension Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Bank Of Maharashtra -Employees Provident Fund	2006	20.01.2006	3.00	30	0.10	113	7.75%	20.04.2015
Union Bank Of India- Employees Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Food Corp Of India CPF Trust	2006	20.01.2006	7.00	70	0.10	113	7.75%	20.04.2015
Trustees Allahabad Bank Staff Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
BHEL New Delhi Employees Provident Fund	2006	20.01.2006	3.00	30	0.10	113	7.75%	20.04.2015
Trustees Guj Co-Op Milk Mktg Federation Staff Provident Fund, Anand	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
RCF Ltd., Employees Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
RCF Ltd., Employees Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Vijaya Bank Staff Provident Fund	2006	20.01.2006	8.00	80	0.10	113	7.75%	20.04.2015
Secretary RSRTC CPF Trust	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Corporation Bank	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Maharashtra Scooters Ltd	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Vijaya Bank	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Trustees Fact Employees Provident Fund	2006	20.01.2006	3.50	35	0.10	113	7.75%	20.04.2015
State Bank Of Travancore Employees Provident Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
General Insurance Corporation Of India	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Indian Airlines Employees Provident Fund	2006	20.01.2006	13.00	130	0.10	113	7.75%	20.04.2015
Central Bank Employees Provident Fund Trust	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Central Bank Employees Pension Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Central Bank Employees Gratuity Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Securities Trading Corporation Of India Ltd,	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Mdl. Operative Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Npcil- Employees Provident Fund	2006	20.01.2006	5.50	55	0.10	113	7.75%	20.04.2015
Tata Consultancy Services - Employees Provident Fund	2006	20.01.2006	16.00	160	0.10	113	7.75%	20.04.2015
UCO Bank Employees Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
State Bank Of Mysore	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
The Catholic Syrian Bank Ltd.	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Bhel Epf Trust Ranipur Hardwar	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Hindustan Petroleum Corporation Ltd. Pf	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Army Group Insurance Fund	2006	20.01.2006	20.00	200	0.10	113	7.75%	20.04.2015
Bajaj Auto Ltd	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
The Oriental Insurance Company Ltd	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Birla Brothers Pvt Ltd PF Institution	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Syndicate Bank Gratuity Fund	2006	20.01.2006	4.00	40	0.10	113	7.75%	20.04.2015
Birla Sun Life Asset Management Copmany Ltd A/C Birla MIP	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Syndicate Bank	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Sahara India Financial Corporation Ltd.	2006	24.02.2006	50.00	500	0.10	118	8.25%	24.10.2015
Bajaj Auto Ltd	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Army Group Insurance Fund	2006	24.02.2006	25.00	250	0.10	118	8.25%	24.10.2015
Agriculture Insurance Co. Of India Ltd.	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Hindustan Instruments Ltd EPF Trust	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Coal Mines Provident Fund	2006	24.02.2006	65.00	650	0.10	118	8.25%	24.10.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Hindalco Employees Provident Fund Institution	2006	24.02.2006	6.00	60	0.10	118	8.25%	24.10.2015
The Provident Fund Of TCIL	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
The Tinplate Co. Executive Staff Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
The Mission Of The USA FSN Staff PF	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Bank Of India Provident Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
RCF Ltd. Employees Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Indian Provident Fund Of Bharat Petroleum Corp Ltd.	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Indo Gulf Fertilisers Ltd. Employees Provident Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Rites Contributory Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
National Insurance Company (Employees') Pension Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
Indian Airlines Emp Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Iti Ltd. Pf Trust Raebareli	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
India Overseas Bank Staff Provident Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Indian Overseas Bank Employees Pension Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
State Bank Of Travancore	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
Coal Mines Provident Fund	2006	24.02.2006	7.00	70	0.10	118	8.25%	24.10.2015
Idbi Capital Market Services Ltd	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Cesc Limited Provident Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
State Bank Of Patiala Employees Pension Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Bank Of Baroda Provident Fund Trust	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
Bank Of Baroda Gratuity Fund	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
South Indian Bank Employees Provident Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
Chairman The Dhanlaskhmi Bank Ltd. Staff Provident Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Bhel Employees Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
J&K Bank Employees Provident Fund Trust	2006	24.02.2006	4.00	40	0.10	118	8.25%	24.10.2015
J&K Bank Employees Gratuity Fund Trust	2006	24.02.2006	4.00	40	0.10	118	8.25%	24.10.2015
J&K Bank Employees Pension Fund Trust	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
State Bank Of Saurashtra	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Central Board Of Trustees Employees Provident Fund	2006	28.04.2006	300.00	3,000	0.10	120	8.60%	04.02.2016

E. BANK & MANAGEMENT

BRIEF HISTORY AND BACKGROUND

We are a leading private sector bank in India. Our goal is to be the preferred provider of financial services to leading corporations and middle and upper-income individuals in India. Since commencing operations in January 1995, we have grown rapidly while maintaining strong asset quality and a low-cost funding structure. 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 are regulated as banking company by the Reserve Bank of India (or RBI) in accordance with rules and regulations by the RBI from time to time, The Banking Regulation Act, 1949 and The Companies Act, 1956.

While our business has expanded rapidly over the past ten years, we have maintained a disciplined growth strategy and a strong balance sheet. As on March 31, 2006, our total customer assets (which include gross advances but net of specific provisions, credit substitutes like debentures, commercial paper and loans & investments in securitised assets bought in) represented 77.87% of our deposits. As on March 31, 2006, our deposits represented 75.91% of our total liabilities. Our savings account deposits at Rs. 16,186 crore and current account deposits at Rs. 14,752 crore, together accounted for approximately 55.4% of total deposits as of March 31, 2006. As on March 31, 2006, our net non-performing assets constituted 0.36% of our net customer assets.

Since we commenced operations, we have made substantial investments in our technology platform and distribution capabilities. In addition to our growing branch and ATM network, we offer 24-hour automated telephone banking, real-time internet banking and banking services by mobile telephone. We have centralized transaction processing and open, scalable systems that can accommodate significant future growth. These resources give us the capability to deliver a broad selection of banking products through multiple delivery channels that are convenient for our customers. We believe this positions us well to grow as the Indian financial services industry evolves.

We were incorporated in August 1994 as a public limited company under the laws of India. On February 26, 2000 we merged with Times Bank Limited. The merger was a stock-for-stock transaction where we issued one share for every 5.75 shares of Times Bank Limited resulting in 23,478,261 of our shares being issued. Our legal name is HDFC Bank Limited, though we are also known commercially as HDFC Bank.

We are part of the HDFC group of companies founded by our parent, Housing Development Finance Corporation Limited (HDFC Limited), a public limited company under the laws of India. As on March 31, 2006, HDFC Limited and its group companies own approximately 21.99% of our outstanding equity shares.

BUSINESS OBJECTS

The bank was incorporated with the following main objects, as contained in its Memorandum of Association:

1. To carry on the business of banking that is to say to accept, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.
2. In addition to the business of banking, to carry on the business of: -
 - (a) borrowing, raising or taking up of money;
 - (b) lending or advancing of money by way of a loan, overdraft or on cash credit and other accounts or in any other manner whether without or on the security of movable or immovable properties, bills of exchange, hundies, promissory notes, bills of lading, railway receipts, debentures, share warrants and other instruments whether transferable or not;
 - (c) drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not;
 - (d) granting and issuing of letters of credits, travellers' cheques and circulars notes;
 - (e) buying, selling and dealing in bullion and specie;
 - (f) buying and selling of and dealing in foreign exchange including foreign bank notes;
 - (g) acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds;
 - (h) purchasing and selling of bonds, scrips or other forms of securities on behalf of itself, its constituents or others;
 - (i) negotiating of loans and advances;
 - (j) receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise;
 - (k) providing of safe deposit vaults;
 - (l) collecting and transmitting of money and all kinds of securities;
 - (m) issuing credit cards, meal vouchers and extending any other credits;

- (n) carrying on any other business specified in clause (b) to clause (n) of sub-section (1) of section 6 of the Banking Regulation Act, 1949 (10 of 1949), and such other forms of business which the Central Government has pursuant to clause (o) of sub-section (1) of section 6 of that Act, specified or may from time to time specify by notification in the Official Gazette as a form of business in which it would be lawful for a banking company to engage.
3. To carry on the business of merchant banking, investment banking, portfolio investment management and corporate consultants and advisors.
 4. To carry on the business of mutual fund management, equipment leasing and hire purchase, manage investment pools, syndicate in shares and other securities and act as share and stock brokers.
 5. To carry on the business of factoring by purchasing and selling debts, receivables and claims including invoice discounting and rendering bill collection, debt collection and other factoring services.
 6. To carry on and transact the business of giving guarantees and counter guarantees and indemnities whether by personal covenant or by mortgaging or charging all or any part of the undertaking, property or assets of the Company, both present and future wherever situate or in any other manner and in particular to guarantee the payment of any principal moneys, interest or other moneys secured by or payable under debentures, bonds, debenture-stock, mortgages, charges, contracts, obligations and securities, and the repayment of the capital moneys and the payment of dividends in respect of stocks and shares or the performance of any such other obligations.

GOALS AND STRATEGY

Our mission is to be “a World Class Indian Bank”, benchmarking ourselves against international standards and best practices in terms of product offerings, technology, service levels, risk management and audit & compliance. The objective is to build sound customer franchises across distinct businesses so as to be a preferred provider of banking services for target retail and wholesale customer segments, and to achieve a healthy growth in profitability, consistent with the bank’s risk appetite. We are committed to do this while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. Our business strategy emphasizes the following elements:

Increase our market share in India’s expanding banking and financial services industry by following a disciplined growth strategy and delivering high quality customer service.

India’s banking and financial services industry is undergoing a period of change and expansion. We believe this process will be further hastened by the growth of the Indian economy, expansion of the middle and upper-income classes as well as increasing globalisation. In addition to benefiting from this growth, we believe we can increase our market share by following a disciplined, targeted strategy. We believe we can distinguish ourselves from many of our competitors by continuing to emphasize high quality service, efficient and reliable execution, multiple distribution channels and comprehensive product offerings at a good value to our customers.

Leverage our technology platform and open, scalable systems to deliver more products to more customers and to control operating costs.

Since beginning operations in 1995, we have invested heavily in our technology platform and systems and believe we can increasingly leverage these systems to deliver additional products to more customers. We refer to our systems as “open” because they are compatible, in terms of connectivity, with a variety of hardware and software systems and as “scalable” because the capacity of our systems can be increased so as to accommodate more customers and more products without overhauling all aspects of the system. Our multiple distribution mechanisms include an electronically linked branch network, 24-hour ATMs, telephone banking, internet banking and banking by mobile telephone. This investment has provided us with centralized transaction processing in Mumbai, together with regional center at Chennai as a backup in the event of a disaster. We also outsource certain back-office functions to reduce operating costs. As a result, we believe we can efficiently expand both the types of products offered and the base of customers served.

Maintain our current high standards for 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 (which includes gross loans and credit substitutes) was 1.17% as on March 31, 2006, and our net non-performing assets were 0.36% of customer assets as on the same date. We choose to follow non-performing loan and general loan provisioning policies that generally result in greater provisioning than the minimum as stipulated by RBI. We believe we can continue to maintain our conservative asset policies while still achieving growth.

Develop innovative products and services that attract our targeted customers and address inefficiencies in the Indian banking sector.

We concentrate on developing and delivering products and services that address the evolving needs of our targeted customers and the inefficiencies in the Indian financial sector. For example, through our cash management services, we provide payment and collection mechanisms that are more efficient and cost effective than the traditional Indian

systems. We have leveraged our experience in transactional services by becoming the first private sector bank to be appointed to collect direct taxes. We are one of the few private sector banks to have recently got a mandate to collect indirect taxes like excise duty and service tax. In retail banking, we were the first or one of the first banks to offer international debit cards, real-time internet banking and banking services by mobile telephone. We plan to continue to capitalize on opportunities to be the first mover in products and services that utilize our technological and delivery strengths without requiring significant capital commitment.

Continue to develop products and services that reduce our cost of funds.

We believe we have one of the lowest overall cost of funds in the Indian banking industry. We believe we can maintain and enlarge this low-cost funding base by increasing our base of retail deposits as well as the free float generated by our cash management, stock exchange clearing and other services. In the retail sector, we believe we can increase our deposit base by offering a superior range of products and high quality service and by expanding our geographic reach to targeted locations. We believe we can increase our transactional services through a variety of measures, including aggressive cross-selling to our corporate and institutional client base and expanding our services to cover dividend distribution and tax collection.

Focus on high earnings growth with low volatility.

Our earnings have grown rapidly, both on an aggregate basis and a per share basis. Our profit after tax has grown from Rs. 66,556 lac during the fiscal 2005 to Rs. 87,078 lac during the fiscal 2006. Our basic earnings per share grew from Rs. 22.92 for the fiscal 2005 to Rs. 27.92 for the fiscal 2006. We intend to maintain our focus on earnings growth with low volatility through conservative risk management techniques and maintaining our focus on low cost funding. In addition, we intend not to rely heavily on revenue derived from trading so as to limit volatility.

MANAGEMENT

Directors and Key Managerial Personnel

Our organisational documents 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 directors, excluding directors appointed pursuant to the terms of our issued debt. Our board of directors consisted of eleven members as on March 31, 2005.

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

Under the terms of our organizational documents, HDFC Limited has a right to nominate the 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 aggregate holds not less than 20% of our paid up equity shares. Two directors who are not liable to retire nominated by HDFC Limited include the chairman and the Managing Director. The India Private Equity Fund (Mauritius) and Indocean Financial Holding Limited ('the Funds') have the right to nominate two directors so long as their combined equity share holding is 10% or greater, and one director if less than 10% but at least 7%. Since the shareholding of the Strategic Investors had reduced to less than 7% of the share capital of the bank, there is no representation of the strategic investor group on our board. The Bennett Coleman Group has the right to appoint one director so long as its equity holding does not fall below 5%. (Please re-tian this line.

The Banking Regulation Act, 1949 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 as the RBI may specify. Out of these, not less than two directors shall have specialised knowledge or practical experience in respect of agriculture and rural economy, co-operation or small scale industry. We have adhered to this requirement. Dr. Venkat Rao Gadwal has specialized knowledge and experience in the agricultural sector and Mr. Ashim Samanta, who has been appointed as the Director of the bank effective from November 19, 2004 possesses specialized knowledge and experience in small scale industry.

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, 1956.

Our board of directors as at March 31, 2006 had the following members:

Name	Position	Address	Age
Mr. Jagdish Capoor	Chairman	43 Abhilasha Apt. 43 Pali Hill, Bandra (W), Mumbai 400 050.	67
Mr. Aditya Puri	Managing Director	1001/1002, Vinayak Angan, Old Prabhadevi Road, Worli, Mumbai 400 025.	56
Dr. V. R. Gadwal	Non-executive Director	2/102, Wimbledon Park, Opp. J. K. Singhanian School, Pokhran Road No.1, Thane (West) – 400 606.	68
Mr. Vineet Jain	Non-executive Director	15, Motilal Nehru Marg New Delhi 110011	40
Mr. Keki Mistry	Non-executive Director	Hasmukh Mansion, 7th Floor, Flat No.702/703, 14th Road, Khar (West), Mumbai – 400 052.	52
Mrs. Renu Karnad	Non-Executive Director	BB/14, Greater Kailash Enclave, Part II New Delhi 110 048.	54
Mr. Arvind Pande	Non-Executive Director	E/148 (FF), East of Kailash, New Delhi 110 065.	64
Mr. Bobby Parikh	Non-Executive Director	7, The Jackers, Carter Road, Bandra (West), Mumbai – 400 050.	42
Mr. Ashim Samanta *	Non Executive Director	13 Meera Baug, Santacruz (West), Mumbai - 400 054.	52

Remuneration to Directors

Mr. Aditya Puri has been the Managing Director of the bank since September 1994 and holds office upto March 31, 2007. The details of the remuneration paid to the Managing Director during the year 2005-2006 are:

Break up of remuneration	Amount (Rs.)
Basic	72,00,000
Allowance	61,508
Performance Bonus (For F.Y. 2004-05)	36,05,000
Provident Fund	8,64,000
Superannuation	10,80,000

In addition to the above, the Managing Director is eligible for gratuity as per the Payment of Gratuity Act, 1972.

Perquisites (evaluated as per Income Tax Rules wherever applicable and at actual cost to the bank, otherwise) such as the benefit of the bank's furnished accommodation, gas, electricity, water and furnishings, club fees, personal accident insurance, use of car and telephone at residence, medical reimbursement, leave and leave travel concessions, provident fund, super annuation and gratuity were provided in accordance with the rules of the bank in this regard.

Mr. Jagdish Capoor has been re-appointed as part-time Chairman of the bank with effect from July 6, 2004. During fiscal 2006, the Mr. Capoor was paid remuneration of Rs.9,00,000/-. Mr. Capoor has not availed of the benefit of the Bank's leased accommodation.

The remuneration of the Managing Director and the Chairman has been approved by the Reserve Bank of India and the shareholders.

Under our organizational documents, each director, except the Managing Director, is entitled to sitting fees for attending each meeting of the board of directors and of a board committee. The amount of remuneration is set by the board from time to time in accordance with limitations prescribed by the Companies Act or the government of India. Remuneration for attending board meetings and committee meetings is Rs. 20,000 per meeting, except in case of meetings of the, Investors Grievance (Share) Committee for which the remuneration is Rs. 5,000 per meeting.

KEY MANAGERIAL PERSONNEL

Our executive officers as at March 31, 2006 are as follows:

Name	Age	Position
A. Parthasarathy	38	Head – Trading
A. Rajan	54	Head – Operations
Abhay Aima	43	Head - Equities and Private Banking
Aditya Puri	55	Managing Director
Bharat Shah	59	Head – Depository Services and Merchant Services
C. N. Ram	49	Head – Information Technology
G. Subramanian	58	Head - Audit, Compliance, Vigilance and Service Quality
Harish Engineer	57	Head - Wholesale Banking
Paresh Sukthankar	43	Head - Credit and Market Risk and Human Resources
Samir Bhatia	42	Head - Corporate Banking
Sudhir Joshi	59	Head – Treasury
Vinod Yennemadi	64	Head - Finance, Administration, Legal and Secretarial
Mandeep Maitra	40	Head- Human Resources
Kaizad Bharucha	40	Head - Credit and Market Risk

The total salary paid to these senior management personnel aggregated to Rs. 13.00 crore for the year ended March 31, 2006.

The following are brief biographies of our directors:

MR. JAGDISH CAPOOR

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

Mr. Capoor has been re-appointed as a part-time Chairman of the Bank for a period of three years with effect from 6 July 6, 2004.

Mr. Capoor is on the boards of the Indian Hotels Company Limited, Agricultural Finance Corporation Limited, Indian Institute of Management-Indore, Bombay Stock Exchange Limited, GHCL Limited and Assets Care Enterprise Limited. He is also a member of the Board of Governors of the Indian Institute of Management, Indore and of the Academic Advisory Board of Asian Business School, Bangalore.

Mr. Capoor is a member of the Audit Committee of Indian Hotels Company Limited, GHCL Limited and Assets Care Enterprises Limited and Chairman of Audit Committee and Investors Grievance Committee of Bombay Stock Exchange Limited.

MR. ADITYA PURI

Mr. Aditya Puri holds a Bachelors degree in Commerce from Punjab University and is an Associate Member of the Institute of Chartered Accountants of India. Mr. Puri is a member of SAMEA (South Asia, Middle East and Africa) Board of Master Card. Mr. Puri has been the Managing Director of the Bank since September 1994. He has about 32 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.

DR. VENKAT RAO GADWAL

Dr. V. R. Gadwal holds a Bachelors and Master of Science degree in Science in Agriculture from Osmania University, Hyderabad and is a doctorate in Agriculture a Master of Science and Ph.D. from the Indian Agricultural Research Institute, New Delhi. He is also a Fellow Member of the Botanical Society of India and Indian Society of Genetics and Plant Breeding. Dr. Gadwal has been one of our Non-executive Directors since 15 March 15, 1999. Dr. Gadwal also serves as consultant and advisor to agricultural research and development institutions such as Maharashtra Hybrid Seeds Company Limited (“MAHYCO”) and MAHYCO Research Foundation. Presently, Dr. Gadwal is the President of the Indian Society for Cotton Improvements. has specialised knowledge in agriculture and rural economy. He serves as an advisor to Agricultural Research and Development Organization.

Presently Dr. Gadwal is acting as consultant and advisor to MAHYCO (Maharashtra Hybrid Seeds Co. Limited) and Barwale Foundation.

MR. KEKI MISTRY

Mr. Keki Mistry holds a Bachelor of Commerce degree in Advanced Accountancy and Auditing and is also a Fellow Member of the Institute of Chartered Accountants of India. He has served as one of our Non-executive Directors since 12 September, 1994. He was actively involved in setting up of several HDFC group companies including HDFC Bank and other HDFC group companies. Mr. Mistry has been deputed on consultancy assignments for the Commonwealth Development Corporation (CDC) in Thailand, Mauritius, Caribbean Islands and Jamaica. He has also worked as a consultant for the Mauritius Housing Company and for the Asian Development Bank.

Mr. Mistry is the Managing Director of Housing Development Finance Corporation Limited (HDFC) and the Chairman of GRUH Finance Limited and Intelnet Global Services Pvt. Ltd.. He is also a Director of the following companies.

HDFC Developers Limited,
HDFC Trustee Company Limited,
HDFC Standard Life Insurance Co. Limited,
HDFC Chubb General Insurance Co. Limited,
Infrastructure Leasing & Financial Services Limited,
Sun Pharmaceutical Industries Limited,
Mahindra Holidays and Resorts India Limited,
The Great Eastern Shipping Co. Limited,
NexGen Publishing Limited.,
India Value Fund Advisors Pvt. Limited.

Mr. Mistry is a member of the Audit Committee of HDFC Standard Life Insurance Co.Limited, HDFC Chubb General Insurance Co. Limited, HDFC Trustee Company Limited, Gruh Finance Limited, Tthe Great Eastern Shipping Co. Limited and, Infrastructure Leasing & Financial Services Limited andSun Pharmaceutical Industries Limited. he is also the Chairman of the Audit Committee of HDFC Chubb General Insurance Co.Limited and Sun Pharmaceutical Industries Limited.

Mr. Mistry is a member of the Investor Grievance Committee of HDFC Limited. He is a member of the Share Transfer Committee of Infrastructure Leasing & Financial Services Limited.

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

MRS. RENU KARNAD

Mrs. Renu Karnad is a Law graduate in Law and also holds a Master's Degree in Economics from the Delhi University.

Mrs. Karnad is an Executive Director of HDFC Housing Development Finance Corporation Limited. She is also a Director of HDFC Asset Management Co. Limited, GRUH Finance Limited, HDFC Realty Limited, Credit Information Bureau (India) Limited, HDFC Chubb General Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd., HDFC Venture Capital Ltd., Indraprastha Medical Corporation Ltd., ICI India Limited., Feedback Ventures Pvt. Ltd, Mother Dairy Fruit and Vegetables Pvt.Ltd., Intelnet Global Services Pvt. Ltd, Ascendas Pte. Limited, Singapore, and Home Loan Services Pvt. Ltd.and Egyptian Housing Finance Company SAE.ICI India Limited.

Mrs. Karnad is a member of the Compensation Committee/ Remuneration Committee of GRUH Finance Limited and Credit Information Bureau (India) Limited.

Mrs. Karnad is also a member of Audit Committee of Credit Information Bureau (India) Limited, HDFC Chubb General Insurance Co. Ltd. and ICI India Ltd.

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

MR. ARVIND PANDE

Mr. Arvind Pande holds is a Bachelor of Science degree B.Sc. from Allahabad University and a, BA. A. (Hons.) and MA. A. (Economics) degree from Cambridge University, U.K. He started his career in Indian Administrative Services and has held various responsible positions in the Government of India. He was aworking as Joint Secretary to the Prime Minister of India for his expertise in Economics, Science and Technology issues. He was also on the Board of Steel Authority of India (SAIL) and its Chairman and Chief Executive Officer (CEO) for about six years. He was a Director, Department of Economic Affairs, Ministry of Finance, Government of India and has dealt with World Bank aided projects. He has travelled extensively within and outside India and participated in several aid / trade / procurement related negotiations.

Mr. Pande is a Director of IVRCL Infrastructure and Projects Limited, IVRCL Infrastructure and Projects Limited, Sandhar Locking DevicesTechnologies Limited, Visa Steel Limited, Asset Care Enterprises Limited Asset Care Enterprises Limited and Era Constructions (India) Limited.

Mr. Pande is the chairman of the Audit Committee of IVRCL Infrastructure and Projects Limited..

Mr. Pande is the Chairman of the Audit Committee of IVRCL Infrastructure and Projects Limited.

MR. VINEET JAIN

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

Mr. Jain has beenone of the our non-executive Directors of the Bank since14 April 14, 2001. He is Managing Director of Bennett, Coleman & Co. Ltd. (The Times Group) and Chairman of Times Internet Limited, Times of Money Limited, Bharat Nidhi Limited, Worldwide Media Limited and Times Global Broadcasting Co. 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.

Mr. Jain is also a Director of Times Internet Limited, Times of Money Limited, The Press Trust of India Limited, Times Infotainment Media Limited, Bharat Nidhi Limited and Worldwide Media Limited Times Journal India Private Limited and Times Centre for Media Studies. He is also a member of the Managing Committee of S. P. Jain Foundation.

MR. BOBBY PARIKH

Mr. Bobby Parikh is a Chartered Accountant by profession and has specialised in the areas of Tax and Business Advisory Services. He has extensive experience in advising clients across a range of industries. He is a member of various trade and business associations and their committees. He is also as on the advisory / executive boards of certain non-government and non-profit organisations. Mr. Parikh was the Country Managing Partner of Arthur Andersen & Co and the Chief Executive Officer of Ernst & Young, Private Limited in India. He is currently the Managing Partner of M/s. BMR & Associates. Mr. Bobby Parikh is an audit committee financial expert, under US regulations.

Mr. Bobby Parikh is also a Director of Erix Advisors Pvt. Ltd and Reliance Petroleum Limited. Mr. Bobby Parikh is a member of the Audit Committee of Reliance Petroleum.Limited.

MR. ASHIM SAMANTA

Mr. Ashim Samanta holds a Bachelor of Commerce degree from University of Bombay and has wide and extensive experience in business for nearly 26 years. He possesses vast experience in the field of bulk drugs and pharmaceutical formulations. He is a Director of Samanta Organics Private Limited for the last 16 years. He is a partner of a firm which manages mid sized poultry farms. Mr. Samanta has also been engaged in setting up and running of film editing and dubbing studio.

The following are brief biographies of our existing executive officers:

Mr. A. Parthasarathy holds a Post Graduate Diploma in Management (PGDM) from the Indian Institute of Management, Bangalore (IIMB) and a Bachelor of Engineering degree from Mangalore University. Mr. Parthasarathy has held the position of Head - Trading since November 1999. Prior to that he was Head - Money Markets from November 1994 to November 1999. Mr. Parthasarathy has been working in the area of financial markets since June 1989.

Mr. A. Rajan holds a Bachelor of Science degree. He has over 26 years of experience in various aspects of operations in banking. He was part of the core management team that set up the bank, as its Head of Operations, and was responsible for creating the Operations team and detailed Operating Procedures. Afterwards, he was also the CEO of Flexcel International Private Ltd for three years. He is now once again the Country Head — Operations.

Mr. Abhay Aima is a graduate of the National Defence Academy. Mr. Aima is currently our Head, Equities, Private Banking and Third Party Products.

Mr. Bharat Shah holds a Bachelor of Science degree from Bombay University and a Higher National Diploma in Applied Chemistry from London University. He serves as our Head, Depository Services and Merchant Services. Mr. Shah also serves as a non-executive director of Computer Age Management Services Private Ltd, HDFC Securities Ltd and Atlas Documentary Facilitators Company Private Ltd.

Mr. C. N. Ram holds a Bachelor of Technology degree in Electrical Engineering from the Indian Institute of Technology and a post graduate diploma in Management from the Indian Institute of Management. Mr. Ram has served as Head, Information Technology since July 1994. In addition, he also serves as a director on the boards of a number of companies, including our affiliates, SolutionNET India Private Ltd, Flexcel International Private Ltd, Softcell Technologies Ltd and 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, Audit, Compliance, Vigilance and Service Quality since January 1995. Prior to that, Mr. Subramanian was deputy general manager of the RBI. Mr. Subramanian also serves as a director on the board of directors of Computer Age Management Services Private Ltd.

Mr. Harish Engineer holds a Bachelor of Science degree in Physics and Chemistry and a diploma in Business Management. Mr. Engineer has served as Head, Financial Institution Group since November 1999, and previously served as Head, Corporate Banking since July 1994.

Mr. Paresh Sukthankar holds a Bachelor of Commerce degree and Master in Management Studies from Bombay University. Mr. Sukthankar has held the position of Head, Credit and Market Risk since September 1994 and since December 1999 also supervises the Human Resources function.

Mr. Samir Bhatia holds a Bachelor of Commerce degree from the University of Bombay, a cost accountancy qualification from the Institute of Cost and Works Accountants of India and a chartered accountancy qualification from the Institute of Chartered Accountants of India. He is currently our Head, Corporate Banking, and previously served as our Regional Head, Corporate Banking in various regions of India since September 1994.

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, Treasury since April 2000. He was Head, Financial Investment Group for a brief period between February 2000 and March 2000. From June 1995



until joining us, Mr. Joshi served as executive vice president, treasury, of Times Bank Ltd. At present, he is the Chairman of the Fixed Income Money Market and Derivatives Association of India and on the Board of the Clearing Corporation of India Ltd.

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, HDFC Securities Ltd, SolutionNET India Private Ltd, Atlas Documentary Facilitators Company Private Ltd and Flexcel International Private Ltd.

Mr. Kaizad Bharucha holds a Bachelor of Commerce degree from Bombay University. He has two decades of banking experience and has been in the Bank since 1995. Mr. Bharucha is currently Group Head - Wholesale Credit & Market Risk and Retail Credit Risk Policy.

Mandeep Maitra has done her Bachelors in Psychology Honours from Lady Sriram College, Delhi University & Masters in Personnel Management & Industrial Relations from Tata Institute of Social Sciences, Mumbai. She has been in charge of the Human Resource function since April 1999.

CORPORATE GOVERNANCE

AUDIT AND COMPLIANCE COMMITTEE :

The Audit and Compliance Committee of the Bank is chaired by Mr. Bobby Parikh. The other members of the Committee are Mr. Arvind Pande, Mr. Bobby Parikh, Dr. V. R. Gadwal and Mr. Ashim Samanta. Mr. Anil Ahuja and Mr. Ranjan Kapur ceased to be members of the committee w. e. f. June 17, 2005 and 29th March 29, 2006 respectively. Mr. Ashim Samanta was inducted as member of the Audit Committee w.e.f. July 14, 2005. All the members of the Committee are independent directors and Mr. Bobby Parikh is a financial expert.

During the year, the Committee held six meetings.

The terms of reference of the Audit Committee are in accordance with clause 49 of the Listing Agreement entered into with the Stock Exchanges in India and interalia includes the following:

- a) Overseeing the Bank's financial reporting process and ensuring correct, adequate and credible disclosure of financial information;
- b) Recommending appointment and removal of external auditors and fixing of their fees
- c) Reviewing with management the annual financial statements before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;
- d) reviewing the adequacy of the Audit and Compliance functions, including their policies, procedures, techniques and other regulatory requirements.
- e) Any other terms of reference as may be included from time to time in clause 49 of the listing agreement.

The Board has also adopted a charter for the audit committee in connection with certain U. S. regulatory standards.

COMPENSATION COMMITTEE :

The Compensation Committee reviews the overall compensation structure and policies of the Bank with a view to attract, retain and motivate employees, consider grant of stock options to employees, reviewing compensation levels of the Bank's employees vis-à-vis other banks and industry in general.

The Bank's compensation policy is to provide a fair and consistent basis for motivating and rewarding employees appropriately according to their job / role size, performance, contribution, skill and competence.

Mr. Jagdish Capoor, Mr. Bobby Parikh and Dr. Venkat Rao Gadwal are the members of the Committee. Mr. Anil Ahuja and Mr. Ranjan Kapur ceased to be members of the committee w. e. f. June 17, 2005 and 29th March 29, 2006 respectively. The Committee is chaired by Mr. Jagdish Capoor. All the members of the Committee other than Mr. Capoor are independent directors.

During the year the Committee held four meetings.

INVESTORS GRIEVANCE (SHARE) COMMITTEE:

The Committee approves and monitors transfer, transmission, splitting and consolidation of shares and bonds issued by the Bank and allotment of shares to the employees pursuant to Employees Stock Option Scheme. The Committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

The Committee consists of Mr. Jagdish Capoor and Mr. Aditya Puri.

The Committee is chaired by Mr. Jagdish Capoor and met thirteen times during the year. The powers to approve share transfers and dematerialisation requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee.

As on 31 March, 2006, 36 instruments of transfer of shares were pending and since then the same have been processed. The details of the transfers are reported to the Board of Directors from time to time.

During the year, the Bank received 218 complaints from shareholders, which have been attended to.

RISK MONITORING COMMITTEE :

The committee is formed as per the guidelines of Reserve Bank of India on the Asset Liability Management / Risk Management Systems. The Risk Committee develops Bank's credit and market risk policies and procedures, verify adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The committee also ensures that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified.

The Committee consists of Mr. Bobby Parikh, Mr. Aditya Puri and Mrs. Renu Karnad and is chaired by Mr. Bobby Parikh. Mr. Anil Ahuja ceased to be member of the committee w. e. f. June 17, 2005 and Mr. Bobby Parikh was inducted as Chairman of the committee on July 14, 2005.

The Committee met five times during the year.

CREDIT APPROVAL COMMITTEE:

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

The Committee consists of Mr. Jagdish Capoor, Mr. Aditya Puri Mr. Bobby Parikh and Mr. Keki Mistry. The Committee is chaired by Mr. Jagdish Capoor and met three times during the year.

PREMISES COMMITTEE:

The Premises Committee approves purchases and leasing of premises for the use of Bank's branches, back offices, ATMs and residence of executives in accordance with the guidelines laid down by the Board. The committee consists of Dr. Venkat Rao Gadwal, Mr. Aditya Puri and Mr. Ashim Samanta. Mr. Ranjan Kapur has resigned with effect from 29th March 29, , 2006.

The Committee is chaired by Dr. Venkat Rao Gadwal and met five times during the year.

NOMINATION COMMITTEE

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

- Academic qualifications, previous experience, and track record; and
- Integrity of the candidates.

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

The members of the Committee are Mr. Arvind Pande, Dr. V. R. Gadwal, Mr. Arvind Pande and Mr. Ashim Samanta. Mr. Anil Ahuja and Mr. Ranjan Kapur have resigned from the committee w.e.f. June 17, 2005 and March 29, 2006 respectively. Mr. Samanta was has been inducted as a member of the Committee w.e.f. July 14, 2005. All the members of the Committee are independent directors.

Two meetings of the Committee were held during the year.

FRAUD MONITORING COMMITTEE:

Pursuant to the directions of the Reserve Bank of India the Bank has constituted a Fraud Monitoring Committee on 16 April, 2004, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs.1 crore and more. The objective of this Committee is the effective detection of frauds and immediate reporting thereof to regulatory and enforcement agencies and actions taken against the perpetrators of frauds. The terms of reference of the Committee are as under:

- a. Identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;
- b. Identify the reasons for delay in detection, if any, reporting to top management of the Bank and RBI;
- c. Monitor progress of CBI / Police Investigation and recovery position;
- d. Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time.

- e. Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.
- f. Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

The members of the Committee are Mr. Jagdish Capoor, Mr. Aditya Puri, Mr. Keki Mistry, Mr. Bobby Parikh and Mr. Arvind Pande.

The Committee is chaired by Mr. Capoor and met four times during the year. Four meetings of the Committee were held during the year.

CUSTOMER SERVICE COMMITTEE

The Bank has constituted a Customer Service Committee. The Committee monitors the quality of services rendered to the customers and also ensures implementation of directives received from RBI in this regard. The terms of reference of the Committee are to formulate comprehensive deposit policy incorporating the issues arising out of death of a depositor for operations of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.

The members of the Committee are Mr. Ranjan Kapur, Mr. Keki Mistry, Dr. Venkat Rao Gadwal and Mr. Arvind Pande.

F. PRESENT ACTIVITIES AND OPERATIONAL DETAILS OF THE BANK

OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal banking activities consist of retail banking, wholesale banking and treasury operations.

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, bill payment services, third party mutual funds and insurance products, investment advice 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, personal bankers and direct sales associates, as well as through our relationships with automobile dealers and corporate clients. We seek to develop 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 individual to be those with Rs. 100,000 or more per year in income.

At March 31, 2006, we had 535 branches, including 23 extension counters, and 1,323 ATMs. We plan to continue to expand our other distribution and service channels, such as telephone banking, internet banking and mobile banking.

Retail Loan Products

We offer a wide range of retail loans, including loans against securities, auto loans, personal loans and two-wheeler loans and business banking loans. Price, speed of commitment and quality of service are the key competitive factors. Our retail loans were 55% of our gross loans at March 31, 2006. Apart from our branches we use our ATM screens and website to promote our loan products, and we employ additional sales methods depending on the type of product. Because there is no credit bureau in India, we perform our own credit analyses of the borrowers or 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 portfolio through assignments. In addition to taking collateral in many cases, we generally obtain post dated cheques covering all payments at the time a retail loan is made.

The following table shows the value and share of our retail loan products (net of loan securitised out):

(Rs. crore)		
Particulars	As at March 31, 2006	% of total value
Commercial Vehicle and Construction Equipment	4,865.51	22.92
Auto Loans	4,761.32	22.43
Retail Business Banking	2,432.81	11.46
Two Wheeler Loans	1,910.36	9.00
Loans Against Securities	1,767.45	8.32
Credit Cards	1,375.80	6.47
Other Retail Loans including Personal Loans	4,117.87	19.40
Total	21,231.12	100.00

Auto Loans

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

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 the funding of 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 co-ordinate with manufacturers to jointly promote our financing options to their clients. Prior to fiscal 2004 these loans were classified as part of our wholesale banking division.

Personal Loans

We offer unsecured personal loans at fixed rates to specific customer segments, including salaried individuals and self-employed professionals.

Loans against Securities

We offer loans against equity securities, mutual fund units and against bonds issued by the RBI that are on our approved list. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first priority security interests. We also limit our loans against equity securities to Rs. 20 lac per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. The minimum margin for lending against shares is prescribed by the RBI.

Two Wheeler Loans

We offer loans for financing the purchase of new scooters or motorcycles. We market this product in ways similar to auto loans.

Retail Business Banking

We offer business loans, which we consider a retail product, to 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 / addition of facilities, discounting of credit card receivables, letters of credit, guarantees and other basic trade finance products and cash management services for their businesses. The lending is typically secured with current assets as well as immovable property and fixed assets in some cases.

Credit Cards

We have offered gold and silver Visa and Master credit cards since December 2001 and the total number of cards issued crossed the 2.4 million mark during the fiscal 2006.

Other Retail Loans

Such loans primarily include overdrafts against time deposits.

Mortgage Backed Securities (Home Loans)

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

Asset backed securities

We invest in retail asset backed securities, represented by pass through certificates (PTCs). These securities are normally credit enhanced and sometimes qualify for our directed lending obligations.

Loan assignments

We purchase loan portfolios from other banks, financial institutions and financial companies, which are similar to asset backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations.

Securitisation of Receivables

The bank from time to time securitises out its receivables to special purpose vehicles. The securitised paper is without recourse to us. In respect of certain transactions, we provide credit enhancements generally in the form of cash collaterals / guarantees and / or by subordination of cash flows to senior PTCs. In respect of some of the PTCs we provide options to the investors to sell them to us on predetermined dates and at predetermined rates. During the fiscal year 2006 we securitised loans with a carrying value of Rs. 198,783 lac.

Retail Deposit Products

Retail deposits provide the bank with a low cost, stable funding base and have been a key focus area for us since commencing operations. The following chart shows the value of total deposits by our various deposit products:

(Rs. crore)

Retail Deposits	At 31 March, 2006
Savings	15,307
Current	7,078
Time	12,349
Total	34,734

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

- 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.
- 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).
- Fixed or time deposits, which pay a fixed return over a predetermined time period.

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

Other Retail Services and Products

International Debit Cards

Our international debit card allows our customers to purchase goods and make ATM transactions in India and abroad. Our debit cards may be used with more than 100,000 merchants in India and more than 13 million merchants worldwide, and at over 80,000 Visa/Maestro/Cirrus ATMs in India and abroad. We were the first bank in India to issue international Visa Electron debit cards on a nationwide basis and currently issue both Visa Electron and MasterCard Maestro cards.

Individual Depository Accounts

We provide depository accounts to individual retail customers in connection with the holding of debt and equity securities. 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 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

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 private banking advisors.

Insurance

We have arranged with HDFC Standard Life Insurance Company and HDFC Chubb Limited for distribution of life insurance products and general insurance products, respectively, to our customers. We offer life insurance solutions to our retail customers. We earn upfront commission on new premiums collected as well as trailing income in the subsequent years while the policy continues to be in force.

Investment Advice

We offer our customers a broad range of investment advice including advice regarding the purchase of Indian debt and equity securities and mutual funds. We provide our high net worth private banking customers a personal investment advisor.

Bill Payment Services

We offer our customers utility bill payment services for more than 71 leading utility companies including electricity, telephone, mobile phone and leading 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. Although other banks offer this service, we believe we are one of the few banks to offer it 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 one transfer. We then disburse the funds into the employees' individual accounts, and offer them preferred customer services, such as, preferred rates on loans and in some cases lower minimum balance requirements. As of March 31, 2006, these accounts constituted approximately 49% of our total savings accounts by number and approximately 34% 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 links to family members in India. Our non-resident deposits amounted to Rs. 3,716 crore as of March 31, 2006.

Customers and Marketing

Our target market for our retail services comprises upper and middle income persons and high net worth individuals. We also target small businesses, trusts and non-profit corporations. We market our products through our branches, telephone sales calls and 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 and through cross-selling our retail products to customers we obtain



through our capital markets transactional services. Finally, we market our auto loan and two wheeler loan products through joint efforts with relevant manufacturers and distributors.

We have programs that target 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 personalised 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 channelled 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, bills discounting and credit substitutes such as commercial paper, debentures and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

For our commercial banking products, we generally target the top end of the Indian corporate sector, including companies that are part of the large private sector business houses, large public sector enterprises and multinational corporations as well as leading small and mid-sized business. We also target suppliers and distributors of top end corporations as a part of the 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 provide transactional services to a wide range of corporations, as well as financial institutions and government entities. 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.

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 and stock exchange clearing bank services. In addition, we provide correspondent banking services, including cash management services and funds transfers, to foreign banks and cooperative banks. We have recently commenced clearing banking services for major commodity exchanges in the country.

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

Our principal financing products are working capital facilities and term loans. Working capital facilities consist of cash credit facilities and bill discounting and term loans consist of short and medium term loans. 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 cash credit facility as well as documentary credits or bank guarantees.

We also purchase credit substitutes, which are typically comprised of commercial paper and short term debentures 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 process as loans, and we bear the same customer risk as we do for loans extended to these customers.

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

We price our loans based on a combination of our own cost of funds, market rates and our rating of the customer. We have a benchmark prime-lending rate as advocated by the RBI.

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.”

Bills Collection, Documentary Credits and Guarantees

We provide bills collection, documentary credit facilities and bank guarantees for our corporate customers. Documentary credits and bank guarantees are typically provided on a revolving basis.

- Bills collection.
We provide bill collection services for our corporate clients in which we collect bills on behalf of a corporate client from the bank of our client’s customer. We do not advance funds to our client until receipt of payment.
- Documentary credits.
We issue documentary credit facilities on behalf of our customers for trade financing, sourcing of raw materials and capital equipment purchases.

- **Bank guarantees.**
We provide bank guarantees on behalf of our customers to guarantee their payment or performance obligations. A large part of our guarantee portfolio consists of margin guarantees to brokers issued in favour 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 one of the few Indian banks with significant expertise in derivatives, a market currently dominated by the foreign banks.

Precious Metals

We are into 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 minimise price risk.

Wholesale Deposit Products

As at March 31, 2006, we had wholesale deposits totalling Rs. 21,063 crore, which represented 38% of our total deposits and 29% of our total liabilities. 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. 5 crore) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity.

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 cheque collections, make payments to their suppliers more efficiently, optimise 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 cheque collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralised processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payments system in India, and cheques 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 interbank clearing practices, cheque 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, most of their branches typically are still not electronically linked. In practice, the foreign banks are restricted in their branching ability.

At March 31, 2006, approximately 5,255 wholesale banking clients used our cash management services. These clients include leading 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 new initiative will help in reducing transaction costs.

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

The RBI has recently introduced a new inter-bank settlement system called the Real Time Gross Settlement (RTGS). The system facilitates real time settlements primarily between banks in select locations.

Clearing Bank Services for Stock and Commodity Exchanges

As a clearing bank, we provide the exchanges or their clearing corporations with a means for collecting cash payments due to them from their members or custodians and to make payments to these institutions. We make payments once the funds are deposited by the broker or custodian with us. In addition to benefiting from cash float, which enables us to reduce our cost of funds, in certain cases we earn a commission 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 various cooperative banks and foreign banks. We provide cash management services, funds transfers and services such as letters of credit, foreign exchange transactions and foreign cheque collection. We earn revenue on a fee-for-service basis and benefit from the cash float, which enables us to reduce 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 bank cannot provide. Because of our technology platforms, geographical reach and electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers.

Tax Collections

In April 2001, we were the first private sector appointed by the government of India to collect direct taxes. In the fiscal year 2006 we collected more than Rs. 25,800 crore of direct taxes for the government of India. 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.

We have also been appointed to collect sales, excise and other indirect taxes within certain jurisdictions in India.

Treasury Operations

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. We have been recently allowed by RBI to offer Indian rupee options and interest rate exchange traded futures to our clients. Our primary customers are multinational corporations, large and medium-sized domestic corporations, financial institutions, banks and public sector undertakings. We also advise and transact with some small companies and non-resident Indians.

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

Foreign Exchange

We trade spot and forward foreign exchange contracts, primarily with maturities of up to three years with our customers. To support our clients’ activities, we are an active participant in the Indian interbank 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 segment. Although spreads are very narrow, our total volume of trading is significant with US\$ 142.9 billion in foreign exchange traded in fiscal 2006.

Derivatives

We believe we are one of the few Indian banks that is a significant participant 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 government securities for our own account. We also participate in the interbank 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. At March 31, 2006, we had an internal approved limit of Rs. 30 crore for secondary market purchases and Rs. 10 crore for primary purchases of equity investments for proprietary trading. Our exposure as at March 31, 2006 was approximately Rs. 12 crore. 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 the internet.

Branch Network

At March 31, 2006, we had an aggregate of 535 branches, including 23 extension counters. Our branch network covers 228 cities in India. 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 account.

Almost all 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 its size and location. Our extension counters are small offices primarily within office buildings, that provide specific commercial and retail banking services.

Automated Teller Machines

At March 31, 2006, we had a total of 1323 ATMs, of which 651 are located at our branches or extension counters and 672 are located off-site, including at large residential developments, or on major roads in metropolitan areas.

Customers can use our ATMs for a variety of functions including withdrawing cash, monitoring bank balances and, at most of our ATMs, making deposits, 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 ATM machines, although our debit cards can be used. ATM cards issued by other banks in the Plus, Cirrus and Amex networks can be used in our ATMs and we receive a fee for each transaction.

Telephone Banking Call Centers

We provide telephone banking services to our customers in 189 cities. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, inquire as to balances and order stop payments. In select cities, customers can also engage in financial transactions (such as cash transfers, opening deposits and ordering demand drafts). In certain cities we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers.

Internet Banking

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

Mobile Telephone Banking

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

Risk Management

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

Retail Credit Risk

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

in the case of a loan against equity shares, 90% of the value of the automobile in case of automobile loans and 85% of the value of the two-wheeler in the case of two wheeler loans.

Wholesale Credit Risk

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

Our risk grading system is based on a combination of quantitative, qualitative and capitalization measures. We assign each customer or counterparty a numerical grade, based on an analysis of key ratios such as interest coverage, debt coverage, profit margin and leverage, as well as capitalisation or tangible net worth. We also consider qualitative variables such as industry risk, market position, management competence and other factors. This grade may be modified depending on the maturity of the instrument being considered.

Table showing the industry-wise classification of top 10 Non Performing Assets as of March 31, 2006

(Rs. lac)				
Sr. No.	Reporting Industry	Gross NPA	Provision	Net
1	Automotives	6,429	6,429	-
2	Land Transport Operators	4,865	1,693	3,172
3	Electronics	2,385	2,385	-
4	Diamonds, Gems and Jewellery	1,660	1,660	-
5	Woollen Textiles	1462	1462	-
6	Iron and Steel	1,392	1,392	-
7	Software	1,178	1,178	-
8	Heavy Engineering	707	707	-
9	Drugs & Pharmaceuticals	323	323	-
10	Generation of Electricity	269	269	-

We are subject to RBI policies that limit our exposure to particular counter-parties and with respect to particular instruments. The RBI provides that without prior approval not more than 15% of our capital funds may be extended as credit exposure to an individual borrower, and not more than 40% of our capital funds may be extended as credit exposure to a group of companies under the same management. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and 10% in respect of group borrowers. During the fiscal 2006, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in case of NABARD, where the single borrower limits were exceeded. The board of directors of the Bank approved the excess over the prudential limits subject to a ceiling of 20% of capital funds. As at March 31, 2006, the book value of outstanding exposure to NABARD was at Rs. 1,19,914 lac. This exposure was within the board approved limit of 20% of capital funds as at March 31, 2006.

The RBI has stated that banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower by a further 5% of the capital funds. See "Supervision and Regulation — Credit Exposure Limits".

The RBI prohibits loans to companies with which we have any directors in common. The RBI also requires that a portion of our lending activities be "directed" to specific priority sections. See "Supervision and Regulation—Regulations relating to Making Loans—Directed Lending".

Table showing the Directed Lending of the bank as of March 31, 2006

(Rs. lac)	
Sector	Total Outstanding
Agriculture	622,021
Small Scale Industries	74,121
Other Priority Sectors	795,348
Total	1,491,490

We follow a policy of portfolio diversification by industry.

Table showing the industry-wise funded exposure as at March 31, 2006

(Rs. lac)		
Industry	Exposure	% to total exposure
Retail – Except where otherwise classified	1,587,898	41.3%
Automobiles	409,703	10.7%
Transportation	368,416	9.6%
Retail Trade	143,573	3.7%
Engineering	129,072	3.4%
Agriculture	115,597	3.0%
NBFC / Investment Companies	104,303	2.7%
Others < 2 % of Advances (29 industries)	982,695	25.6%
Total	3,841,257	100.0%

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

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

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

Table showing the top 10 borrowers as of March 31, 2006

(Rs. lac)	
Borrower	Adjusted Exposure*
Borrower 1	119,914
Borrower 2	65,202
Borrower 3	60,000
Borrower 4	48,617
Borrower 5	48,452
Borrower 6	47,145
Borrower 7	41,818
Borrower 8	35,000
Borrower 9	34,680
Borrower 10	32,867

*Adjusted exposure is the higher of the limits granted or the actual outstanding of the borrower for funded and non funded exposure.

Foreign Exchange, Derivatives and Trading Activities

The credit risk of our foreign exchange and derivative transactions is managed the same way as we manage our wholesale lending risk. We apply our risk assessment grading system to our counter-parties and set individual counterparty limits. With respect to debt securities, we primarily trade government of India securities for our own account.

Market Risk

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

Our board of directors reviews and approves the policies for the management of market risks and dealing authorities and limits. The Risk Management Committee of the board monitors market risk policies and procedures and reviews market risk limits. The board of directors has delegated the responsibility for ongoing general market risk management to the Asset Liability Committee. This committee, which is chaired by the managing director and includes the heads of our business groups, meets every alternate week and more often when conditions require. The Asset Liability Committee reviews our product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view of the bank and decides on future business strategy with respect to interest rates. It reviews and sets funding policy. It also reviews developments in the markets and the economy and their impact on our balance sheet and business. Finally, it ensures adherence to market risk limits and decides on the bank's inter segment transfer pricing policy. The market risk department specifies risk valuation methodology of various treasury products, formulates procedures for portfolio risk valuation, assesses market risk factors and assists in monitoring market risks for various treasury desks. Our treasury back-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 generally fund our core customer assets, consisting of loans and credit substitutes, with our core customer liabilities, consisting principally of deposits. We also borrow in the short-term inter-bank market. We use the majority of our funds to make loans or purchase securities. Most of our liabilities and assets are short-term 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 re-pricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced 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 re-priced 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 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 market borrowings or placements.

Second, the Asset Liability Committee monitors our interest rate gap and, at the corporate level, recommends re-pricing of our asset or liability portfolios. Operationally, in the short term, our treasury group implements these recommendations by entering into interest rate swaps.

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.

Liquidity Risk

The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitments and to capitalise 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 to prevent 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 two-stage process, the first part of which is to assess the sensitivity of the value of a position to changes in market factors to which our business is exposed. We then assess the probability of these changes or the volatility of market factors. We manage price risk principally by establishing limits for our money market activities and foreign exchange activities.

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 overnight position limits. 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 realise 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 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 realisation of losses and elimination of positions.

Our treasury operations department monitors actual positions against the required limits. The treasury operations department is independent of the treasury department and has a separate reporting line to the managing director through the head of operations.

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

Operational Risk

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

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

The department also performs special investigations and ad hoc reviews. In addition, our internal audit and compliance department liaises with statutory auditors, central bank authorities and other regulatory bodies.

In order to ensure total independence, the internal audit and compliance department reports directly to the chairman of the board of directors and the Audit and Compliance Committee of the board 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 half-yearly 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 Banking Regulation Act, 1949. 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.

Competition

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

Retail Banking

In retail banking, our principal competitors are the large public sector banks, which have much larger deposit bases and branch networks, other new private sector banks and foreign banks in the case of retail loan products. The retail deposit share of the foreign banks is quite small by comparison to the public sector banks. However, some of the

foreign banks have a significant presence among non-resident Indians and also compete for non-branch-based products such as auto loans and credit cards.

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

Wholesale Banking

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

Treasury

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

Employees

As on March 31, 2006 we had 14,878 employees.

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 we at present are required to pay to employees a minimum 8.5% annual return. 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 funds. 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 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 undergo a training module 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 a need-based basis, with training program modules varying from two to four days in length.

G. SUPERVISION AND REGULATION

The main legislation governing commercial banks in India is the Banking Regulation Act, 1949. Other important legislation includes the Reserve Bank of India Act, 1934, the Negotiable Instruments Act 1881, and the Banker's Books Evidence Act. Additionally, the RBI, from time to time, issues guidelines to be followed by the banks, under the various provisions of the Banking Regulation Act, 1949.

Reserve Bank of India Regulations

The RBI is the central banking and monetary authority in India. 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 specific conditions are complied with, including (a) that the bank has the ability to pay its present and future depositors in full as their claims accrue; (b) 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; (c) that the bank has adequate capital and earnings prospects; and (d) that the public interest will be served if the 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.

As a licensed banking company, we are regulated and supervised by the RBI. The RBI requires us to furnish statements and information relating to our business. It has issued guidelines for commercial banks on recognition of income, classification of assets, maintenance of capital adequacy and provisioning for non-performing assets. The RBI has set up a Board for Financial Supervision, under the chairmanship of the Governor of the RBI. This Board is assisted by the Department of Financial Supervision of the RBI in supervising commercial banks and financial institutions. The appointment of the auditors of the banks is subject to the approval 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

Banks are required to obtain licenses from the RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the company, its management, adequacy of capital and earning prospects and the public interest. The RBI may cancel the license for violations of the conditions under which it is granted. Under the banking license granted to us by the RBI, we are required to have at least 25% of our branches (excluding extension counters) located in rural/semi-urban areas. A rural area is defined to have a population of less than 10,000. A semi-urban area is defined to have a population of greater than 10,000 but less than 1,00,000. These population figures relate to the latest census conducted by the Government of India at the time the branch is opened.

Capital Adequacy Requirements

The RBI has promulgated minimum capital adequacy standards for banks based on the guidelines of the Basle Committee on Banking Regulations and Supervisory Practices. Under these guidelines, we are required to maintain a minimum ratio of capital to risk weighted assets and contingents of 9.0%, at least half of which must be Tier 1 capital.

The total capital of a banking company is classified into Tier 1 and Tier 2 capital. Tier 1 capital, the core capital, provides the most permanent and readily available support against unexpected losses. It comprises paid-up capital and reserves consisting of any statutory reserves, share premium, free reserves and capital reserve as reduced by equity investments in subsidiaries, intangible assets, gap in provisioning and losses in the current period and those brought forward from the previous period. Innovative Perpetual Debt Instruments (IPDI) and Perpetual non-cumulative Preference shares have recently been permitted by RBI for inclusion as Tier 1 capital.

Tier 2 capital consists of undisclosed reserves, revaluation reserves (at a discount of 55%), general provisions and loss reserves (allowed up to a maximum of 1.25% of weighted risk assets), investment fluctuation reserve, hybrid debt capital instruments (which combine features of both equity and debt securities), cumulative perpetual preference shares (which should be fully paid up and should not contain clauses that permit redemption by the holder) and subordinated debt with an initial maturity of not less than five years. Debt capital instruments (upper Tier 2 capital) and redeemable cumulative preference shares have recently been permitted by RBI for inclusion as Tier 2 capital. Any subordinated debt is subject to progressive discounts each year (for residual maturity less than five years) for inclusion in Tier 2 capital. There are limits and sub limits prescribed for Tier 2 capital and components thereof respectively. A bank's investment in Tier 2 bonds issued by other banks is subject to a ceiling of 10% of the bank's total capital.

Risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of specified 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% while that for short-term self liquidating trade-related contingencies such as documentary credits collateralised by the underlying shipments is 20%. All open foreign exchange position limits of the bank carry a 100% risk weight. Capital

requirements have also been prescribed for open foreign currency exposures and open positions in gold. Investments are also assigned a risk weight for market risk. 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 the trading book on the lines of the standardized duration method prescribed under the 1996 Amendment to the Capital Accord issued by the Basel Committee on Banking Supervision.

The trading book for the purpose of these guidelines includes:

- Securities included under the HFT category;
- Securities included under the AFS category (was excluded till fiscal year ended 2005);
- Open *positions* in bullion;
- Open *foreign* exchange position limits;
- Trading positions in derivatives; and
- Derivatives entered into for hedging trading book exposures.

Loan Loss Provisions and Non-Performing Assets

In April 1992, the RBI issued formal guidelines on recognition of income, classification of assets, provisioning against assets and valuation of investments applicable to banks, which are revised from time to time.

The principal features of these RBI guidelines, which have been implemented with respect to our loans, debentures, lease assets, bills and other credit substitutes are set forth below.

Non-Performing Assets

A non-performing asset is an asset in respect of which any amount of interest or principal has remained past due for more than one quarter, or in respect of which we believe that we will otherwise be not able to collect such interest or principal. Interest in respect of non-performing assets is not recognised or credited to the income account unless collected.

Asset Classification

Assets are classified as described below:

- Standard Asset: Assets that do not have any problems or do not carry more than normal risk attached to the business.
- Sub-Standard Asset: Assets that are non-performing assets for a period not exceeding 12 months.
- Doubtful Assets: Assets that are non-performing assets for 12 months or more and have not been written off, either wholly or partially.
- Loss Assets: Assets that are considered uncollectible and identified as a loss by the RBI, our external auditors or us.

Renegotiated or rescheduled loans must have no past due amounts for one year after renegotiation or rescheduling for the loan to be upgraded.

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: RBI has recently increased the general provisioning requirement for standard advances from 0.25% to 0.40%. Bank's direct advances to agricultural and SME sectors have exempted from the additional provisioning requirement. RBI has in its recent credit policy announced that the general provisioning for personal loans, capital market exposures, residential housing beyond Rs. 20 lac and commercial real estate loans will be increased to 1.0%.
- Sub-Standard Assets: A specific provision of 10% of the loan outstanding is required.
- Doubtful *Assets*: A 100% specific provision is required to be taken 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 realizable 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% to 100% provision of the loan outstanding is required to be made against the secured asset as follows:
- Loss Assets: The entire asset is required to be written off or provided for.

While the provisions as indicated above are mandatory, a higher provision in a loan account would be required if the auditors consider it necessary.

Act Relating to Recovery of Non-Performing Assets

As a part of the financial sector reforms the government of India has promulgated a new act called Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002. The act provides banks and other lenders increased powers in the recovery of the collateral underlying against the non-performing assets.

Regulations Relating to Making Loans

The provisions of the Banking Regulation Act, 1949 govern making loans by banks in India. The RBI issues directions covering the loan activities of banks. The guidelines include norms for bank lending to non-bank financial companies, guidelines on Banks benchmark prime-lending rate (PLR), norms for loans against shares etc.

Regulations Relating to Securitisation of Standard Assets

During the fiscal year 2005-06 the RBI issued guidelines on securitization transactions. These guidelines require the originator to amortise any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is to be recognised in the profit/loss account for the period in which the sale occurs.

Directed Lending**Priority Sector Lending**

The RBI has established guidelines requiring banks to lend a minimum of 40% of their net bank credit (total domestic loans less bills re-discounted and exemptions permitted by the RBI from time to time; currently specified categories of deposits from non-resident Indians are exempted) to specified sectors called priority sectors. Priority sectors include small-scale industries, the agricultural sector, food and agro-based industries, small business enterprises and weaker sections of society.

The RBI also has set out the minimum percentage of net bank credit that banks may direct to specific priority sectors. The minimum percentage of credit to agriculture sector is 18% and that for weaker sections is 10%.

Domestic scheduled commercial banks having shortfall in lending to priority sector / agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD. Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits etc., are decided every year after announcement in the Union Budget about setting up of RIDF.

Shortfall in lending to priority sector / agriculture is taken into account while making allocations to banks under RIDF, which amount has to be deposited with NABARD at a certain rate of interest.

With a view to rationalising the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers/other priority sector borrowers, the RBI has stipulated that the investments by banks in specified institutions shall not be eligible for classification under priority sector lending. However this would be implemented in a phased manner effective April 1, 2005.

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% of our 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 prudent 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% of capital funds of the bank and limits exposure to a borrower group to not more than 40% of 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% of capital funds is allowed in respect of individual borrowers and 10% 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 further 5% 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:

- all approved fund-based limits or outstandings (whichever are higher);
- 100% of approved non-fund-based limits, underwriting and similar commitments or outstandings, whichever is higher; and

- foreign exchange and derivative contracts at their replacement cost value.

The definition of capital funds for determining the exposure ceilings includes both Tier I and Tier II 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 periodical review by the banks. We have fixed a ceiling of 12% on our exposure to any one industry and monitor our exposures accordingly.

Regulation Relating to Country Risk Management

The RBI has issued detailed guidelines on country risk management that cover banks' exposures to those countries to which they have a net funded exposure of 1% of their total assets. Banks are required to address the issues of identifying, measuring, monitoring and controlling country exposure risks. Provisions are required to be maintained by banks on these exposures on a graded scale ranging from 0.25% to 100% relating to the level of risk in respect of such countries.

Regulation Relating to Capital Markets Exposure

The RBI has issued guidelines on financing by banks of equities and investments in shares. These guidelines place a ceiling on the overall exposure of a bank to the capital markets. The following exposures are subject to the ceiling:

- Direct investment by a bank in equity shares, convertible bonds & debentures and units of equity-oriented mutual funds.
- Advances against shares to individuals for investments in equity shares (including initial public offerings), bonds and debentures, units of equity-oriented mutual funds and similar securities.
- Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers.

Exposures subject to the ceiling will not include collateral consisting of equity shares, bonds and debentures pledged to a bank by a corporate customer, other than Non-Banking Financial Companies (NBFC), to secure a loan for working capital or other productive purposes which do not involve stock broking or investment in capital markets. Advances made by banks to individuals for personal purposes like education, housing, consumption etc. will also be outside this ceiling.

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 investments in equity securities, convertible bonds & debentures and units of equity oriented mutual funds should not exceed 20% of its net worth. Banks' aggregate investment in bonds eligible for Tier 2 capital status issued by other banks/financial institutions are restricted to up to 10% of the investing bank's capital funds (Tier 1 plus Tier 2 capital). Investments in the instruments issued by banks/financial institutions that are eligible for capital status will attract 100% 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. Banks have been advised to restrict their new investments in unlisted securities to 10% 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/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 the principal/interest is unpaid for more than 90 days, including preference shares where the fixed dividend is not paid. In the event of the non-availability of the latest balance sheet of a company in which a bank has investment in equity shares, those equity shares would also be classified as non-performing investments.

Restrictions on Investments in a Single Company

No bank may hold shares in any company exceeding 30% of the paid up share capital of that company or 30% of its own paid up share capital and reserves, whichever is less.

Prohibition on Short Selling

The RBI does not permit short selling of securities by banks except intra day short selling within certain stipulated condition in this regard.

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". However, for disclosure and valuation purpose, the investments are classified under six groups (hereafter called "groups") – government securities, other approved securities, shares, debentures and bonds, investments in subsidiaries and joint ventures and other investments.

There are guidelines for the quantum 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 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 net loss on the revaluation of investments of each group 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.

With a view to building up of adequate reserves to guard against any possible reversal of interest rate environment in future due to unexpected developments, banks were advised by the RBI in January 2002, to build up Investment Fluctuation Reserve (IFR) of a minimum 5 per cent of the investment portfolio within a period of 5 years. IFR is computed with reference to investments in two categories, viz., "held for trading" and "available for sale". RBI has recently advised the banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for specified items as on March 31, 2006 would be permitted to treat the entire balance in the IFR as Tier 1 capital (instead of Tier 2 capital as hitherto) and for this purpose, Banks may transfer the balance therein to specified accounts.

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 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% over the interest payable on deposits from the public.

Domestic time deposits can have a minimum maturity of seven days. Time deposits from non-resident Indians denominated in foreign currency generally have a tenor of one year to three years.

The RBI has permitted banks the flexibility to offer varying rates of interests on domestic deposits of the same maturity and amounts subject to the following conditions:

- Time deposits are of Rs. 15 lac and above; and
- Interest is paid in accordance with the 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 Reserve Bank to make available a basic banking 'no frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population.

Insurance of Deposits

Demand and time deposits of up to Rs. 1,00,000 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.

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 5.0%. For this purpose, the following liabilities are not considered:

- inter-bank liabilities; and
- refinancing from the RBI and other institutions permitted to offer refinancing to banks.

The RBI pays no interest on cash reserves of up to 3.0% of the demand and time liabilities and pays interest at 3.5% per annum on the balance.

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.

Statutory Liquidity Ratio

In addition to the cash reserve ratio, each bank is required to maintain in India a specified percentage of its total 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 liquidity ratio of 25% on their total demand and time liabilities. 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 for 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 quarterly 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 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.

Know Your Customer (KYC) Guidelines and Anti Money Laundering Measures

Banks are advised to follow certain customer identification procedures for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. The objective of these KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities.

These KYC guidelines mandate banks to frame their KYC policy incorporating the following four key elements:

• Customer Acceptance Policy (CAP)

Banks are required to develop a clear CAP laying down the explicit criteria for acceptance of customers. The CAP must ensure that explicit guidelines are in place on various specified aspects of customer relationship in the bank such as:

- ✓ No account is opened in an anonymous or a fictitious name;
- ✓ Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc., to enable categorization of customers into low, medium and high risk;
- ✓ Documentation requirements and other information to be collected in respect of different categories of customers;
- ✓ Application of appropriate customer-due-diligence measures; and so on.

• Customer Identification Procedure (CIP)

The KYC policy of banks should clearly spell of the CIP to be carried out at different stages of banking relationship with a customer. Banks need to obtain sufficient information necessary to establish the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of the banking relationship. Customer-due-diligence measures are required to be observed for all customers (i.e. natural persons as well as legal persons).

• Monitoring of Transactions

Ongoing monitoring is an essential element of effective KYC procedures. However the extent of monitoring will depend upon the risk sensitivity of the account. Banks are required to pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or lawful purpose. Banks may prescribe threshold limits for a particular category of accounts and pay particular attention to transactions, which exceed these limits. High risk accounts have to be subjected to intensified monitoring. Every bank should set key indicators for such accounts, taking note of the background of the customer. Banks should ensure that its branches continue to maintain appropriate records of all cash transactions (deposits and withdrawals) of Rs. 10 lac and above.

• Risk Management

The Board of Directors of banks are required to ensure that an effective KYC program covering proper management oversight, systems and controls, segregation of duties, training and other related matters. Banks, may in consultation with their Board of Directors, devise procedures for creating risk profiles of their existing and new customers and apply various anti money laundering measures keeping in view the risks involved in a transaction, account or banking / business relationship.

Statutes Governing Foreign Exchange and Cross Border Business Transactions

The 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 will be regulated by the Prevention of Money Laundering Act, 2002.

Requirements of Banking Regulation Act, 1949

Reserve Fund

Any bank incorporated in India is required to create a reserve fund to which not less than 25% of the profits of each year, before dividends, must be transferred. If there is an appropriation from this account, the bank is required to report such an appropriation to the RBI, explaining the circumstances leading to the 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 (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.

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, which comply with the following prudential requirements would be eligible to declare dividends:

- Capital adequacy ratio must be at least 9% 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% of advances (5% of advances where the capital adequacy ratio is less than 9% for the preceding two completed years but at least 9% for the fiscal year for which the bank proposes to declare a dividend);
- 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, transfer of profits to Statutory Reserves, etc.;
- The 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%. 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. Banks incorporated before January 15, 1937 can also issue preference shares. The Banking Regulation Act specifies that no shareholder in a banking company can exercise voting rights in excess of 10% of the total voting rights of all shareholders of the banking company.

The RBI has also issued guidelines for ownership and governance in private sector banks. The underlying thread of the guidelines is to ensure that the ultimate ownership and control of banks is well diversified, banks are owned and managed by “fit and proper” persons/entities who are well capitalized and that the processes are transparent and fair.

Restriction on Transfer of Shares

RBI approval is required before we can register the transfer of shares for an individual or group, which acquires 5.0% or more of our total paid up capital.

Regulatory Reporting and Examination Procedures

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;
- the unaudited balance sheet/statement of income;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management; 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.

Keeping in view the emerging scenario under the Basel II accord and the need to allocate supervisory resources in accordance with the risk profile of banks, the RBI intends to switch over from micro-regulation to Risk Based Supervision ("RBS"). The RBI has recently conducted a pilot study of select banks under RBS and has developed and circulated to banks detailed standardized risk profile templates for different business areas to be used by banks for undertaking self-assessment of the risks to which they are exposed.

Penalties

The RBI can impose penalties on banks and their employees in case of infringement of regulations under the Banking Regulation Act. The penalty can be a fixed amount or can 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 RBI approved securities, even if the bills and the securities are held outside India) are not less than 75% 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.

Appointment and Remuneration of our Chairman, 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 whole 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:

- (a) up to a maximum of 25% of the salary; or
- (b) the average bonus paid to officers/employees. The average bonus paid to officers/employees is calculated by dividing the total salary bill by the total bonus paid to them.

Securities and Exchange Board of India Regulations and Guidelines

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.

H. PROMOTERS AND THEIR BACKGROUND

PROMOTERS

Our promoters are Housing Development Finance Corporation Limited (HDFC). HDFC was incorporated on October 17, 1977 with the primary objective of meeting a social need – that of promoting home ownership by providing long-term finance to households for their housing needs. HDFC was promoted with an initial share capital of Rs. 10 crore.

Directors of HDFC as at March 31, 2006

- Mr. Deepak S. Parekh, Chairman
- Mr. Keshub Mahindra, Vice Chairman
- Mr. K. M. Mistry, Managing Director
- Ms. Renu S. Karnad, Executive Director
- Mr. Shirish B. Patel
- Mr. B. S. Mehta
- Mr. D. M. Sukthankar
- Mr. D. N. Ghosh
- Dr. S. A. Dave
- Mr. S. Venkitaramanan
- Dr. Ram S. Tarneja
- Mr. N. M. Munjee
- Mr. D. M. Satwalekar

The Registered office of HDFC is situated at

Ramon House, H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai - 400 020.

Business Objectives

The primary objective of HDFC is to enhance residential housing stock in the country through the provision of housing finance in a systematic and professional manner, and to promote home ownership. HDFC has contributed to increasing the flow of resources to the housing sector through integrating the housing finance sector with the overall domestic financial markets.

Organisational Goals

Main goals of HDFC are to:

- develop close relationships with individual households,
- maintain its position as the premier housing finance institution in the country,
- transform ideas into viable and creative solutions,
- provide consistently high returns to shareholders, and
- grow through diversification by leveraging off the existing client base.

Shareholding of HDFC in its subsidiary and associate companies as at March 31, 2006

Company	Shareholding (%)
HDFC Developers Limited	100.00
HDFC Investments Limited	100.00
HDFC Holdings Limited	100.00
HDFC Trustee Company Limited	100.00
HDFC Realty Limited	100.00
Home Loan Services India Private Limited*	100.00
HDFC Ventures Trustee Company Limited	100.00
HDFC Venture Capital Limited	80.50
HDFC Standard Life Insurance Company Limited	78.82
HDFC Chubb General Insurance Company Limited	74.00
GRUH Finance Limited	61.85
HDFC Asset Management Company Limited	50.10
Intelenet Global Services Private Limited**	50.00
HDFC Bank Limited*	22.06

*includes shareholding of HDFC Investments Limited and HDFC Holdings Limited

** denotes joint venture

Shareholding Pattern of HDFC as at March 31, 2006

Category	Percentage (%)
Promoter Holding	Nil
Mutual Funds & Unit Trust of India	1.47
Banks, Financial Institutions, Insurance Companies (Central/ State Government Institutions/ Non-Government Institutions)	4.69
Foreign Institutional Investors	67.92
Private Corporate Bodies	1.61
Indian Public	12.90
Non Resident Indians / Overseas Corporate Bodies	0.15
Foreign Direct Investment	11.23
Others (Clearing Members)	0.03

Key Financials of HDFC

(Rs. crore)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	249.56	249.12	246.61
Reserves and Surplus	4,218.77	3,633.99	3,147.18
Total Income	4,278.39	3,410.44	3,077.92
Total Expenditure	2,702.40	2,153.65	2,050.94
Profit before Tax	1,557.30	1,256.79	1,026.98
Profit after Tax	1,257.30	1,036.59	851.78
Earnings per share (Rs.) (Face Value Rs. 10)	50.25	41.74	34.62
Book Value per share (Rs.)	179.04	155.87	137.61

Contingent Liabilities as at March 31, 2006

- Contingent Liability in respect of guarantees provided by the Corporation - Rs. 193.67 crores
- Contingent liability in respect of income-tax demands (net of amounts provided for and disputed by the Corporation) - Rs. 210.66 crores. The matters in dispute are under appeal.
- Contingent Liability in respect of corporate undertakings provided by the Corporation for securitisation of receivables - Rs. 102.38 crores. The outflows would arise in the event of a shortfall if any in the cash flows of the pool of the securitised receivables.

The Board of Directors hereby confirm that the promoters of the bank have not disassociated themselves during preceding three years from any of its group companies and / or firms with which they were associated.

The monthly high and low price and the volume of shares of HDFC traded at the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) during the financial year 2005-06

Month	BSE			NSE		
	Share Price		Volume of Shares traded	Share Price		Volume of Shares traded
	Highest (Rs.)	Lowest (Rs.)		Highest (Rs.)	Lowest (Rs.)	
April 2005	776.00	680.00	13,08,184	776.00	680.00	58,26,419
May 2005	778.00	720.00	14,89,358	778.00	720.00	56,84,008
June 2005	901.00	755.00	1,40,84,776	901.00	755.00	65,30,688
July 2005	941.70	862.00	26,62,758	941.70	862.00	61,77,102
August 2005	965.00	868.05	39,61,046	965.00	868.05	72,45,326
September 2005	1,079.90	899.00	36,66,717	1,079.90	899.00	73,66,158
October 2005	1,045.00	901.00	42,36,082	1,045.00	901.00	96,82,370
November 2005	1,160.05	961.25	35,82,476	1,160.05	961.25	1,01,28,424
December 2005	1,303.50	1,095.00	83,93,584	1,303.50	1,095.00	1,33,06,443
January 2006	1,345.00	1,122.00	62,66,432	1,345.00	1,122.00	1,61,80,926
February 2006	1,406.05	1,283.20	34,14,796	1,419.70	1,281.10	92,77,451
March 2006	1,388.80	1,258.00	60,96,277	1,391.95	1,260.00	87,99,090

ENTERPRISES UNDER COMMON CONTROL OF THE PROMOTER

HDFC Asset Management Company Limited (HDFC AMC)

HDFC AMC was incorporated on December 10, 1999, and was approved to act as an Asset Management Company for HDFC Mutual Fund by SEBI on June 30, 2000. It is primarily in the business of managing the assets of the Mutual fund and also into Investment Advisory Services. It has also obtained registration from SEBI to provide portfolio management/advisory services.

Directors of HDFC AMC as at March 31, 2006

- Mr. Deepak S. Parekh, Chairman
- Mr. Norman Keith Skeoch
- Mr. Mark Connolly
- Mr. Humayun Dhanrajgir
- Mr. Hoshang Billimoria
- Mr. P. M. Thampi
- Dr. Deepak B. Phatak
- Ms. Renu S. Karnad
- Mr. Rajeshwar R. Bajaj
- Mr. Milind Barve, Managing Director

The Registered office of HDFC AMC is situated at

3rd Floor, Ramon House
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Shareholders of HDFC AMC as at March 31, 2006

Name	Shareholding (%)
HDFC Limited	50.10
Standard Life Investments Limited	49.90

Key Financials of HDFC AMC

(Rs. crore)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	25.16	25.16	25.16
Preference Capital	25.00	25.00	50.00
Reserves and Surplus	59.54	37.00	24.46
Total Income	136.40	100.85	98.11
Total Expenditure	66.35	51.52	53.70
Profit before Tax	70.05	49.33	44.41
Profit after Tax	45.48	31.61	28.54
Earnings per share (Rs.) (Face Value Rs.10)	16.94	10.78	10.02
Book Value per equity share (Rs.)	33.66	24.71	19.72

Contingent Liabilities as at March 31, 2006

Contingent Liability of disputed income tax demand of Rs. 0.04 crore.

HDFC Standard Life Insurance Company Limited (HDFC Standard Life Insurance)

HDFC Standard Life Insurance is a joint venture between HDFC Limited and Standard Life Assurance Company, one of Europe's largest mutual life companies. It was incorporated on August 14, 2000.

The products offered by HDFC Standard Life Insurance inter alia include Endowment Assurance Plan, Money Back Plan, Term Assurance Plan, Loan Cover Term Assurance Plan, HDFC Assurance Plan, Unit Linked Endowment Plan.

Shareholding Pattern of HDFC Standard Life Insurance as at March 31, 2006

Name	Shareholding (%)
HDFC Limited	78.82
Standard Life Assurance Company	18.24
HDFC Standard Life ESOP Trust	1.35
HDFC Employee Welfare Trust	0.34
Individuals	1.25

Directors of HDFC Standard Life Insurance as at March 31, 2006

- Mr. Deepak S Parekh - Chairman
- Mr. Keki M Mistry
- Ms. Renu S Karnad
- Mr. Alexander M Crombie
- Ms. Marcia D Campbell
- Mr. Norman Keith Skeoch
- Mr. G N Bajpai
- Mr. Ranjan Pant
- Mr. Gautam R Divan
- Mr. Ravi Narain
- Mr. Deepak M Satwalekar - Managing Director & CEO

The Registered office of HDFC Standard Life Insurance is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Standard Life Insurance

(Rs. crore)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	620.00	320.00	255.50
Reserves and Surplus	6.59	(187.82)	(98.08)
Total Income	12.77	6.79	15.34
Total Expenditure	141.53	96.52	38.77
Profit / (Loss) before Tax	(128.76)	(89.73)	(23.43)
Profit / (Loss) after Tax	(128.76)	(89.73)	(23.43)
Earnings per share (Rs.) (Face Value Rs. 10)	(2.92)	(3.38)	(1.00)
Book Value per share (Rs.)	5.11	4.11	6.13

Contingent Liabilities as at March 31, 2006

Contingent liability not provided for – Rs. 11.98 crores.

HDFC Developers Limited

HDFC Developers Limited was incorporated on January 14, 1981. HDFC Developers Limited a wholly owned subsidiary of HDFC Limited undertakes housing projects on a selected basis in various regions of the country.

Directors of HDFC Developers Limited as at March 31, 2006

- Mr. S. B. Patel
- Mr. D. M. Sukthankar
- Mr. K. M. Mistry

The Registered office of HDFC Developers Limited is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Developers Limited

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	500.00	500.00	500.00
Reserves and Surplus	42,142.57	41,611.74	41,985.72
Total Income	1,483.69	3,427.23	3,869.15
Total Expenditure	628.91	805.00	680.35
Profit before Tax	854.78	2,622.23	3,188.80
Profit after Tax	530.83	1,621.46	2,236.56
Earnings per share (Rs.) (Face Value Rs. 10)	10.62	32.42	44.74
Book Value per share (Rs.)	852.85	842.23	849.71

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Realty Limited (HDFC Realty)

HDFC Realty was incorporated on March 14, 2000. It was formed by HDFC Limited and provides an exhaustive database of properties. It acts as a one-stop online hub for information, comparative analyses, transactions, market reach and comprehensive professional services for property anywhere in India.

HDFCRealty.com is the new, organized electronic marketplace for properties.

Directors of HDFC Realty as at March 31, 2006

- Mr. R. V. S. Rao
- Ms. Renu S. Karnad
- Mr. K. G. Krishnamurthy

The Registered office of HDFC Realty is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Realty

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	40,000.70	40,000.70	40,000.70
Reserves and Surplus	(56,266.97)	(57,517.84)	(68,513.04)
Total Income	3,393.33	15,898.90	7,586.31
Total Expenditure	2,131.96	4,903.70	13,272.95
Profit / (Loss) before Tax	1,261.37	10,995.20	(5,686.64)
Profit / (Loss) after Tax	1,250.87	10,995.20	(5,686.64)
Earnings per share (Rs.) (Face Value Rs. 10)	0.31	2.75	(1.42)
Book Value per share (Rs.)	(4.07)	(4.38)	(7.15)

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Chubb General Insurance Company Limited (HDFC Chubb)

HDFC Chubb is a partnership that leverages the strengths of two financial powerhouses - combining the trust and local experience of HDFC, India's premier financial services company, with the 120 years' proven expertise of Chubb, a global leader in non-life insurance backed by a network offices in 31 countries.

HDFC Chubb provides non-life insurance solutions. It provides specialised products that cover Personal Accident, Travel and Health Insurance as well as Motor Insurance, Home Insurance and Commercial and Specialty Insurance offerings for businesses.

HDFC Chubb was incorporated on February 8, 2002. The shareholders of the company are HDFC Limited (74%) and Chubb Global Financial Services Corporation (26%).

Directors of HDFC Chubb General Insurance Company Limited as at March 31, 2006

- Mr. Deepak S. Parekh, Chairman
- Mr. Shrirang V. Samant, Managing Director & CEO
- Mr. Michael Casella
- Mr. Keki. M. Mistry
- Ms. Renu S. Karnad

The Registered office is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Chubb General Insurance Company Ltd.

(Rs. crore)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	125.00	120.00	120.00
Reserves and Surplus	(32.10)	(36.51)	(28.52)
Total Income	150.82	128.74	52.31
Total Expenditure	146.02	136.73	74.50
Profit / (Loss) before Tax	4.80	(7.99)	(22.19)
Profit / (Loss) after Tax	4.41	(7.99)	(22.19)
Earnings per share (Rs.) (Face Value Rs.10)	0.36	(0.67)	(2.13)
Book Value per share (Rs.)	7.33	6.79	7.38

Contingent Liabilities as at March 31, 2006

Contingent liability as at March 31,2006 is Rs. 0.05 crore towards disputed statutory demands/liabilities.

HDFC Investments Limited

The company was incorporated on December 20, 1994 and is a wholly owned subsidiary company of HDFC Limited. The company undertakes the business of investments in stocks, shares, debentures and other securities. The Company is registered as a non-banking financial company with the Reserve Bank of India.

Directors of HDFC Investments Limited as at March 31, 2006

- Mr. D. M. Satwalekar
- Mr. Conrad D'Souza
- Mr. V. Srinivasa Rangan

The Registered office of HDFC Investments Limited is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Investments Limited

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	326,705.00	326,705.00	326,705.00
Reserves and Surplus	563,098.21	540,666.59	528,101.42
Total Income	143,943.69	112,806.15	99,334.31
Total Expenditure	53.95	46.61	165.57
Profit / (Loss) before Tax	143,889.74	112,759.54	99,168.74
Profit / (Loss) after Tax	141,639.74	110,456.51	96,358.74
Earnings per share (Rs.) (Face Value Rs. 10)	4.34	3.38	2.95
Book Value per share (Rs.)	27.24	26.55	26.16

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31,2006.

HDFC Holdings Limited

HDFC Holdings Limited was incorporated on January 17, 2000 and is a wholly owned subsidiary company of HDFC Limited. The company undertakes the business of investments in stocks, shares, debentures and other securities and is registered as a non-banking financial company with the Reserve Bank of India.

Directors of HDFC Holdings Limited as at March 31, 2006

- Mr. D. M. Satwalekar
- Mr. R. V. S. Rao
- Mr. Conrad D'Souza

The Registered office of HDFC Holdings Limited is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Holdings Limited

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	8,000.70	8,000.70	8,000.70
Reserves and Surplus	18,096.73	17,463.40	16,889.28
Total Income	674.89	871.52	1,047.21
Total Expenditure	36.56	31.66	537.33
Profit / (Loss) before Tax	638.33	839.86	509.88
Profit / (Loss) after Tax	633.33	574.12	329.88
Earnings per share (Rs.) (Face Value Rs. 10)	0.79	0.72	0.41
Book Value per share (Rs.)	32.62	31.83	31.11

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Trustee Company Limited (HDFC Trustee)

HDFC Trustee was incorporated on December 10, 1999 and is a wholly owned subsidiary of HDFC Limited. The company acts as a Trustee of HDFC Mutual Fund.

Directors of HDFC Trustee as at March 31, 2006

- Mr. Anil Hirjee, Chairman
- Mr. James Aird
- Mr. Shishir Diwanji
- Mr. K. M. Mistry
- Mr. Ranjan Sanghi

The Registered office of HDFC Trustee is situated at

Ramon House, 3rd floor,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020.

Key Financials of HDFC Trustee

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	1,000.00	1,000.00	1,000.00
Reserves and Surplus	437.98	345.71	267.55
Total Income	17,748.38	14,122.97	11,760.13
Total Expenditure	17,656.11	14,045.04	11,501.06
Profit / (Loss) before Tax	92.27	77.92	259.07
Profit / (Loss) after Tax	92.27	78.16	251.87
Earnings per share (Rs.) (Face Value Rs. 10)	0.92	0.78	2.52
Book Value per share (Rs.)	14.38	13.46	12.68

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Venture Capital Limited

HDFC Venture Capital Limited was incorporated on October 29, 2004 and received the Certificate for Commencement of Business from the Registrar of Companies, Maharashtra on November 29, 2004.

HDFC Venture Capital Limited has taken steps towards establishing infrastructure in the areas of investor servicing, operations, systems, compliance and fund management. It has been appointed as Investment Manager to HDFC Property Fund in terms of Indenture of Trust settled by HDFC Limited. In terms of the said trust, HDFC Ventures Trustee Company Limited has been appointed as the trustee to HDFC Property Fund.

Directors of HDFC Venture Capital Limited as at March 31, 2006

- Ms. R. S. Karnad
- Mr. K. G. Krishnamurthy
- Mr. V. Srinivasa Rangan
- Mr. Ashwini Kumar Sharma

The Registered office of HDFC Venture Capital Limited is situated at
 Ramon House,
 H. T. Parekh Marg,
 169, Backbay Reclamation,
 Churchgate, Mumbai – 400 020

Shareholding Pattern of HDFC Venture Capital Limited as on March 31, 2006

Name	Shareholding (%)
HDFC Limited	80.50
SBI	19.50

Key Financials of HDFC Venture Capital Limited

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005*	2004
Equity Capital	5,000.00	500.00	N.A.
Reserves and Surplus	21,498.46	(925.55)	N.A.
Total Income	161,141.26	Nil	N.A.
Total Expenditure	20,752.25	925.55	N.A.
Profit / (Loss) before Tax	140,389.01	(925.55)	N.A.
Profit / (Loss) after Tax	90,839.01	(925.55)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	239.57	(18.51)	N.A.
Book Value per share (Rs.)	53.00	(8.51)	N.A.

*pertains to the period October 29, 2004 (date of incorporation) to March 31, 2005.

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Ventures Trustee Company Limited

HDFC Ventures Trustee Company Limited was incorporated on October 29, 2004 and it received the Certificate for Commencement of Business from the Registrar of Companies, Maharashtra on November 29, 2004. It has been appointed as trustee to HDFC Property Fund, a trust settled by HDFC Limited.

Directors of HDFC Ventures Trustee Company Limited as at March 31, 2006

- Mr. S. N. Shroff
- Mr. R. Anand
- Mr. M. Ramabhadran

The Registered office of HDFC Ventures Trustee Company Limited is situated at

Ramon House,
 H. T. Parekh Marg,
 169, Backbay Reclamation,
 Churchgate, Mumbai – 400 020

Key Financials of HDFC Ventures Trustee Company Limited

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005*	2004
Equity Capital	500.00	500.00	N.A.
Reserves and Surplus	1,033.97	(630.33)	N.A.
Total Income	2,659.09	Nil	N.A.
Total Expenditure	344.80	630.33	N.A.
Profit / (Loss) before Tax	2,314.29	(630.33)	N.A.
Profit / (Loss) after Tax	1,664.29	(630.33)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	33.29	(12.61)	N.A.
Book Value per share (Rs.)	30.68	(2.61)	N.A.

*pertains to the period October 29, 2004 (date of incorporation) to March 31, 2005.

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

HDFC Loan Services India Private Limited (HLSIL)

HLSIL was incorporated on January 23, 2004. It was formed with the intent of strengthening HDFC Limited's marketing and sales efforts and providing the latter with a dedicated sales force to sell home loans. The company also assists with personnel required for processing work to HDFC Limited.

Directors of HLSIL as at March 31, 2006

- Mrs. R. S. Karnad
- Ms. Manju Malkani
- Mr. Suresh Menon
- Mr. Mathew Joseph
- Mr. Gautam Bhagat

The Registered office of HLSIL is situated at

Ramon House,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai – 400 020

Shareholding Pattern of HLSIL as on March 31, 2006

Company	Shareholding (%)
HDFC Limited	33.34
HDFC Holding Limited*	33.33
HDFC Investments Limited*	33.33

*wholly-owned subsidiaries of HDFC Limited. Consequently, HLSIL is deemed to be a subsidiary company of HDFC Limited.

Key Financials of HLSIL

(Rs. thousand)

Particulars	Years ended March 31,		
	2006	2005*	2004
Equity Capital	40,100.00	20,100.00	N.A.
Reserves and Surplus	(31,522.35)	(13,628.83)	N.A.
Total Income	198,710.62	49,145.40	N.A.
Total Expenditure	216,154.15	62,774.23	N.A.
Profit / (Loss) before Tax	(17,443.52)	(13,628.33)	N.A.
Profit / (Loss) after Tax	(17,893.52)	(13,628.33)	N.A.
Earnings per share (Rs.) (Face Value Rs. 10)	(7.65)	(54.74)	N.A.
Book Value per share (Rs.)	2.14	3.22	N.A.

*pertains to the period January 23, 2004 (date of incorporation) to March 31, 2005.

Contingent Liabilities as at March 31, 2006

There were no contingent liabilities as at March 31, 2006.

GRUH Finance Limited (GRUH Finance)

GRUH Finance (initially Gujarat Rural Housing Finance Corporation Limited) is a housing finance company which was incorporated on July 21, 1986 and obtained a Certificate of Commencement of Business on August 6, 1986. The Company commenced its lending operations in January 1988. GRUH Finance is primarily engaged in the business of providing long-term finance to individuals for Construction / Purchase / Extension / Repair / Renovation of their homes. GRUH Finance also provides loans to professionals for office premises. Its network is spread across Gujarat, Maharashtra, and Karnataka.

Shareholding Pattern of GRUH Finance as at March 31, 2006

Name	Shareholding (%)
HDFC Limited	61.85
Others	38.15

Directors of GRUH Finance as at March 31, 2006

- Mr. K.M Mistry, Chairman
- Mr. Sudhin Choksey, Managing Director
- Mr. S. M. Palia
- Mr. Rohit C. Mehta
- Mr. Prafull Anubhai
- Ms. Renu S. Karnad
- Mr. K G Krishnamurthy
- Mr. R. K. Pandey

The Registered office of GRUH Finance is situated at

"GRUH",
Netaji Marg,
Near Mithakhali Six Roads,
Ellisbridge,
Ahmedabad - 380 006

Key Financials of GRUH Finance

(Rs. crore)

Particulars	Years ended March 31		
	2006	2005	2004
Equity Capital	26.50	26.50	26.50
Reserves and Surplus	60.39	46.95	36.87
Total Income	104.20	85.54	84.43
Total Expenditure	77.98	64.87	68.73
Profit before Tax	26.23	20.67	15.70
Profit after Tax	21.68	16.71	13.32
Earnings per share (Rs.) (Face Value Rs. 10)	8.18	6.31	5.03
Book Value per share (Rs.)	32.79	27.72	23.91

Contingent Liabilities as at March 31, 2006

The company has disputed demands of Rs. 14.32 crore in respect of income tax & interest tax in the appellate proceedings.

I. SUBSIDIARIES OF THE BANK AS ON MARCH 31, 2006

HDFC Securities Limited (HSL)

HSL was incorporated on April 17, 2000. It provides investors with a capability to transact efficiently in the stock exchanges both through the net and over the telephone.

HDFC Securities Ltd. equips customers with the necessary tools to allocate, select and manage one's investments wisely, and also support it with the highest standards of service, convenience and hassle-free trading tools. It endeavours to be a one-stop-solution for all investment needs.

On September 28, 2005, the Bank increased its stake in HSL from 29.5 % to 55 %. Consequently HSL has become a subsidiary of the Bank since that date. As of March 31, 2006, the bookvalue of the Bank's investment in HSL was Rs. 20,01 lacs (previous year: Rs. 89 lacs).

Directors of HSL as at March 31, 2006

- Mr. K. N. Atmaramani, Chairman
- Mr. Sunil Shah, Managing Director
- Mr. Adil Patrawala, Wholetime Director
- Mr. Anish Shah, Wholetime Director
- Mr. Vinod Yennemadi
- Mr. Bharat Shah
- Ms Latika Monga (appointed as Additional Director w.e.f. 21-9-2005)
- Mr. S.S. Thakur
- Mr. C. N. Ram

The Registered office of HSL is situated at

Trade World, C wing, 1st Floor
Kamala Mills Compound
Senapati Bapat Marg, Lower Parel
Mumbai- 400 013.

The shareholding pattern of HSL as at March 31, 2006

Name	Shareholding (%)
HDFC Bank Limited	55.00
Indocean eSecurities Holding Limited	28.50
HDFC Bank Employee Welfare Trust	8.55
HDFC Securities Ltd. Employee Welfare Trust	3.61
Others	4.34

Key Financials of HSL

(Rs. lac)

Particulars	Years ended March 31,		
	2006	2005	2004
Equity Capital	1500.10	1,500.10	1,500.10
Reserves and Surplus	4137.42	3,056.03	2,352.07
Total Income	6025.77	3,494.52	2,583.00
Total Expenses	3983.82	2,006.07	1,889.60
Profit / (Loss) before tax	1679.64	1,025.86	693.40
Profit / (Loss) after tax	1081.39	810.78	668.79
Earnings per share (Rs.) (Face value Rs. 10/- each)	7.21	5.40	4.46
Book Value per share (Rs.)	37.58	30.31	25.51

Contingent Liabilities as at March 31, 2006

Contingent liability in respect of bank guarantees is Rs. 3,950 lac. Claims against the Company not acknowledged as debt for disputed trades Rs. 44 lac. Contingent liability in respect of income tax related matters in respect of which appeal is pending is Rs. 14 lac.

J. ASSOCIATE COMPANIES OF THE BANK AS ON MARCH 31, 2006

Flexcel International Private Limited (Flexcel)

Flexcel was incorporated on March 16, 2001 and was set up to offer global banking solutions as well as data center operations on an Application Service Provider model. It deploys, hosts and manages application software from central data center operations, to multiple entities across a wide area network. Its customers access a branded software product "Flexcube" for processing of banking transactions through a computer network. Flexcel has obtained a license for "Flexcube" software and in terms of the license are authorised to provide "Flexcube" banking software solutions to customer banks as an ASP.

Directors of Flexcel

- Mr. Deepak Ghaisas
- Mr. V. G. Yennemadi
- Mr. C. N. Ram
- Mr. Joseph John
- Mr. Dilip Kulkarni
- Mr. Karan Anand
- Mr. A. Rajan

Shareholding Pattern of Flexcel currently is

Name	Shareholding (%)
HDFC Bank Limited	29.50
HDFC Bank Employee Welfare Trust	10.50
I-Flex Solutions Limited	40.00
Lord Krishna Bank	20.00

The Registered office of Flexcel is situated at

Marchon House, 2nd floor
J.B.Nagar, Andheri-Kurla Road,
Andheri (East), Mumbai – 400 059

Key Financials of Flexcel

(Rs. thousand)

Particulars	Years ended March 31,		
	2005	2004	2003
Equity Capital	51,700	51,700	51,700
Reserves and Surplus	(27,133)	(28,859)	(22,860)
Total Income	38,709	15,350	4,433
Total Expenditure	36,993	21,409	14,853
Profit / (Loss) before Tax	1,716	(6,059)	(10,420)
Profit / (Loss) after Tax	1,716	(6,059)	(10,420)
Earnings per share (Rs.) (Face Value Rs. 10)	0.33	(1.17)	(5.34)
Book Value per share (Rs.)	5.23	4.42	5.45

Figures for the year ended March 31, 2006 are not readily available

Contingent Liabilities as at March 31, 2005

There were no contingent liabilities as at March 31, 2005.

Computer Age Management Services Private Ltd. (CAMS)

CAMS was incorporated on May 25, 1988, with the objective of providing Software and Data Processing Services. It entered the field of Registrars to Public Issues during September 1988.

CAMS is currently in the business of providing outsourced Unit Capital Accounting & Transfer Agency services to the Indian mutual Fund industry. The broad areas include Unit Capital Accounting, Brokerage and Fee Accounting, Sales systems support & Investor Service. CAMS has developed a family of software systems, to address the needs of the business and its participants. Most of these systems are database oriented, and use Internet enabled technology. In addition, CAMS also licenses software systems to Asset Management Companies, Distributors and bankers to enable them to carry out their roles vis-a-vis Mutual Funds efficiently. CAMS offers the use of its branches as front offices for servicing investors of Mutual Funds. CAMS offers a complete suite of services for Mutual Funds.

Directors of CAMS

Mr. V. Balaraman, Chairman
Mr. V. Shankar, Managing Director

Mr. Bharat Shah
Mr. G. Subramanian

The Registered office of CAMS is situated at

A & B Lakshmi Bhavan,
609, Anna Salai,
Chennai - 600 006.

Shareholding pattern of CAMS as March 31, 2006

Name	Shareholding (%)
HDFC Limited	24.00
HDFC Bank Limited	19.00
HDFC Bank Employees Welfare Trust	6.00
ATG Computers Private Limited	44.62
Mr. V. Shankar	6.38

Key Financials of CAMS

(Rs thousand)

Particulars	Year ended March 31,		
	2005	2004	2003
Equity Capital	120,000	60,000	30,000
Reserves and Surplus	358,507	253,128	15,0457
Total Income	877,862	625,719	398,335
Total Expenditure	516,357	319,150	226,408
Profit / (Loss) before Tax	361,505	306,569	171,927
Profit / (Loss) after Tax	236,308	200,826	111,172
Earnings per share (Rs.) (Face Value Rs. 10)	19.69	33.47	37.06
Book Value per share (Rs.)	39.87	52.19	60.15

Figures for the year ended March 31, 2006 are not readily available

Contingent Liabilities as at March 31, 2005

There were no contingent liabilities as at March 31, 2005.

Softcell Technologies Limited (Softcell)

Softcell was incorporated on May 10, 1995. Softcell is business-to-business software services company providing end-to-end solutions on licensing, corporate IT infrastructure solutions, internet hosting and application development services to help organisations increase business value from information technology. Softcell is headquartered in Mumbai and maintains sales offices in major cities in India.

Directors of Softcell

- Mr. Sunil Dalal – Managing Director
- Mr. Ujwal Andhari
- Mr. D.Venkatesh
- Mr. Harish Aiyer
- Mr. Vinod G. Yennemadi
- Mr. C. N. Ram

Shareholding Pattern of Softcell

Name	Shareholding (%)
HDFC Limited	12.00
HDFC Bank Limited	12.00
HDFC Bank Employees Trust	2.00
Softcell Employees Trust	6.00
Mr. Sunil Dalal	29.85
Mr. Ujwal Andhari	15.53
Mr. D. Venkatesh	12.94
Mr. Harish Aiyer	1.94
Others	7.74

Registered office of Softcell is situated at

301.Prabhadevi Industrial Estate,
408,Veer Savarkar Marg,
Prabhadevi, Mumbai – 400 025.

Key Financials of Softcell

(Rs. lac)

Particulars	Year ended March 31,		
	2005	2004	2003
Equity Capital	416	416	416
Reserves and Surplus	669	469	363
Total Income	10,899	8,378	8,812
Total Expenditure	10,643	8,276	8,744
Profit / (Loss) before Tax	255	102	69
Profit / (Loss) after Tax	200	94	68
Earnings per share (Rs.) (Face Value Rs. 10)	4.80	2.24	1.64
Book Value per share (Rs.)	26.07	21.24	18.69

Figures for the year ended March 31, 2006 are not readily available

Contingent Liabilities as at March 31, 2005

The company has disputed demands of Rs. 10 lac in respect of income tax and stand by letter of credit issued by bank of Rs. 110 lac.

Atlas Documentary Facilitators Company Private Limited (ADFC)

ADFC is a full-fledged Business Process Operating (BPO) Unit. ADFC was incorporated on April 7, 1997 with corporate headquarters in Mumbai. The company is involved in the specialised services of Back Office Processing viz. Date Entry Jobs, Call centers, managing customer care centers for Banks & Financial Institutions.

The Company offers outsourcing support services in various transactional operations, including retail liability, retail assets, credit card operations and corporate bank operations.

Directors of ADFC

- Mr. Vinod Yennemadi
- Mr. Bharat D. Shah
- Mr. A. Rajan

The Registered office of ADFC is situated at

26,A,Narayan Properties,
Titanic Building, Off Saki Vihar Road,
Chandivali Farm Road, Chandivali,
Andheri (East),Mumbai – 400 072

Shareholding Pattern of ADFC

Name	Shareholding (%)
HDFC Bank Limited	28.99
HDFC Bank Employee Welfare Trust	14.99
HDFC Securities Limited	5.50
Others	50.52

Key Financials of ADFC

(Rs. lac)

Particulars	Years ended March 31,		
	2005	2004	2003
Equity Capital	5	5	5
Reserves and Surplus	297	170	155
Total Income	3,959	2,050	1,107
Total Expenditure	3,742	2,018	1,053
Profit before Tax	217	32	54
Profit after Tax	126	16	34
Earnings per share (Rs.) (Face Value Rs.10)	252.55	31.36	67.15
Book Value per share (Rs.)	603.89	351.34	319.97

Figures for the year ended March 31, 2006 are under audit

Contingent Liabilities as at March 31, 2005

There were no contingent liabilities as at March 31, 2005

SolutionNet India Private Ltd. (SolutionNet)

SolutionNET is a global company providing Information Technology consulting and services in diverse application areas. SolutionNET delivers quality software solutions through its offices in the US, Australia, Singapore, Malaysia, Middle East, and India. The Company was incorporated on July 23, 1996. As of March 31, 2006, HDFC bank holds 19% stake in the share capital of the said company.

Directors of SolutionNet

Mr. V. Suresh
 Mr. C. N. Ram
 Mr. Sanjay B. Dongre
 Mr. A. Rajan
 Mr. R. Karthikeyan
 Mr. M. V. Bhaskar

The Registered office of SolutionNet is situated at
 132, Chamiers Road,
 Nandhanam,
 Chennai-600 035.

Key Financials of SolutionNET

Particulars	(Rs. thousand)		
	Years ended March 31,		
	2005	2004	2003
Equity Capital	11,000	11,000	11,000
Reserves and Surplus	19,030	22,560	22,409
Total Income	32,575	34,857	35,217
Total Expenditure	36,176	34,193	34,801
Profit / (Loss) before Tax	(3,601)	6.64	198
Profit / (Loss) after Tax	(3,281)	151	117
Earnings per share (Rs.) (Face Value Rs. 10)	(2.98)	0.14	0.11
Book Value per share (Rs.)	27.30	30.51	30.37

Figures for year ended March 31, 2005 are not readily available.

Contingent Liabilities as at March 31, 2005

There were no contingent liabilities as at March 31, 2005.

HBL Global Private Limited (HBL Global)

HBL Global was incorporated on November 29, 2000. The company is in the business of marketing and promoting financial products of banks. It is also working as a Corporate Insurance Advisor and is in the business of selling insurance policies.

Directors of HBL Global

- Mr. Pralay Mondal
- Mr. Shyamal Saxena

Shareholding Pattern of HBL Global currently is:

Name	Shareholding (%)
HDFC Bank Employees Welfare Trust	98.04
Others	1.96

The Registered office of HBL Global is situated at

Kamla Mills Compound,
 Sena Pati Bapat Marg,
 Lower Parel,
 Mumbai – 400 013.

Key Financials of HBL Global

(Rs. thousand)

Particulars	Year ended March 31,		
	2005	2004	2003
Equity Capital	102	102	102
Reserves and Surplus	7,896	5,122	4,486
Total Income	1,155,104	594,313	469,279
Total Expenditure	1,150,954	593,321	468,938
Profit / (Loss) before Tax	4,150	992	341
Profit / (Loss) after Tax	2,774	636	204
Earnings per share (Rs.) (Face Value Rs. 10)	271.95	62.33	20.03
Book Value per share (Rs.)	784.10	512.14	449.82

Figures for the year ended March 31, 2006 are not readily available

Contingent Liabilities as at March 31, 2005

There is disputed income tax demand of Rs.3,881 thousand in relation to Assessment Year 2003-04 which has been paid by the Company in protest. The appeal against the said demand has been filed with Commissioner Appeals which is pending for hearing.

K. STOCK MARKET DATA FOR EQUITY SHARES OF THE COMPANY

- (i) The following table shows the high and low of daily closing share prices of the bank on The National Stock Exchange of India Limited (NSE) for the periods indicated:

Period	High (Rs.)	Low (Rs.)	Average* (Rs.)
FY2004	406.75	231.00	302.19
FY2005	628.60	256.15	436.65
FY2006	812.00	448.00	660.00
November 2005	707.00	615.50	668.49
December 2005	748.50	676.50	705.04
January 2006	775.00	680.00	737.16
February 2006	775.00	706.00	740.16
March 2006	812.00	721.00	756.38
April 2006	865.00	740.90	825.07

* Average of the daily closing share price for that period.

- (ii) The following table shows the number of shares traded on the day's high and low prices of the bank's shares recorded on the NSE for the last six months preceding the filing of the Shelf Memorandum of Information:

Period	High		Low	
	Date	Number of shares traded	Date	Number of shares traded
November 2005	18/11/2005	177,636	02/11/2005	571,075
December 2005	23/12/2005	234,431	01/12/2005	236,651
January 2006	06/01/2006	861,686	03/01/2006	128,279
February 2006	07/02/2006	874,349	24/02/2006	963,765
March 2006	30/03/2006	626,978	28/03/2006	309,348
April 2006	21/04/2006	1,400,446	28/04/2006	964,505

- (iii) The following table shows the total volume and value of the Bank's shares traded in each month on the NSE during the six months preceding the date of filing of the Shelf Memorandum of Information:

Period	Total number of shares traded	Total value of shares traded (Rs. lac)
November 2005	13,292,988	86,363
December 2005	7,304,949	51,719
January 2006	10,043,949	74,042
February 2006	10,112,739	74,666
March 2006	11,944,203	89,983
April 2006	9,999,085	82,741

- (iv) The closing market price of the share on the NSE on April 17, 2006, the day that the board of directors of the bank approved the issue, was Rs. 814.60. (Since this is an issue of pure debt, the share prices mentioned above would not be relevant).
- (v) The equity shares of the bank are actively traded on Bombay Stock Exchange Limited and The National Stock Exchange of India Limited where they are listed. The ADS of the bank are actively traded on The New York Stock Exchange.

L. PROMISE vis-à-vis PERFORMANCE

The bank has not made any projections in the offer document of any of its previous capital issues during the last five years. The funds raised from these capital issues have been utilised for the business of the bank as mentioned in the respective Prospectuses.

The bank issued 5 crore of equity shares in March 1995 and the funds raised from the same have been utilised in normal banking activities as promised in the prospectus of that issue.

(Rs. in crore except specified otherwise)

Particulars	Promise			Performance		
	Fiscal year 1996	Fiscal year 1997	Fiscal year 1998	Fiscal year 1996	Fiscal year 1997	Fiscal year 1998
Deposits and other borrowings	440.00	823.00	1,288.00	730.92	1,478.35	2,246.44
Advances	292.00	547.00	933.00	292.00	575.26	841.98
Gross Income	74.90	127.80	202.40	129.09	193.33	302.81
Profits before tax	20.10	44.70	79.40	29.17	58.05	94.37
Tax	2.20	4.80	9.40	8.89	17.55	31.22
Profits after tax	17.90	39.90	70.00	20.28	40.50	63.15
EPS (Rs.)	0.90	2.00	3.50	1.01	2.03	3.16
Dividend (Percentage)	0	10%	12%	0	8%	10%
Dividend	0.00	20.00	24.00	0	16.00	20.00
Equity Capital	200.00	200.00	200.00	200.00	200.00	200.00
Reserves	17.90	37.80	83.70	21.08	43.98	85.13
Net worth	217.90	237.80	283.70	221.08	243.98	285.13
Book Value	10.90	11.89	14.18	11.05	12.20	14.26
No. of branches	6	10	15	7	20	37

All objects of the issue and all projections met except the following

(Rs. in crore except specified otherwise)

Particulars	Financial Year	Promise	Actual	Shortfall for year
Advances	1998	933.00	841.98	91.02
PAT	1998	70.00	63.15	6.85
EPS (Rs.)	1998	3.50	3.16	0.34
Dividend %	1997	10%	8%	2%
Dividend %	1998	12%	10%	2%
Dividend	1997	20.00	16.00	4.00
Dividend	1998	24.00	20.00	4.00

M. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

Financial Highlights of the bank for the last three financial years as per the audited balance sheets of the bank are as given in the table given below.

Particular	Rs. lac						
	Year ended 31.03.2006	Year ended 31.03.2005	Year ended 31.03.2004	2006 over 2005	% change	2005 over 2004	% change
Total Income	559,932	374,483	306,218	185,449	49.52%	68,265	22.29%
Interest Income	447,534	309,349	258,215	138,185	44.67%	51,134	19.80%
Other Income	112,398	65,134	48,003	47,264	72.56%	17,131	35.69%
Total Expenditure	362,059	240,096	202,105	121,963	50.80%	37,991	18.80%
Interest Expenditure	192,950	131,556	121,105	61,394	46.67%	10,451	8.63%
Operating Expenditure	169,109	108,540	81,000	60,569	55.80%	27,540	34.00%
Profit before Provisions & Contingencies	197,873	134,387	104,113	63,486	47.24%	30,274	29.08%
Provisions & Contingencies	110,795	67,831	51,033	42,964	63.34%	16,798	32.92%
Net Profit	87,078	66,556	53,080	20,522	30.83%	13,476	25.39%

The bank has grown at a compounded growth rate of 28.08% for the two years ended March 31, 2006. The Net Profit has grown from Rs. 530.80 crore for fiscal 2004 to Rs. 870.78 crore for fiscal 2006. The increase in Net profit has been the result of growth in Interest Income and Other Income. Interest income and operating income has grown at a compounded rate of 31.65% and 53.02% respectively.

Overview

HDFC Bank is a leading private sector bank. The bank's principal business activities are retail banking, wholesale banking and treasury operations. Our retail banking division provides a variety of deposit products as well as loans, credit cards, bill payment services, debit cards, mutual funds, investment advisory services and depository services. Through the wholesale banking operations we provide loans, deposit products, documentary credits, guarantees and foreign exchange and derivative products. We also provide cash management services, clearing and settlement services for stock exchanges, custody services for mutual funds and correspondent banking services. Our treasury group manages our balance sheet and provides foreign exchange and derivative products for our clients.

Our revenue consists of interest and dividend revenue, which comes from financing products, investments and other sources, as well as non-interest revenue, which comes primarily from our transactional services, sales of securities and foreign exchange and derivative transactions, trade finance offerings, and distribution services. Our interest and dividend revenue is primarily generated by interest on loans, securities and other activities. We offer working capital and term loans and also lend to retail customers. The primary components of our securities portfolio are statutory liquidity ratio investments, credit substitutes and other securities. 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 mutual funds. Interest 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.

An important measure of our results of operations is net interest revenue, which is equal to our interest and dividend revenue net of interest expense. 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 deposits (including the float on transactional services), and the extent to which we rely on borrowings.

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. Our principal sources of fee and commission revenue are documentary credits and bank guarantees, retail banking services, cash management services and custody and depository services.

Our non-interest expense includes expenses for salaries and staff benefits, premises and equipment and depreciation, and establishment and other expenses. The costs of outsourcing back office and other functions are included in establishment and other expenses. The principal components of our administrative and other expense are as set out in the table below:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31-Mar-05
Rent, taxes and lighting	16,831	11,977
Printing and stationery	6,876	4,637
Marketing expense	8,085	5,495
Communication charges	15,029	10,155
Repairs and maintenance	9,051	7,276
Professional charges and outsourcing fees	35,018	20,294
Others	11,678	6,632
Total administrative and other expenses	102,568	66,466

The Indian economy registered a robust pace of growth in the last half decade with the growth of Gross Domestic Product (GDP) over 8%. In the current year, industrial growth was driven by robust performance from manufacturing and construction sectors. Services sector growth continued to be broad-based.

India's merchandise exports have been recording annual growth rate of more than 20% since 2002-03. Imports grew by 26.7% during April-January 2005-2006. The increase in imports has been driven, inter alia, by sharp rise in global crude price. Accretion to foreign exchange reserves slowed during the current year with a reduction of US\$ 1.1 billion from the end-March 2005 level of US\$ 141.5 billion. The key factor that were instrumental behind this were: an outgo of US\$ 7.1 on redemption of India Millennium Deposits; valuation losses from a weakened dollar vis-à-vis other major currencies; and a widening deficit in the current account of the balance of payments (BOP). The rupee was largely range bound against US dollar during the year.

Significant items of income and expenditure for the year ended March 31, 2006.

Fiscal year ended March 31, 2006 compared to fiscal year ended March 31, 2005

Net Interest Revenue

Our net interest revenue increased by 43.2% from Rs. 177,793 lac for the year ended March 31, 2005 to Rs. 254,584 lac during the year ended March 31, 2006. The following table sets out the components of net interest revenue:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31-Mar-05
Interest and dividend revenue	447,534	309,349
Interest expense	192,950	131,556
Net interest revenue	254,584	177,793

The increase in net interest revenue was as a result of an increase in total interest revenue by 44.7% from Rs. 309,349 lac in the year ended March 31, 2005 to Rs. 447,534 lac in the year ended March 31, 2006, offset in part by an increase in total interest expense by 46.7% from Rs. 131,556 lac in the year ended March 31, 2005 to Rs. 192,950 lac in the year ended March 31, 2006.

While the increase in our net interest revenue reflected the increase in our earning assets by 43.5%, as a result of general growth in our business, increase in our interest expense reflected the increase in our average deposits and market borrowings. Our average deposits increased by 35.6% while the average market borrowings increased by 67.7%. Average deposits and market borrowings accounted for about 84.5% of our average balance sheet size during the year ended March 31, 2006 as compared to 84.8% during the year ended March 31, 2005.

Interest and Dividend Income

The following table sets out the components of interest and dividend revenue:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31.03.2005
Interest from loans	270,020	166,370
Interest from securities (including dividends)	163,166	131,149
Interest on balances with Reserve Bank of India and other Inter Bank funds	14,255	11,809
Others	93	21
Total Interest and Dividend Income	447,534	309,349

Interest revenue from loans increased by 62.3% from Rs. 166,370 lac during the year ended March 31, 2005 to Rs. 270,020 lac during the year ended March 31, 2006, reflecting an increase in the average volume of loans as a result of the general growth in our business by 54.4%.

Interest and dividend revenue from securities increase by 24.4% from Rs. 131,149 lac in the year ended March 31, 2005 to Rs. 163166 lac in the year ended March 31, 2006 in line with the upward movement of the yield curve.

Interest Expense

Our total interest expense increased by 46.67% from Rs. 131,556 lac during the year ended March 31, 2005 to Rs. 192,950 lac during the year ended March 31, 2006 primarily on account of the general increase in deposits. Cost of deposits increased from 3.18% during the fiscal 2005 to 3.26% during the fiscal 2006, mainly due to the increase in the cost of Time Deposits.

Non-Interest Revenue

Our non-interest revenue increased by 42.05% from Rs. 65,134 lac in the year ended March 31, 2005 to Rs. 112,398 lac in the year ended March 31, 2006. The following table sets out the components of our non-interest revenue:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31.03.2005
Commission, exchange and brokerage	104,505	60,496
Profit / (Loss) on sale of investments	3,754	(7,974)
Profit / (Loss) on revaluation of investments	(8,966)	1,398
Profit / (Loss) on sale of building and Other Assets	27	21
Profit on exchange transactions	9,940	9,117
Derivative Income	1,921	2,041
Others	1,217	35
Total Non Interest Revenue	112,398	65,134

Fees and Commission income increased by 72.7% to Rs. 104,505 lac with the key growth drivers being commissions from distribution of third party mutual funds, insurance, fees on debit/credit cards & point-of-sale terminals and transactional charges/fees on deposit and depository (custody) accounts. Commissions from cash management and trade services also grew at moderate pace due to higher volumes.

Due to sharp increase in short term yields in the debt market in March 2006, the Bank incurred net losses on sale and revaluation of investments of Rs.52.1 crores primarily on account of market-to-market losses on non-SLR investments.

Foreign Exchange and Derivatives revenues were Rs.11,861 lac, (consisting of Foreign Exchange revenues of Rs. 9,940 lac and revenues from derivatives of Rs. 1921 lac) against Rs. 11,158 lac in 2004-2005. Revenues from derivatives declined on account of a sharp decline in margins on customer derivative transactions as well as lower trading profits.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31.03.2005
Payments to and provisions for employees	48,682	27,667
Depreciation on bank's property	17,859	14,407
Establishment and other expenses	102,568	66,466
Total Non-interest Expense	169,109	108,540

Non-interest (operating) expenses increased from Rs. 108,540 lac in 2004-2005 to Rs. 169,109 lac in 2005-2006, due to significant expansion of retail loan products and credit cards business. Operating expenses as a proportion of net revenues is 46.1% in the fiscal year 2006 as against 44.7% in the fiscal year 2005.

Staff expenses accounted for 28.8% of non-interest expenses in 2005-2006 as against 25.5% in 2004-05 despite an increase in average staff strength from 7,479 to 11,791 and also increase in average salary level.

Our depreciation on premises and equipment expense increased by Rs. 3,452 lac from Rs. 14,407 lac in the fiscal 2005 to Rs. 17,859 lac in the fiscal 2006. This increase was on account of the increase in the investments relating to increase in the number of branches and ATM outlets from 467 and 1147 respectively as on March 31, 2005 to 535 and 1323 as on March 31, 2006 respectively. Depreciation expense as a percentage to the net revenues of the bank fell from 5.9% during the fiscal 2005 to 4.9% during the fiscal 2006.

Our establishment and other expense as a percentage of net revenues increased from 27.4% in year ended March 31, 2005 to 27.9% in the year ended March 31, 2006, mainly on account of our growth in retail loans and investments in new lines of business especially, health care equipment and gold loans.

Provision and contingencies

Our provisions and contingencies comprised of the following:

	Rs. lac	
	Year ended	Year ended
	31-Mar-06	31.03.2005
Provision for Loan Loss	47,976	17,622
Amortisation on investments	24,516	18,806
Provision for tax	38,273	31,338
Others	30	65
Total Provisions and Contingencies	110,795	67,831

Loan loss provisions increased from Rs. 17,622 lac in 2004-05 to Rs. 47,976 lac were primarily driven by an increase loan loss provisions for retail loan product programs reflecting a balance of risk and returns due to change in product mix.

Provision for amortization of investments was Rs. 24,516 lac during the fiscal 2006 vis-à-vis Rs. 18,806 lac during the previous fiscal, principally due to the amortization of the premium for the SLR investments in the 'Held to Maturity' category.

Provision for tax increased from Rs. 31,338 lac for the fiscal ended March 31, 2005 to Rs. 38,273 for the fiscal ended March 31, 2006 an increase of 22.1%

Net Income

As a result of the foregoing factors, our net income after taxes and adjustments increased by 30.83% from Rs. 66,556 lac in the year ended March 31, 2005 to Rs. 87,078 lac in the year ended March 31, 2006.

Fiscal year ended March 31, 2005 compared to fiscal year ended March 31, 2004

Net Interest Revenue

Our net interest revenue increased 29.7% from Rs. 137,110 lac for the year ended March 31, 2004 to Rs. 177,793 lac during the year ended March 31, 2005. The following table sets out the components of net interest revenue:

	Rs. lac	
	Year ended	Year ended
	31-Mar-05	31-Mar-04
Interest and dividend revenue	309,349	258,215
Interest expense	131,556	121,105
Net interest revenue	177,793	137,110

The increase in net interest revenue was as a result of an increase in total interest revenue by 19.8% from Rs. 258,215 lac in the year ended March 31, 2004 to Rs. 309,349 lac in the year ended March 31, 2005, offset in part by an increase in total interest expense by 8.6% from Rs. 121,105 lac in the year ended March 31, 2004 to Rs. 131,556 lac in the year ended March 31, 2005.

While the increase in our net interest revenue reflected the increase in our earning assets by 22.7%, as a result of general growth in our business, increase in our interest expense reflected the increase in our average deposits and market borrowings. Our average deposits increased by 30.0% while the average market borrowings increased by 23.5%. Average deposits and market borrowings accounted for about 84.8% of our average balance sheet size during the year ended March 31, 2005 as compared to 84.5% during the year ended March 31, 2004.

Interest and Dividend Income

The following table sets out the components of interest and dividend revenue:

	Rs. lac	
	Year ended	Year ended
	31.03.2005	31.03.2004
Interest from loans	166,370	114,188
Interest from securities (including dividends)	131,149	132,819
Interest on balances with Reserve Bank of India and other Inter Bank funds	11,809	11,200
Others	21	8
Total Interest and Dividend Income	309,349	258,215

Interest revenue from loans increased by 45.7% from Rs. 114,188 lac during the year ended March 31, 2004 to Rs. 166,370 lac during the year ended March 31, 2005, reflecting an increase in the average volume of loans as a result of the general growth in our business by 51.8%.

Interest and dividend revenue from securities decreased by 1.3% from Rs. 132,819 lac in the year ended March 31, 2004 to Rs. 131,149 lac in the year ended March 31, 2005 in line with the general decline in interest rates.

Interest Expense

Our total interest expense increased by 8.6% from Rs. 121,105 lac during the year ended March 31, 2004 to Rs. 131,556 lac during the year ended March 31, 2005 primarily on account of the general increase in deposits. Cost of deposits declined from 3.90% during the fiscal 2004 to 3.18% during the fiscal 2005 which offset the impact on interest expense due to increase in our average deposits by 30.0%.

Non-Interest Revenue

Our non-interest revenue increased by 35.7% from Rs. 48,003 lac in the year ended March 31, 2004 to Rs. 65,134 lac in the year ended March 31, 2005. The following table sets out the components of our non-interest revenue:

	Rs. lac	
	Year ended 31.03.2005	Year ended 31.03.2004
Commission, exchange and brokerage	60,496	32,035
Profit / (Loss) on sale of investments	(7,974)	3,778
Profit / (Loss) on revaluation of investments	1,398	(1,091)
Profit / (Loss) on sale of building and Other Assets	21	(45)
Profit on exchange transactions	9,117	7,400
Derivative Income	2,041	5,486
Others	35	440
Total Non Interest Revenue	65,134	48,003

Fees and Commission income increased by 88.8% to Rs. 60,496 lac with the key growth drivers being commissions from distribution of third party mutual funds, insurance, fees on debit/credit cards & point-of-sale terminals and transactional charges/fees on deposit and depository (custody) accounts. Commissions from cash management and trade services also grew at moderate pace due to higher volumes.

During the fiscal 2004, we had made a profit on sale and revaluation of investments amounting to Rs. 2,687 lac, which decreased, by Rs. 9,263 lac during the fiscal 2005. This decrease of 344.7% was mainly attributable to the increase in yields in 2004-2005 due to which the bank incurred net losses on sale of investments (net of revaluation gains) amounting to Rs.65.8 crore.

Foreign Exchange and Derivatives revenues were Rs.11,158 lac, (consisting of Foreign Exchange revenues of Rs. 9,117 lac and revenues from derivatives of Rs. 2041 lac) against Rs. 12,886 lac in 2003-2004. Revenues from derivatives declined on account of a sharp decline in margins on customer derivative transactions as well as lower trading profits.

Non-Interest Expense

Our non-interest expense was comprised of the following:

	Rs. lac	
	Year ended 31.03.2005	Year ended 31.03.2004
Payments to and provisions for employees	27,667	20,409
Depreciation on bank's property	14,407	12,572
Establishment and other expenses	66,466	48,019
Total Non-interest Expense	108,540	81,000

Non-interest (operating) expenses increased from Rs. 81,000 lac in 2003-2004 to Rs. 108,540 lac in 2004-2005, driven significantly by an increase in investments relating to branch expansion as well as rolling out of retail loan products and credit cards to several more cities. Despite the higher investment related expenditure and revenues being depressed by the losses on sale of investments, operating expenses, as a proportion of net revenues remained more or less stable at 44.7%.

Staff expenses accounted for 25.5% of non-interest expenses in 2004-2005 as against 25.2% in 2003-04, despite an increase in average staff strength from 5,423 to 7,479 (an increase of 38%).

Our depreciation on premises and equipment expense increased by Rs. 1,835 lac from Rs. 12,572 lac in the fiscal 2004 to Rs. 14,407 lac in the fiscal 2005. This increase was on account of the increase in the investments relating to increase in the number of branches and ATM outlets from 312 and 910 respectively as on March 31, 2004 to 467 and 1147 as on March 31, 2005 respectively. Depreciation expense as a percentage to the net revenues of the bank fell from 6.8% during the fiscal 2004 to 5.9% during the fiscal 2005.

Our establishment and other expense as a percentage of net revenues increased from 25.9% in year ended March 31, 2004 to 27.4% in the year ended March 31, 2005, mainly on account of our growth in retail loans and investments in new lines of business especially, the commodity based lending, gold loans and express loans business.

Provision and contingencies

Our provisions and contingencies comprised of the following:

	Rs. lac	
	Year ended	Year ended
	31.03.2005	31.03.2004
Provision for Loan Loss	17,622	17,828
Amortisation on investments	18,806	9,322
Provision for tax	31,338	22,138
Others	65	1,745
Total Provisions and Contingencies	67,831	51,033

Loan loss provisions at Rs. 17,622 lac in 2004-05 were primarily driven by an increase in the general and specific loan loss provisions for retail loans. In 2003-04 provisions had been higher at Rs. 17,828 lac as they included incremental specific loan provisions, due to the bank moving from the '180 day overdue' norm to the '90 day overdue' norm for recognizing non-performing assets in that year.

Provision for amortization of investments was Rs. 18,806 lac during the fiscal 2005 vis-à-vis Rs. 9,322 lac during the previous fiscal, principally due to the amortization of the premium for the SLR investments in the 'Held to Maturity' category.

Provision for tax increased from Rs. 22,138 lac for the fiscal ended March 31, 2004 to Rs. 31,338 lac for the fiscal ended March 31, 2005, an increase of 41.6%

Others include contingency provision of Rs. 1,670 lac made during the year ended March 31, 2004, being provisions towards wealth tax and operational risk amongst other.

Net Income

As a result of the foregoing factors, our net income after taxes and adjustments increased by 25.4% from Rs. 53,080 lac in the year ended March 31, 2004 to Rs. 66,556 lac in the year ended March 31, 2005.

Financial Condition

Assets

The following tables set forth the principal components of our assets as at March 31, 2006 and 2005:

	Rs. lac	
	As on	As on
	31.03.2006	31.03.2005
ASSETS		
Cash in hand (including foreign currency and gold coins)	50,771	35,357
Balances with Reserve Bank of India	279,890	229,656
Balances with banks and Money at call and short notice in India	177,565	145,211
Balances with banks and Money at call and short notice outside India	183,674	37,176
Investments, in India	2,839,396	1,934,981
Advances, in India	3,506,126	2,556,630
Fixed Assets	85,508	70,832
Other Assets	227,709	133,057
Total (A)	7,350,639	5,142,900

Our total assets increased by 42.9% to Rs. 7,350,639 lac as on March 31, 2006. There was an increase of 98% in balances with banks and money at call & short notice, 37.1% in loans, 43.6% in cash in hand, 20.7% in fixed assets and increase in investments by 46.7%.

Loans increased by 37.1% to Rs. 3,506,126 lac as on March 31, 2006 primarily due to an increase in our retail portfolio. Our wholesale portfolio also witnessed a stable growth in line with the growth in the business of the bank.

Our property and equipment increased by 20.7% to Rs. 85,508 lac as on March 31, 2006 as we expanded our branch network from 467 branches to 535 branches and our ATM network from 1147 ATMs to 1323 ATMs along with our continued investment in other infrastructure to support our growth.

Liabilities and Shareholders' Equity

The following tables set forth our liabilities, as on March 31, 2006 and 2005:

	Rs. lac	
	As on	As on
	31.03.2006	31.03.2005
Liabilities		
Share Capital	31,314	30,988
Reserves and Surplus	498,639	420,997
Employees' Stock Options (grants) outstanding	7	43
Deposits	5,579,682	3,635,425
Borrowings	285,848	479,001
Subordinated Debt	170,200	50,000
Other liabilities and provisions	784,949	526,446
Total Liabilities	7,350,639	5,142,900

Our total liabilities increased by 42.9% to Rs. 7,350,639 lac as on March 31, 2006. There was a decrease of 40.3% in borrowings and increase of 53.5% in deposits.

The increase in our deposits was principally due to general growth in our business, new customers acquired as we expanded our branch network and greater penetration of our customer base achieved through cross sales of our products.

Our net worth increased by 17.3% to Rs. 529,953 lac as on March 31, 2006 primarily due to the increase in our retained earnings.

It is hereby confirmed that there have not arisen any circumstances since the date of last financial statements as disclosed in the prospectus which would materially and adversely affect or is likely to affect the trading or profitability of the bank or the value of its assets or its ability to pay its liabilities within the next twelve months.

N. OUTSTANDING LITIGATIONS, DEFAULTS AND MATERIAL DEVELOPMENTS

The litigation in which the bank and sponsored institutions involved are classified into 4 categories:

1. Cases filed against the bank;
2. Cases filed against the bank's directors;
3. Cases filed against the bank's promoters, companies promoted by the promoters of the bank;
4. Disputed Tax Liabilities.

1. The details of the cases filed against the Bank and which are outstanding as on 31st March, 2006.

Following are the details of the pending litigations initiated against the Bank where the amount involved is more than Rs.1 crore:

a) UDHNA CITIZENS

Name of the Branch	:	Surat Branch
Name of the Party	:	The Udhna Citizen Co-operative Bank Limited
Court in which the case is pending and the case no.	:	First Class Judicial Magistrate, Court III, Surat Case No. 202/2003
Amount Involved (Rs. in crores)	:	Rs. 3 crore
Status	:	There was a deal of about Rs.3 crores for purchase of Government security between Udhna Citizen Co-op. Bank Limited (Udhna) and its broker. The Bank had received remittance and forwarded the same to the broker. The broker has alleged to have defaulted in delivering the securities to Udhna. The litigation is for the recovery of the amount remitted from the Bank.

b) SANJAY HIRALAL

Name of the Branch	:	Baroda Branch
Name of the Party	:	Mr. Sanjay Hiralal Shah
Court in which the case is pending and the case no.	:	Civil Court, Baroda, Special Summary Suit 202 of 2001.
Amount Involved (Rs. in crores)	:	Rs. 7.08 crore
Latest Position	:	This case is for the dishonour of the payable at par cheques aggregating to Rs.6 crores issued by a customer, which is a co-operative bank. The plaintiff contends that these at par cheques are demand drafts. The case is pending before the Civil Court, Baroda.

c) MS. SUCHITRA IYER

Name of the Branch	:	Coimbatore Branch
Name of the Party	:	Ms. Suchitra Iyer
Court in which the case is pending and the case no.	:	Judicial Magistrate III, Coimbatore, Case No. 343/03.
Amount Involved (Rs. in crores)	:	Rs. 2 crore
Latest Position	:	This case is for transfer of funds amongst the customer's own accounts interse which are alleged by the customer as unauthorised and illegal. The case is pending in the court Judicial Magistrate III, Coimbatore.

d) CENTURIAN BANK LIMIED

Name of the Branch	:	D. N. Road Branch of erstwhile Times Bank Limited
Name of the Party	:	Centurian Bank Limited
Court in which the case is pending and the case no.	:	Sessions Court.
Amount Involved (Rs. in crores)	:	Rs. 3.36 crore
Latest Position	:	A Letter of Credit (LC) of Rs.3.50 crores was discounted with the erstwhile Times Bank Limited in March 1997. The LC opening Bank subsequently informed Times Bank that the LC for Rs.3.5 crores was a forged document. Upon assuming a possibility that the LC issuing Bank may not honour its commitment under the LC, Times Bank took recourse to the beneficiary and recovered the amount as per the normal banking practice. Alleging that Times Bank had been paid by the beneficiary out of the funds collected through fraudulent means, the Police Authorities directed Times Bank to deposit the funds with the Superintendent of Police, State CID (Crime) under protest. We have won the case and the Magistrate has given this verdict in our favour. Centurion Bank is filing a revision petition in Sessions Court.

e) Mr. Ramchandra Jayawant Prabhu

Name of the Branch	:	Panjim branach
Name of the Party	:	Mr. Ramchandra Jayawant Prabhu
Court in which the case is pending and the compliant No.	:	Complaint No. 104 of 2005 National Consumer Disputes Redressal Commission at New Delhi
Amount involved (Rs. in crores)	:	Rs. 1.02 crore
Status	:	The Bank had remitted USD 160,000 to Mizako Bank, Tokyo on the written instructions of Mr. R.J.Prabhu. This has been disputd by him stating that the documents were forged. He has filed case in the National Consumer Disputes Redressal Forum, New Delhi as stated above. The Bank has avered that it has carried out the bonafide instructions of its client and has got the writings in the documents and the signature verified by handwriting experts. Based on the examinations, the bank has arrived at the conclusion that the instructions based on which the bank carried out the transactions were genuine.

With regard to all the other pending litigations filed against the Bank, the amount involved is not significant. Even after taking all such cases together it will not have any material adverse impact on the bank, considering its volume of operations.

2. The following are the details of the litigations filed against the Directors of HDFC Bank Limited and are pending as on 31st March, 2006

1. The case detailed in 1 above is also filed against Mr. Aditya Puri, Managing Director and some of the officials of the Bank.
2. Mr. Bhatia has filed a case with the Special Court, Judicial Magistrate, Economic Offences, Jaipur, against Mr. Aditya Puri, Managing Director and some former directors of the Bank for alleged delay in forwarding the share certificate no. 723980 representing 100 shares sent by him for effecting transfer. The Civil Judge, Junior Division, Jaipur had issued an injunction and ordered maintenance of status quo against effecting transfer since one Mr. Govind Sharan Agrawal had filed a case in Special Court of Economic Offences, Jaipur claiming / alleging that he had lost / misplaced shares of which share certificate no. 723980 is a part. This case is also filed against HDFC Bank. The matter is pending with Special Court, Economic Offences.
3. The case is filed in the court of Judicial Magistrate at Chennai against MD for alleged non compliance of Contract Labour Regulations. The bank has filed a petition in the High Court at Chennai for quashing these proceedings. The High Court has granted an injunction (interim stay) and ordered maintaining of status quo. Has issued notice to the respondents returnable in two weeks. The Petition is pending before the High Court at Chennai.
4. Mr. Sunil Kedia has filed a criminal complaint in the Court of the Sub-Divisional Judicial Magistrate, alipore against Mr. Aditya Puri and a few other Directors of the Bank for alleged encashment of his post dated cheque for Rs.27,800/- inspite of his specific instructions to treat his Post dates cheques as stopped.

Mr. Kedia has applied for an auto loan for Rs. 6.50 lacs for purchasing a Honda city car. This loan was to be disbursed to him on his making down payment / own contribution of Rs. 76,673/-. The Bank had disbursed the loan to the sourcing agreement on execution of the loan agreement by Mr. Sunil Kedia as per the terms of the agreement and accordingly, one of the Post Dates cheques for Rs.27,800/- got encashed. Subsequently, after Mr. Kedia had made the down payment, the car has been delivered to him. We have filed an application in the Calcutta High court for quashing the proceedings of the lower court.

3. Cases filed against the bank's promoters, companies promoted by the promoters of the bank and which are outstanding as on March 31, 2006:

There are no material cases pending against the bank's promoters and companies promoted by the promoters of the bank as on March 31, 2006, except for the penalty levied by SEBI on HDFC Limited for delay in intimating the acquisition of shares of Hindustan Oil Exploration Company Limited, in compliance with the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, which had been set aside by the Securities Appellate Tribunal (SAT). (When the penalty was imposed are we still require to disclose)

Aggrieved by the order passed by SAT, SEBI filed an appeal before the Hon'ble High Court at Mumbai, pursuant to which the Hon'ble High Court set aside the said order and remanded the matter to SAT for fresh hearing and review.

Aggrieved by the impugned order passed by the Hon'ble High Court, HDFC Limited filed a Special Leave Petition (SLP) before the Hon'ble Supreme Court of India, pursuant to which the Hon'ble Supreme Court of India was pleased to issue notice to SEBI in the matter. The matter is now pending before the Hon'ble Supreme Court of India.

4. Disputed Tax Liability:

As on March 31, 2006, there are no cases filed against the bank by the Income Tax authorities relating to income tax matters and relating to interest tax matters at the High Court or the Supreme Court.

As on March 31, 2006, the aggregate amount of tax involved in appeals filed by / against the bank with the Income Tax authorities relating to income tax matters is Rs. 243.97 crore. Details are given as under:

Assessment Year	Appeal Pending before	Major grounds of appeal	Tax Amount including Interest (Rs. in crores)
1997-1998	Appellate Tribunal	Expenditure on earning tax free income	0.23
1998-1999	Appellate Tribunal	Expenditure on earning tax free income	2.34
1999-2000	Appellate Tribunal	Expenditure on earning tax free income	6.69
2000-2001	Appellate Tribunal	Expenditure on earning tax free income	14.24

Assessment Year	Appeal Pending before	Major grounds of appeal	Tax Amount including Interest (Rs. in crores)
2001-2002	Appellate Tribunal	Expenditure on earning tax free income	16.23
2002-2003	Commissioner of Income tax Appeals	Expenditure on earning tax free income	24.87
2003-2004	Commissioner of Income tax Appeals	Expenditure on earning tax free income	22.31
2004-2005	Commissioner of Income tax Appeals	Expenditure on earning tax free income	42.37
1996-1997	Appellate Tribunal	Broken period interest	1.82
1997-1998	Appellate Tribunal	Broken period interest	1.33
1998-1999	Appellate Tribunal	Broken period interest	0.74
1999-2000	Appellate Tribunal	Broken period interest	Nil
2000-2001	Appellate Tribunal	Broken period interest	15.35
2001-2002	Appellate Tribunal	Broken period interest	0.62
2002-2003	Commissioner of Income tax Appeals	Broken period interest	5.57
1996-1997	Appellate Tribunal	Depreciation on Leased assets	2.31
1997-1998	Appellate Tribunal	Depreciation on Leased assets	3.91
1998-1999	Appellate Tribunal	Depreciation on Leased assets	0.76
2001-2002	Appellate Tribunal	Revaluation of Investments	5.29
2002-2003	Commissioner of Income tax Appeals	Revaluation of Investments	6.84
2003-2004	Commissioner of Income tax Appeals	Revaluation of Investments	19.32
2004-2005	Commissioner of Income tax Appeals	Revaluation of Investments	37.36
1996-1997	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	0.15
1997-1998	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	0.91
1998-1999	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	0.32
1999-2000	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	0.39
2000-2001	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	4.43
2001-2002	Commissioner of Income tax Appeals/ Appellate Tribunal	Miscellaneous	0.91
2002-2003	Commissioner of Income tax Appeals	Miscellaneous	1.51
2003-2004	Commissioner of Income tax Appeals	Miscellaneous	4.83
2004-2005	Commissioner of Income tax Appeals	Miscellaneous	0.01
Total			243.97

5. Penalty:

Based on a special scrutiny of certain customer accounts, RBI recently imposed penalties on the Bank aggregating to Rs. 30 lac under the provisions of The Banking Regulation Act, 1949. The said penalties were imposed mainly for not displaying prudence in the opening and operations of certain deposit accounts, non-compliance of Know Your Customer norms in certain accounts and non-adherence to certain extant guidelines of the Reserve Bank of India

6. SEBI Order:

The Securities and Exchange Board of India (SEBI) vide its order under sections 11, 11B and 11(4) of Securities and Exchange Board of India Act, 1992 and section 19 of Depositories Act 1996, in the matter of investigation into initial public offerings, has directed the Bank not to open fresh demat accounts till further directions. The bank has contested the same.

Except as mentioned above, no material proceedings have been launched against the bank for any of the offences under any enactment, irrespective of whether specified in Paragraph 1 of Part I of Schedule XIII to the Companies Act. No such litigation or disputes are pending as on today and there are no defaults or outstanding statutory dues.

There are no Small-scale undertakings/ creditors to which the bank owes any sum exceeding one lac where payment is outstanding for a period of more than 30 days.

The bank has not defaulted in meeting any statutory dues, institutional dues and has made all payments/ refunds on debentures/ fixed deposits. It has not defaulted on dues to holders of other debt instruments. The bank has not defaulted in meeting dues towards payment of interest or principal on due dates to holders of Bonds and Fixed Deposits.

Other than the above there are no disputes/ litigations towards tax liabilities or any civil or criminal prosecutions against the bank, its Directors and its Promoters for any offence, economic or otherwise. There are no pending proceedings initiated for economic offences. No penalties have been imposed on the bank by RBI or any other regulatory authority. No proceeding is known to be contemplated by Governmental authorities except those relating to income tax disputes as given above. No disciplinary action/ investigation has been taken by the Securities and Exchange Board of India/ Stock Exchange against the bank, its directors, its promoters and any ventures promoted by them.

Also, other than the above the promoters of the bank as well as the companies/ firms/ ventures promoted by the promoters of the bank have not defaulted in meeting any of the statutory dues, institutional dues, etc. to the financial institutions/ banks and have made all payments towards interest or principal on due dates to the holders of Bonds, Debentures, Fixed Deposits, Cumulative/ Non-Cumulative Preference Shares. Other than the above there are no disputes/ litigations towards tax liabilities or any civil or criminal prosecutions against promoters of the bank and the companies/ firms/ ventures promoted by the promoters of the bank for any offence, economic or otherwise. There are no pending proceedings initiated for economic offences.

AGAINST THE DIRECTORS OF THE BANK

Other than the above, there are no outstanding litigations, disputes or penalties against the Directors of the bank, including tax liabilities, economic offences, criminal or civil prosecution for any offence, irrespective of whether specified under any enactment in Paragraph 1 of Part I of Schedule XIII, of the Companies Act, 1956 or any other liability in their personal capacities or as Director/Partner/Sole Proprietor in the Company or any other company/firm.

There are no litigations against the Directors involving violation of statutory regulations or criminal offences. No disciplinary action has ever been taken by the Securities and Exchange Board of India or Stock Exchanges and no penalty has been imposed by any authority. There is no suit pending against the Directors in capacity as director or partner or sole proprietor in any other company/firm.

Other than as stated above, there are no disputes/ litigations towards tax liabilities or any criminal or civil prosecutions against the bank for any offence – economic or otherwise. No criminal proceedings have been launched against the bank under any of the enactment irrespective of whether specified in paragraph 1 of part I of Schedule XIII of the Companies Act, 1956.

INTEREST OF DIRECTORS OF THE BANK

The Directors of the bank are interested to the extent of shares held by them and/or by their friends and relatives or which may be subscribed by them and/or allotted to them by the bank.

The Directors of the bank are interested to the extent of fees, if any, payable to them for attending meetings of the Board or Committees and reimbursement of travelling and other incidental expenses, if any, for such attendance as per the Articles of Association of the bank.

The Directors of the bank are not interested in the appointment of or acting as Underwriters, Registrars and Bankers to the Issue or any such intermediary registered with SEBI.

The Directors of the bank are not interested in any property acquired by the bank within two years of the date of Shelf Memorandum of Information or proposed to be acquired by it.

The Directors of the bank are not interested in any loan or advance given by the bank to any person(s)/company(ies) nor its beneficiary of such loan or advance related to any of the Directors of the bank.

Save as stated above, no amount or benefit has been paid or given to the bank's Directors or Officers since its incorporation nor is intended to be paid or given to any Directors or Officers of the bank except the normal remuneration and/or disbursement for services as Directors, Officers or Employees of the bank.

O. INVESTOR GRIEVANCE & REDRESSAL SYSTEM

The Committee approves and monitors transfer, transmission, splitting and consolidation of shares and bonds issued by the Bank and allotment of shares to the employees pursuant to Employees Stock Option Scheme. The Committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

The Committee consists of Mr. Jagdish Capoor and Mr. Aditya Puri.

The Committee is chaired by Mr. Jagdish Capoor and met thirteen times during the year. The powers to approve share transfers and dematerialisation requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee.

As on 31 March, 2006, 36 instruments of transfer of shares were pending and since then the same have been processed. The details of the transfers are reported to the Board of Directors from time to time.

During the year, the Bank received 218 complaints from shareholders, which have been attended to.

Share transfers, dividend payment and all other investor related activities are attended to and processed at the office of the Registrar & Transfer Agent, M/s. MCS Limited, Unit HDFC Bank, "Harmony" Plot No. 6, Sector – 1, Khanda Colony, New Panvel (W) - 410206

The Bank has also put in place the Investor Relations Cell at its Office at Secretarial Dept., Kamala Mills Compound, 2nd Floor, Process House Lower Parel (W), Mumbai - 400013 to look after the services needed by the shareholders. Any communication, documents, complaints can also be sent the address for redressal to the Investor Relations Cell,

The details of the Compliance Officer of the bank is as follows:

Sanjay Dongre
Vice - President (Legal) & Company Secretary
HDFC Bank Limited
Secretarial Department
Kamala Mills Compound,
2nd Floor, Process House,
Lower Parel (West), Mumbai - 400 013
Tel No. (+ 91 22) 2498 8484 Extn.: 3473
Fax No. (+ 91 22) 2496 5235
E-mail: sanjay.dongre@hdfcбанк.com

The investors can contact the Compliance Officer in case of any pre-issue/ post-issue related problems such as non-credit of letter(s) of allotment/ bond certificate(s) in the demat account, non-receipt of refund order(s), interest warrant(s)/ cheque(s) etc.

The investors can also contact the Registrars to the Issue, M/s. MCS Limited, Unit HDFC Bank, "Harmony" Plot No. 6, Sector – 1, Khanda Colony, New Panvel (W) – 410206 in case of queries/ complaints, if any, regarding this issue.

The listed group companies of the Bank also have Committees for monitoring the redressal of grievances of its investors and have similar arrangements for redressal of investor grievances.

P. RISK FACTORS AND MANAGEMENT PERCEPTIONS THEREOF

The investors should carefully consider the following risk factors as well as the other information contained in this Shelf Memorandum of Information in evaluating our business and us.

Risks Relating to Our Business and Management Perception thereof

Internal Risk Factors

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

Our asset growth rate has been significantly higher than the Indian GDP growth rate as well as the growth rate in the Indian banking industry over the last five fiscal years. For example, our total assets in the three-year period ended March 31, 2006 grew at a compound annual growth rate of 34.24%. Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls. An inability to manage our growth effectively could have a material adverse effect on our business and our future financial performance.

Management Perception

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 and market risk, which includes liquidity risk and price risk. We also face operational risk. We have developed and implemented comprehensive policies and procedures to identify, monitor and manage risk universally across the bank.

Our business is vulnerable to volatility in interest rates. A decline in the returns may adversely affect our financial results.

Our results of operations depend to a great extent on our net interest income. During the financial year ended March 31, 2006, net interest revenue represented 69.37% 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. This difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. In addition, a rise in interest rates could negatively affect demand for our retail loans and other products. Interest rates are highly sensitive to many factors beyond our control, including the RBI's monetary policies, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business and our future financial performance.

Management Perception

The Asset Liability Committee (ALCO) of the bank actively manages the interest rate risk. It reviews our 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 of the bank and decides on future business strategy with respect to interest rates. It reviews and sets funding policy. It also reviews developments in the markets and the economy and their impact on our balance sheet and business. Finally, it ensures adherence to market risk limits and decides on the bank's inter segment transfer pricing policy.

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

As of March 31, 2006, the bank's ratio of gross non-performing assets to total customer assets was 1.17% and the ratio of net non-performing assets to total customer assets was 0.36%. 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 young bank and have not experienced a significant, prolonged downturn in the economy. A number of factors, which are not in 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 directed lending. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to further 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.

Management Perception

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. We follow non-performing loan and general loan provisioning policies that generally result in greater provisioning and are generally more conservative than those required by the RBI. The level of non-performing loans is among the lowest in the industry. Our net non-performing assets represented 0.36% of our customer assets portfolio as at March 31, 2006.

A decline in our capital adequacy ratio could restrict our further business growth.

The RBI has stipulated a minimum capital adequacy ratio of 9% to our total risk weighted assets. We need to continuously maintain the minimum capital adequacy to support continuous growth. The implementation of the Basel II Capital Adequacy Standards could also result in a decline in our capital adequacy ratio.

Management Perception

The capital adequacy ratio of the bank has been calculated after factoring therein, the capital requirement for market risk on the trading book and available for sale portfolio. We have focussed on growth in quality assets by optimum utilisation of available capital, resulting in an increase in our risk weighted assets and contingents from Rs. 41,271 crore as on March 31, 2005 to Rs. 60,218 crore on March 31, 2006. During the year, we have raised Rs.1,202 crore subordinated debt to augment our capital funds.

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. Some of the other private sector banks in India are also larger than we are, based on such measurements. In addition, we compete directly with foreign banks, some of which are part 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.

Management Perception

We have positioned ourselves to become a one stop financial shop. We have laid emphasis on customer satisfaction as well as convenience banking through channels like ATM, phone banking and net banking. We offer a complete suite of financial products. We have scaleable technology to support business growth. We plan to increase our banking channels and distribution network and actively cross sell our various products. We also distribute third party products like mutual funds, RBI Relief Bonds, insurance products etc.

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 has 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.

Management Perception

Liquidity is managed on a daily basis by the treasury group under the direction of the Asset Liability Committee to ensure that that we have adequate liquidity, ensuring that our funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap. We maintain a substantial portfolio of liquid high-quality Indian government securities. The expected maturities of our core liabilities are based on behavioural studies using time tested statistical tools. Therefore, the liquidity required to manage these expected outflows is realistic. In extreme cases, depositors do not roll over deposited funds when they lose confidence in the bank's management or the bank's capability to repay. To provide comfort on our deposit programs we generally get our deposits programs rated. The bank has its deposit programs rated by two rating agencies – Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited. The Bank's Fixed Deposit Programme has been rated 'CARE AAA (FD)' [Triple A] by CARE, which represents instruments considered to be "of the best quality, carrying negligible investment risk". CARE has also rated the bank's Certificate of Deposit (CD) program "PR 1+" which represents "superior capacity for repayment of short term promissory obligations". Fitch Ratings India Pvt. Ltd. (100% subsidiary of Fitch Inc.) has assigned the "tAAA (ind)" rating to the Bank's deposit programme, with the outlook on the rating as "stable". This rating indicates "highest credit quality" where "protection factors are very high". The bank also has its long term unsecured, subordinated (Tier 2) Bonds rated by CARE and Fitch Ratings India Private Limited. CARE has assigned rating of "CARE AAA" for the Tier 2 Bonds while Fitch Ratings India Pvt.Ltd. has assigned the rating "AAA (ind)" with the outlook on the rating as "stable".

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

Treasury revenue is vulnerable to volatility in the market caused by changes in exchange rates, interest rates, equity 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 interest revenue. Any decrease in our income due to volatility in income from these activities could have a material adverse effect on the profits of the bank.

Management Perception

We have in place risk management systems, policies and procedures to monitor market risk and review the market risk limits in relation to prudential limits. The exposures are monitored against the regulatory limits.

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

The bank calculates customer and industry exposure in accordance with the policies established by the RBI. In the case of customer exposures, the bank aggregates higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds and equity shares). As of March 31, 2006, the bank's ten largest customer exposures totalled approximately Rs. 5,337 crore, representing approximately 78% of the capital funds of the bank, and none of these were classified as non-performing. Our largest single customer exposure as of that date was Rs. 1,199 crore, representing 23.90% of our capital funds as reckoned as on March 31, 2005 and 17.45% of the capital funds of the bank reckoned as of March 31, 2006. However, if any of the ten largest customer exposures of the bank were to become non-performing, the quality of the portfolio and the business of the bank could be adversely affected.

The bank monitors concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2006, our largest concentrations to industries/sectors as proportion to gross loans were as follows: automobiles (10.7%), transportation (9.6%), retail trade (3.7%), engineering (3.4%), agriculture (3.0%), and NBFC/Investment Companies (2.7%). In addition, as of that date, approximately 41.3% of the concentration for exposure was retail (except were other wise classified above).

Management Perception

We follow a policy of portfolio diversification by industry. As at March 31, 2006, our exposure in any single industry did not exceed 10% of our funded exposure. We have proactive risk management systems. None of our top borrower group as well as our top ten borrower accounts is classified as non-performing as on March 31, 2006.

Significant fraud, systems 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.

Management Perception

We seek to protect our computer systems and network infrastructure from physical break-ins as well as fraud and systems failures. Although we have established a remote disaster recovery site at Bangalore, which replicates certain applications, which are 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.

Creation of Redemption Reserve is not envisaged for the proposed issue of bonds and the Bonds proposed to be issued are unsecured i.e. they are not proposed to be secured against any asset of the bank.

Management Perception

Ours is a banking company within the meaning of the Banking Regulation Act, 1949. The resources through current issue of bonds are being raised by the bank for augmenting the Tier-II Capital for strengthening the Capital Adequacy and enhancing its long-term resources. Department of Company Affairs, Ministry of Law Justice and Company Affairs, Government of India has vide circular No. 9/2002 dated 18/04/2002, clarified that banks need not create Debenture Redemption Reserve as specified under section 117C of the Companies Act, 1956. Also as per extant RBI guidelines in respect of issue of Tier-II bonds issued vide its circular no. DBOD. BP.BC.5/21.01.002/98-99 dated 08-02-1999, the Tier-II bonds are to be issued as unsecured and subordinated bonds for being eligible for inclusion in Tier II capital of the Issuing Bank. The bank has appointed a Trustee to protect the interest of the investors.

Our contingent liabilities could affect our financial position.

As on March 31, 2006, the contingent liabilities of the bank were at Rs. 214,782 crore comprising claims against the bank not acknowledged as debts (Rs. 257 crore), liability on account of outstanding derivative contracts (Rs. 131,970 crore), liability on account of outstanding forward exchange contracts (Rs. 73,473 crore), guarantees on behalf of constituents (Rs. 3,089 crore), acceptances, endorsements and other obligations (Rs. 2,410 crore) and others (Rs. 3,583 crore).

Management Perception

The contingent liabilities have arisen in the normal course of business of the bank and are according to the prudential norms prescribed by RBI. The main component of contingent liabilities are foreign exchange and derivative contracts constituting 95.7% of our total contingent liabilities. This does not represent the net foreign exchange position of the bank. It is quite common to have such magnitude of contingent liabilities in the business of banking. In fact, typically for a one year foreign exchange contract, which constitutes the principal portion of the foreign exchange contracts of the business, the capital adequacy credit risk weight on a customer related foreign exchange contract is only 2%, whereas it is even lower for an interbank contract at 0.4%.

Our regional concentration could effect our operations.

We have a regional concentration in western and southern parts of the country. Approximately 35.3% and 30.3% of our total advances as at March 31, 2006 relate to the bank's western and southern regions respectively. The regional presence of the bank may compromise its competitive position vis-à-vis its national level competitors.

Management Perception

Our regional presence may not be a hindrance to our growth prospects. Our deposits have grown at a compounded rate of 33.33% for the last 4 years from Rs. 22,376.07 crore as on March 31, 2003 to Rs. 55,796.82 crore as on March 31, 2006 and net advances have grown at a compounded rate of 50.6% for the last 4 years from Rs. 11,754.86 crore as on March 31, 2003 to Rs.35,061.26 crore as on March 31, 2006. The bank has 535 branches and 1,323 ATMs as on March 31, 2006 with presence in all the states. The bank is endeavouring to increase its presence in other parts of the country. Also, the bank has scaleable technology to support business growth and increase its reach and presence.

Credit Analysis and Research Limited has assigned a 'CARE AAA' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore. Instruments with this rating are considered to be of the best credit quality, offering highest safety of timely servicing of debt obligations. CRISIL has assigned a 'AAA / Stable' rating to the Upper Tier-II Subordinated Bond Issue of the bank up to an amount of Rs. 1,000 crore. This rating indicates highest degree of safety with regard to timely payment of interest and principal on the instrument.

Management Perception:

Investors may please note that, the rating is not a recommendation to buy, sell or hold securities and investors should take their own decision. The rating may be subject to revision, suspension or withdrawal at any time by the assigning rating agency and each rating should be evaluated independently of any other rating. The ratings obtained are subject to revision at any point of time in the future. The rating agency has the right to suspend, withdraw or revise the rating at any time on the basis of new information etc. Credit rating of listed and unlisted taxable bonds/ debentures/ commercial paper/deposits/certificate of deposits issued by the bank have been disclosed under the head 'Credit Rating' mentioned elsewhere in this Shelf Memorandum of Information.

There were outstanding litigations against us that could affect our financial position.

There are outstanding litigations against the bank. For details, please refer to the section on Outstanding Litigations, Defaults and Material Development in the Shelf Memorandum of Information.

Management Perception

The management believes that these claims are not tenable and will not impact either the operations or the financial conditions of the bank.

Resignations of our key managerial personnel and executive officers may have an impact on our operations.

We are highly dependent on our management team, including the continued efforts of our Chairman, our Managing Director, and other executive officers. 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 the past, a few of our key managerial personnel and executive officers have resigned. Such employee turnover may impact our operations.

Management Perception

The Compensation Committee of our board and our Human Resources department take steps to ensure management continuity. We have been able to identify and attract talent internally and externally to ensure smooth business operations.

Utilisation of Funds is at our discretion.

The utilisation of the funds proposed to be raised through this private placement is entirely at our discretion and no monitoring agency has been appointed to monitor the deployment of funds.

Management Perception

The funds raised through this private placement are not meant for any specific project and hence a monitoring agency may not be required. The bank is managed by professionals under the supervision of its Board of Directors. Further, we are subject to a number of regulatory checks and balances as stipulated in our regulatory environment. Therefore, the management believes that the funds raised via this private placement would be utilised only towards satisfactory fulfillment of the 'Objects of the Issue' as stated elsewhere in the Shelf Memorandum of Information.

External Risk Factors

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

HDFC Limited and its group companies owned 21.99% of our equity as on March 31, 2006. So long as HDFC Limited and its subsidiaries hold at least a 20.00% equity stake in us, HDFC Limited is entitled to nominate directors who are not required to retire by rotation to our board including the chairman and the 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.

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.

Material changes in Indian banking regulations and infrastructure 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 and our future financial performance.

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 cheques must generally be returned to the city from which written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, cheque 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. The RBI has recently introduced a new inter-bank settlement system called the Real Time Gross Settlement (RTGS) system. The system facilitates real time settlements primarily between banks, initially in select locations. This system is currently not fully operational. Once fully operational, this 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.

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 provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares and initial public offering finance for retail customers, stock exchange clearing services and depository accounts. As of March 31, 2006, our capital market exposure was Rs. 1,594 crore. This was within the ceiling prescribed by the RBI. As a result of our exposure to this industry, a significant or prolonged downturn on the Indian stock exchanges could have a material adverse effect on our business.

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 realise 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 specialised 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. 100 million and above, 60% of creditors by number in addition to the support of 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining lenders. In situations where we own 25% or less of the debt of a borrower, we could be forced to agree to a long-drawn restructuring of debt, in preference to foreclosure of security or a one-time settlement, which has generally been our practice.

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

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy. A slowdown in Indian economy could adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets, and our ability to implement our strategy. In particular, because India depends significantly on imported oil for its energy needs, the Indian economy could be adversely affected by the continuing high oil prices. India's economy could also be adversely affected by a general rise in interest rates, weather conditions adversely affecting agriculture or other factors.

In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sectors is declining. 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 has remained significant. The leadership of India has changed many times since 1996. The current central government, which came to power in May 2004, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous central governments. We cannot assure you that these liberalisation 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. A 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. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect our business.

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 determines their impact on the Indian economy. Further prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business.

Any downgrading 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.

There are regulatory restrictions on us and limitations of the powers of our bondholders.

There are a number of restrictions as per the Banking Regulations Act, 1949, which impede flexibility of our operations and affect/restrict investors' right. These are as under:

- i. We can carry on business/activities as specified in the Banking Regulation Act, 1949. There is no flexibility to pursue profitable avenues if they arise, in contrast with companies under the Companies Act, 1956, where shareholders can amend the Objects Clause by a special resolution.
- ii. In terms of Section 8 of The Banking Regulation Act, 1949, we are prohibited from trading in goods, which may act as an operational constraint.
- iii. In terms of Section 17(1) of The Banking Regulation Act, 1949, every banking company shall create a Reserve Fund and shall, out of the balance of profit of each year as disclosed in the Profit & Loss a/c prepared under Section 29 and before any dividend is declared, transfer to the Reserve Fund a sum equivalent to not less than twenty five percent of such profit.
- iv. In terms of Section 19 of The Banking Regulation Act, 1949 there are some restrictions on the banking companies regarding opening of subsidiaries which may deny us from exploiting emerging business opportunities.
- v. In terms of Section 23 of The Banking Regulation Act, 1949 there are certain restrictions on the banking companies regarding opening of new place of business and transfer of existing place of business, which may hamper the operational flexibility of the bank.
- vi. In terms of Section 25 of The Banking Regulation Act, 1949 each banking company has to maintain assets in India which is not less than 75% of its demand and time liabilities in India which in turn may prohibit us from creating overseas assets and exploiting overseas business opportunities.
- vii. There are restrictions in the Banking Regulation Act regarding,
 - a. Management of a bank including appointment of directors.
 - b. Borrowings and creation of floating charge thereby hampering leverage.
 - c. Expansion of business, as the branches need to be licensed.

- d. Disclosures in the profit & loss account and balance sheet.
- e. Production of documents and availability of records for inspection by shareholders.
- f. Reconstruction of banks through amalgamation.
- g. Further issues of capital including issue of bonus shares/rights shares.

Note to Risk Factors

RBI carries out regular inspection of all the banks and financial institutions. The reports of RBI are strictly confidential. The bank continuously interacts with RBI and furnishes information/ clarifications required by them as part of their inspection. RBI does not allow disclosure of its inspection report and all the disclosures in the Shelf Memorandum of Information are based on Management and Audit reports of the issuer.

PART II

A. GENERAL INFORMATION

Consents

Consents in writing from the Registrars, Bankers to the Issue and Trustees to the Issue shall be furnished at the time of issuance. Consents of Directors, Compliance Officer & Company Secretary to act in their respective capacities have been obtained by the Issuer Company and such consents have not been withdrawn till the date of filing of this Shelf Memorandum of Information. M/s P.C. Hansotia & Co., the Auditors of the bank have given their written consent to the inclusion of their Report in the form and context in which they appear in the Shelf Memorandum of Information. Such consents and reports have not been withdrawn till the date of filing of this Shelf Memorandum of Information.

Expert Opinion

Save as stated elsewhere in this Shelf Memorandum of Information, the bank has not obtained any other expert opinion.

Changes in Directors for the last three years

The following individuals ceased to be Directors of the bank from April 1, 2003 onwards.

Name	Date of Change	Remarks
Dr. (Mrs.) Amla Samanta	April 25, 2004	Resigned pursuant to Section 10(2A)(i) of the Banking Regulation Act, 1949.
Mr. Ranjan Kapur	March 29, 2006	Resigned.
Anil Ahuja	July 17, 2006	Relinquished office of Director

The following individuals were appointed as Directors of the bank from April 1, 2003 onwards:

Name	Date of Change	Remarks
Mrs. Renu Karnad	July 17, 2003	Nominated by HDFC Limited.
Mr. Ranjan Kapur	January 9, 2004	Appointed as an Independent Director.
Mr. Bobby Parikh	January 9, 2004	Appointed as an Independent Director.
Mr. Ashim Samanta	November 19, 2004	Appointed as an Independent Director.

Changes in Auditors for the last three years

M/s. P. C. Hansotia & Co., Chartered Accountants have been the statutory auditors of the bank since fiscal 2002. As per the regulations of the Reserve Bank of India the same auditors cannot be re-appointed for a period exceeding four years. Accordingly it is proposed to appoint M/s Haribhakti & Co., Chartered Accountants as new statutory auditors to the bank subject to the approval of the Members at the ensuing Annual General Meeting.

Authority for the Present Issue

This present issue of Bonds is being made pursuant to the Resolutions of the Board of Directors of the bank, passed at its meeting held on April 17, 2006 and is within the general borrowings limits set out in resolution passed under section 293(1)(d) of the Companies Act, 1956, at the Annual General Meeting of the bank held on September 14, 1994 as amended by the resolution of the shareholder passed at the Annual General Meeting of the bank held on May 26, 2004.

The present issue of Bonds is being made in accordance with extant RBI guidelines vide its circular no. . DBOD.No.BP.BC. 57/21.01.002/ 2005-2006 dated January 25, 2006 for issue of upper Tier-II Bonds as amended from time to time. The bank can undertake the activities proposed by it in view of the present approvals and no further approval from any government authority(ies)/ Reserve Bank of India (RBI) is required by the bank to undertake the proposed activities save and except those approvals which may be required to be taken in the normal course of business from time to time.

Disposal of Applications and Application Money

The Board of Directors/ Committee of Directors of the bank reserves its full unqualified and absolute discretion without giving any reason, the right to accept or reject any application in whole or in part. If any application is rejected in full, the whole of the application money received, and if the application is rejected in part, the excess application money, after adjustment of allotment money if any, will be refunded to the applicants by registered post/speed post/courier/hand delivery. Adequate funds for the purpose shall be made available by the bank to the Registrar to the Issue.

No receipt will be issued by the bank. However, the nominated branches of the bank receiving the application will acknowledge the receipt of the application by stamping and returning the detachable acknowledgement slip appended to each application form. Refund (if any) will be made by cheque/ demand draft drawn on the bank at Mumbai and payable at par at all the places where applications are accepted.

Procedure and Time Schedule for Allotment/ Refund

The beneficiary account of the investor(s) with National Securities Depository Limited (NSDL)/ Central Depository Services (India) Limited (CDSL)/ Depository Participant will be given initial credit within 15 days from the Deemed Date of Allotment. The initial credit in the account will be akin to the Letter of Allotment. On completion of the all statutory formalities, such credit in the account will be akin to a Bond Certificate.

Letter(s) of Regret along with Refund Order(s), as the case may be, will be dispatched by registered post/ speed post/courier/hand delivery, at the sole risk of the applicant to the sole/ first applicant within 15 days of close of the Issue. The Bank will provide adequate funds to the Registrars to the Issue, for the purpose of dispatch of Letter(s) of Regret/ Refund Order(s).

Subject to the completion of all legal formalities within 3 months from the Deemed Date of Allotment, or such extended period as may be approved by the Appropriate Authorities, the initial credit akin to a Letter of Allotment in the Beneficiary Account of the investor would be replaced with the number of Bonds allotted which will be akin to a Bond Certificate.

In case of joint applications, refund/ pay orders, if any, will be made out in the first name and all communications will be addressed to the person whose name appears first in the application form.

Over-subscription and Basis of Allotment

The Board of Directors/ Committee of Directors reserves its full, unqualified and absolute right to accept or reject any application, in part or in full, without assigning any reason thereof. The rejected applicants will be intimated along with the refund warrant, if applicable, to be sent. Interest on application money will be paid from the date of realisation of the cheque(s)/ demand drafts(s) till one day prior to the date of refund. The Application Forms that are not complete in all respects are liable to be rejected and would not be paid any interest on the application money. Application would be liable to be rejected on one or more technical grounds, including but not restricted to:

- Number of bonds applied for is less than the minimum application size;
- Applications exceeding the issue size;
- Bank account details not given;
- Details for issue of bonds in electronic/ dematerialised form not given;
- PAN/GIR and IT Circle/Ward/District not given;
- In case of applications under Power of Attorney by limited companies, corporate bodies, trusts, etc. relevant documents not submitted;

In the event, if any Bond(s) applied for is/ are not allotted in full, the excess application monies of such Bonds will be refunded, as may be permitted.

In the event of issue being oversubscribed, the Bank reserves its full, unqualified and absolute right of allotment/ rejection in full or prorata at its discretion without assigning any reason thereof.

Interest on Application Money

Interest on application money will be the same as the Coupon rate (subject to deduction of Tax at Source at the rate prevailing from time to time under the provisions of the Income Tax Act, 1961 or any other statutory modifications or re-enactment thereof) will be paid on application money to the applicants from the date of realisation of but excluding the deemed date of allotment. Such interest shall be paid on all the valid applications, computed on an Actual/365 day basis as per the following table:

Portion of Application Money	Interest	
	From	To
Allotted portion	Date of realisation of Cheque/Demand Draft	One day prior to deemed date of allotment
Refunded portion	Date of realisation of Cheque/Demand Draft	One day prior to date of refund

Where the entire subscription amount has been refunded, the interest on application money will be payable along with the Refund Orders. Where an applicant is allotted lesser number of bonds than applied for, the excess amount paid on application will be refunded to the applicant along with the interest on application money.

The interest cheque(s)/ demand draft(s) for interest on application money (along with Refund Orders, in case of refund of application money, if any) shall be dispatched by the Bank within 15 days from the Deemed Date of Allotment and the relative interest warrant(s) along with the Refund Order(s), as the case may be, will be dispatched by registered post to the sole/ first applicant, at the sole risk of the applicant.

STATUTORY AUDITORS

M/s. P. C. Hansotia & Co.
Chartered Accountants,
Dr. Annie Besant Road,
Opposite Shiv Sagar Estate
Worli,
Mumbai - 400 018.

REGISTRAR TO THE ISSUE

MCS Limited,
Harmony
Plot No. - 6
Sector - 1
Khanda Colony - 140206
Tel No: +91 22 27492003 - 10
Fax: +91 22 27492005
Email: mcssvb@eth.net

TRUSTEES FOR THE BONDHOLDERS

IDBI Trusteeship Services Limited
Asia Bulding
Ground Floor
17 / R Kamani Marg
Ballard Estate
Mumbai 400 001
Tel No. 91 22 66311771
Fax: + 91 22 66311776

BANKERS TO THE ISSUE

HDFC Bank Limited
HDFC Bank House,
Senapati Bapat Marg,
Mumbai 400 013
Tel.: +91 22 5652 1000
Fax No: +91 22 2496 0696 / 2460 0973

BROKERS TO THE ISSUE

There are no brokers to the issue.

COMPLIANCE OFFICER AND COMPANY SECRETARY

Sanjay Dongre,
Vice - President (Legal) &
Company Secretary,
HDFC Bank Limited,
2nd Floor, Process House,
Kamala Mills Compound,
Lower Parel (West),
Mumbai - 400 013
Telephone No.: +91 22 2498 8484 Extn.: 3473
Fax No.: +91 22 2496 5235
Email: sanjay.dongre@hdfcbank.com

B. FINANCIAL INFORMATION

AUDITORS' REPORT

To
The Board of Directors
HDFC Bank Limited
HDFC Bank House
Senapati Bapat Marg,
Lower Parel (West),
Mumbai 400 013

Dear Sirs,

As required by Part II of Schedule II of the Companies Act, 1956 and Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ("the Guidelines") issued by the Securities and Exchange Board of India ("SEBI") on May 8, 2006 in pursuance of section 11 of the Securities and Exchange Board of India Act, 1992, we have examined the Statements of Assets and Liabilities of the Bank as at March 31, 2006, 2005, 2004, 2003 and 2002 and the Statements of Profit and Loss for each of the years ended on those dates ("Financial Information") contained in and annexed to this report, which is proposed to be included in the Shelf Memorandum of Information of HDFC Bank Limited ("the Bank") in connection with its filing for the issue of Unsecured Redeemable Non-Convertible Subordinated (Upper Tier II) bonds in the nature of debentures of up to Rs 1,000 crores.

This Financial Information has been extracted from the financial statements drawn up in conformity with Forms A and B (Revised) of the Third Schedule to the Banking Regulation Act, 1949 (in accordance with the provisions of section 29 of the Banking Regulation Act read with section 211 of Companies Act, 1956), audited by us for the years ended March 31, 2006, 2005, 2004 and 2003 and by another firm of chartered accountants for the year ended March 31, 2002.

The Financial Information has been restated with retrospective effect to reflect changes in accounting policies as required by the Guidelines (Refer Note. 2 of the Financial Information).

The Financial Information is the responsibility of the Bank's management. With respect to the Financial Information annexed to this report, for our reporting to you, we have relied upon the audited financial statements which for the years ended March 31, 2006, 2005, 2004 and 2003 were audited by us and for the year ended March 31, 2002 were audited by another firm of chartered accountants, as referred to above.

For none of the years referred to above did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above and, accordingly, we express no opinion thereon.

We have also examined the Consolidated Statement of Profit and Loss of the Bank and its subsidiary ("the Group") for the year ended March 31, 2006 and the Consolidated Statement of Assets and Liabilities of the Group as at that date, all of which have been audited by us. We confirm that these statements reflect the profit of the Group for the year ended March 31, 2006 and the assets and liabilities of the Group as at that date, respectively.

Based on the above, we report that the Financial Information mentioned above and the consolidated statement of profit and loss, and assets and liabilities, has been prepared in accordance with the relevant requirements of Part II of Schedule II of the Companies Act, 1956 and the Guidelines issued by SEBI.

We have also examined the "Capitalisation Statement", "Statement of Financial information/ratios", "Taxation statement" and the "Statement of Dividend declared by the Bank" (together the "Other Financial Information") and report that the same correctly reflect the matters stated therein.

This report is intended solely for your information and for inclusion in the Shelf Memorandum of Information in connection with its filing for the issue of Unsecured Redeemable Non-Convertible Subordinated (Upper Tier II) bonds in the nature of debentures of up to Rs 1,000 crores and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **P. C. Hansotia & Co.**
Chartered Accountants

Khurshed N. Pastakia
Partner
Membership No. 31544

Mumbai: May 26, 2006

**STATEMENT OF PROFIT AND LOSS ACCOUNT
PARTICULARS**

PARTICULARS	Years ended				31.03.2002
	31.03.2006	31.03.2005	31.03.2004	31.03.2003	
Interest earned					
Interest/discount on advances/bills	270,020	166,370	110,866	77,732	61,512
Income from Investments	163,166	131,149	132,819	111,565	86,397
Interest on balances with Reserve Bank of India and other Inter Bank funds	14,255	11,809	11,200	12,045	21,396
Others	93	21	8	19	113
Total (A)	447,534	309,349	254,893	201,361	169,418
Other Income					
Commission, exchange and brokerage	104,505	60,496	32,035	23,639	15,212
Profit / (Loss) on sale of investments	3,754	(7,974)	3,778	13,246	10,383
Profit / (Loss) on revaluation of investments	(8,966)	1,398	(1,091)	(213)	265
Profit / (Loss) on sale of building and Other Assets	27	21	(45)	108	(81)
Profit on exchange transactions	9,940	9,117	7,400	4,453	3,914
Derivative Income	1,921	2,041	5,486	5,085	2,497
Others	1,217	35	440	237	164
Total (B)	112,398	65,134	48,003	46,555	32,354
TOTAL INCOME (C) = (A+B)	559,932	374,483	302,896	247,916	201,772
Interest Expended					
Interest on Deposits	155,943	110,764	103,829	106,329	91,552
Interest on RBI/Inter-bank borrowings	31,501	16,616	14,362	10,329	13,285
Others	5,506	4,176	2,914	2,538	2,537
Total (D)	192,950	131,556	121,105	119,196	107,374
Operating Expenses					
Payments to and provisions for employees	48,682	27,667	20,409	15,195	10,924
Depreciation on bank's property	17,859	14,407	12,572	10,614	6,902
Establishment and other expenses	102,568	66,466	48,019	31,896	21,852
Total (E)	169,109	108,540	81,000	57,705	39,678
TOTAL EXPENDITURE(F=D+E)	362,059	240,096	202,105	176,901	147,052

STATEMENT OF PROFIT AND LOSS ACCOUNT(contd...)	Rs lac				
	31.03.2006	31.03.2005	Years ended 31.03.2004		31.03.2003
OPERATING PROFIT (G=C-F) (Profit before Provisions and Contingencies and Extraordinary items)	197,873	134,387	100,791	71,015	54,720
Provisions and Contingencies					
Provision for Loan Loss	47,976	17,622	17,828	8,839	8,577
Amortisation on investments	24,516	18,806	9,322	5,044	2,181
Others	30	65	1,745	47	1,424
Total (H)	72,522	36,493	28,895	13,930	12,182
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS (I=G-H)	125,351	97,894	71,896	57,085	42,538
Less: Provision for Tax	38,273	31,338	20,946	18,325	12,834
NET PROFIT BEFORE EXTRAORDINARY ITEMS	87,078	66,556	50,950	38,760	29,704
Less: Extraordinary items (net of tax)	-	-	-	-	-
NET PROFIT FOR THE YEAR (J)	87,078	66,556	50,950	38,760	29,704
DIVIDEND DECLARED	55%*	45%	35%	30%	25%
*proposed					
ADJUSTMENTS (Note 1)					
Change in accounting policy: (Note 2)					
Amortisation of commission, net of subvention income (Note2a)	-	-	3,322	(3,322)	-
Deferred Tax (including on adjustments) (Note 2b)	-	-	(1,192)	1,192	-
Total (K)	-	-	2,130	(2,130)	-
NET PROFIT AFTER TAX , RESTATED (J-K)	87,078	66,556	53,080	36,630	29,704
Earnings per share (par value Rs. 10/-)					
Basic	27.92	22.92	18.70	12.99	11.01
Diluted	26.33	21.64	17.23	12.11	10.29

Notes on Adjustments as per SEBI guidelines

- Adjustments for changes in accounting policies have been made to the statements of profit and loss as per the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000, in respect of certain items, which are disclosed in the audited financial statements.
- Changes in accounting policies

- Acquisition costs

With effect from the year ended March 31, 2004 commission paid to sales agents (net of subvention income from dealers and manufacturers) for originating retail loans is expensed in the year in which incurred instead of being amortised over the tenor of the loan. Accordingly, the financial statement for the year ended March 31, 2003 has been recast (together with the resulting impact on the financial statement for the year ended March 31, 2004).

- Deferred Taxes

Consequent to the applicability of (AS) 22, Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India, becoming mandatory effective April 1, 2001, the bank has made provision for income tax after considering current and deferred tax.

STATEMENT OF ASSETS AND LIABILITIES

As of

Particulars	31.03.2006	31.03.2005	31.03.2004	31.03.2003	31.03.2002
ASSETS					
Cash in hand (including foreign currency and gold coins)	50,771	35,357	25,419	16,668	11,285
Balances with Reserve Bank of India	279,890	229,656	228,779	191,528	109,832
Balances with banks and Money at call and short notice in India	177,565	145,211	32,480	36,160	21,204
Balances with banks and Money at call and short notice outside India	183,674	37,176	68,410	64,303	201,291
Investments, in India	2,839,396	1,934,981	1,936,346	1,347,071	1,202,609
Advances, in India	3,506,126	2,556,630	1,774,451	1,175,486	681,372
Fixed Assets	85,508	70,832	61,691	52,858	37,110
Other Assets	227,709	133,057	103,123	154,118	114,035
Total (A)	7,350,639	5,142,900	4,230,699	3,038,192	2,378,738
LIABILITIES					
Employees' Stock Options (grants) outstanding	7	43	145	691	905
Demand Deposits	1,475,246	1,063,046	883,512	495,096	422,018
<i>From banks</i>	59,578	56,698	77,112	42,677	37,172
<i>From others</i>	1,415,668	1,006,348	806,400	452,419	384,846
Savings Deposits	1,618,579	1,141,838	780,430	466,314	295,745
Term Deposits	2,485,857	1,430,541	1,376,944	1,276,197	1,047,618
<i>From banks</i>	86,047	39,345	39,119	47,647	41,176
<i>From others</i>	2,399,810	1,391,196	1,337,825	1,228,550	1,006,442
Total Deposits	5,579,682	3,635,425	3,040,886	2,237,607	1,765,381
Borrowings in India	141,078	380,100	164,769	207,661	182,302
Borrowings outside India	144,770	98,901	66,013	804	-
Total Borrowings	285,848	479,001	230,782	208,465	182,302
Subordinated Debt	170,200	50,000	60,000	20,000	20,000
Other liabilities and provisions	784,949	526,446	629,698	349,076	215,922
Total (B)	6,820,686	4,690,915	3,961,511	2,815,839	2,184,510
NET ASSETS (A-B)	529,953	451,985	269,188	222,353	194,228
Represented by:					
SHARE CAPITAL (C)	31,314	30,988	28,479	28,205	28,137
RESERVES AND SURPLUS					
Statutory reserve	83,646	61,876	45,237	32,499	22,809
General Reserve	30,194	21,486	14,830	9,735	5,859
Balance in profit and loss account	145,502	60,234	40,532	33,483	19,038
Share Premium	237,671	227,468	97,739	92,971	91,951
Investment Fluctuation Reserve	-	48,419	40,919	24,008	24,008
Amalgamation Reserve	1,452	1,452	1,452	1,452	1,452
Capital Reserve	174	62	-	-	-
Debenture Redemption Reserve	-	-	-	-	974
TOTAL (D)	498,639	420,997	240,709	194,148	166,091
NET WORTH (C+D)	529,953	451,985	269,188	222,353	194,228

	Rs. lac				
	31.03.2006	31.03.2005	As of 31.03.2004	31.03.2003	31.03.2002
CONTINGENT LIABILITIES					
Claims against the bank not acknowledged as debts	25,707	15,405	9,928	5,105	174
Liability on account of outstanding forward exchange contracts	7,347,337	5,339,818	3,944,408	1,977,255	1,198,492
Liability on account of outstanding derivative contracts	13,196,984	8,176,747	3,893,898	1,860,504	530,285
Guarantees given on behalf of constituents in India	308,877	215,964	164,173	142,470	169,503
Acceptances, endorsements and other obligations	241,037	279,302	189,210	117,151	94,441
Other items for which the Bank is contingently liable	358,292	50,479	10,000	53,500	39,900
	21,478,234	14,077,715	8,211,617	4,155,985	2,032,795

NOTES TO ACCOUNTS

1) Earnings Per Equity Share

Annualised earnings per equity share have been calculated based on the net income after taxation of Rs. 87,078 lac and the weighted average number of equity shares in issue during the year amounting to 31,19,39,366

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

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

Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

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

	(Rs. Lac)
	For the year
	2005-2006
Earnings used in basic earnings per share	87,078
Impact of dilution on profits	748
Earnings used in diluted earnings per share	87,826

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

	For the year
	2005-2006
Weighted average number of equity shares used in computing basic earnings per equity share	31,19,39,366
Effect of potential equity shares for stock options outstanding and subordinated debt	2,15,64,239
Weighted average number of equity shares used in computing diluted earnings per equity share	33,35,03,605

2) Capital Adequacy Ratio

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

	Rs. lac
	<u>For the year</u>
	2005-2006
<u>Capital Structure</u>	
Tier I Capital	
Subscribed and Paid-up Capital	31,314
Statutory Reserve	83,646
Balance in Profit and Loss account	145,502
Share Premium Account	237,671
Amalgamation Reserve	1,452
General Reserve	30,194
Capital Reserve	174
Less: Deferred Tax Asset	(6,133)
Less: Credit Enhancement on securitisation	(6,828)
Less: Investment in Subsidiary	(2,001)
Total	514,991
Tier II Capital	
Subordinated Debt	160,200
General Loan Loss Provisions	18,699
Less: Credit Enhancement on securitisation	(6,828)
Total	172,071
Total Capital funds	687,062
<u>Risk Weighted Assets and Contingents</u>	
Credit Risk	5,741,426
Market Risk	280,336
Total	6,021,762
<u>Capital Adequacy Ratios</u>	
Tier 1	8.55%
Tier 2	2.86%
Total	11.41%

The Bank maintains capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks in respect of:

- (i) securities included in the HFT category, open gold and foreign exchange position limit, trading positions in derivatives and derivatives entered into for hedging trading book exposures and
- (ii) securities included in the AFS category.

Consequently, in accordance with the Reserve Bank of India guidelines, the Bank has treated IFR as Tier I capital and for this purpose has transferred the balance therein 'below the line' to the profit and loss account.

Pursuant to the issuance of securitisation guidelines by the RBI, the Bank has given the following treatment to credit enhancements provided to an investor or a special purpose vehicle: -

- 50% of each of the first and second loss credit enhancement* is reduced from Tier 1 and Tier 2 capital respectively.
- Commitment to provide liquidity facility, to the extent not drawn, is considered an off-balance sheet item and is given 100% credit conversion factor as well as 100% risk weight

(* for transactions prior to issuance of Draft Securitisation Guidelines, credit enhancements provided as cash collateral have been reduced from Tier 1 and Tier 2 capital)

3) Business ratios/information

	<u>For the year</u>
	2005-2006
Interest income as a percentage of working funds ¹	7.11%
Net interest income as a percentage of working funds	4.04%
Non-interest income as a percentage of working funds	1.79%
Operating profit ² as a percentage of working funds	2.75%
Return on assets (<i>average</i>)	1.38%
Business ³ per employee (Rs. lac)	758
Profit per employee ⁴ (Rs. lac)	7.39
Percentage of net Non Performing Assets ⁵ to customer assets ⁶	0.36%
Percentage of net Non Performing Assets to net advances ⁷	0.44%
Gross Non Performing Assets to Gross Advances	1.32%

Definitions:

1. Working funds is the daily average of total assets during the year.
2. Operating Profit = (Interest Income + Other Income – Interest Expense – Operating Expense – Amortization of premia on investments - Profit/(Loss) on Sale of Fixed Assets)
3. “Business” is the total of net advances and deposits.
4. Productivity ratios are based on average employee numbers.
5. Net NPAs are non-performing assets net of interest in suspense, specific provisions and ECGC claims received.
6. Customer assets include gross advances (but net of specific provisions), credit substitutes like debentures, commercial paper and loans & investments in securitised assets bought in.
7. Net advances are equivalent to gross advances net of bills rediscounted, specific loan loss provisions, interest in suspense and ECGC claims received.

4) Reserves and Surplus

General Reserve

The bank has made an appropriation from the profit and loss account balance of Rs. 8,708 lac out of profits for the year ended March 31, 2006 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment Fluctuation Reserve

The Bank has transferred the balance outstanding in the investment fluctuation reserve account of Rs. 48,419 lac to the profit and loss account in accordance with the Reserve Bank of India circular number DBOD. No. BP.BC. 38/21.04.141/2005-06 dated October 10, 2005.

5) Subordinated Debt

Subordinated debt outstanding as at March 31, 2006 is a long-term unsecured non-convertible debt aggregating Rs. 1,702 crore.

During the year the Bank raised Rs. 1,202 crore subordinated debt at an annualized coupon between 7.5% to 8.6% and having a maturity ranging from 9 to 10 years. The debt is subordinated to present and future senior indebtedness of the Bank and qualifies as Tier 2 risk-based capital under RBI's guidelines for assessing capital adequacy.

Based on the balance term to maturity as at March 31, 2006, 94.12% of the book value of subordinated debt is considered as Tier 2 capital for the purpose of capital adequacy computation.

Conversion clause

Of the outstanding amount of debt, principal amount of Rs. 90 crore issued to certain Government owned Indian Financial Institutions contains an option to convert into fully paid equity shares an amount not exceeding 20% of the amount outstanding in the event of a default in the payment of interest or principal. If the bank were to default on all such debts and be obligated to issue the maximum number of shares based on the amount outstanding and interest payable until March 31, 2006, such amount would approximately be 184 lac shares.

6) Other liabilities

Others in other liabilities includes general loan loss provisions of Rs. 18,408 lac and provision for country risk Rs. 291 lac.

7) Dividend paid on shares issued on exercise of stock options

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

8) Investments

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

(Rs. Lac)

	As at March 31, 2006			
	Held for Trading	Available for Sale	Held to Maturity	Total
Government Securities	29,456	300,079	1,633,749	1,963,284
Other Approved Securities	-	573	-	573
Shares	-	4,353	3,341	7,694
Bonds and Debentures	-	766,590	45,592	812,182
Joint Ventures	-	-	2,156	2,156
Others	-	53,507	-	53,507
Total	29,456	1,125,102	1,684,838	2,839,396

- Investments as at March 31, 2006 include securities held under the Liquidity Adjustment Facility with the Reserve Bank of India Rs. 42,000 lac.
- Investments include securities aggregating Rs. 9,095 lac, which are kept as a margin for clearing and Rs. 478,345 lac which are kept as margin for Collateral Borrowing and Lending Obligation(CBLO) with the Clearing Corporation of India Limited.
- Investment amounting to Rs. 424,436 lac which are kept as a margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).
- Other investments include deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 21,636 lac.
- The bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per (AS) 27, Financial Reporting of Interest in Joint Ventures, issued by the Institute of Chartered Accountants of India, and the said accounting standard is thus not applicable. However, pursuant to Reserve Bank of India circular No. DBOD.NO.BP.BC.3/21.04.141/2002, dated July 11, 2002, the Bank has classified these investments as joint ventures.
- On September 28, 2005, the bank increased its investment in HDFC Securities Limited from 29.5% to 55%. Consequently, HDFC Securities Limited has become a subsidiary company of the Bank since that date.

- Issuer composition of Non-SLR Investments as on March 31, 2006.

(Rs. lac)

Sr. No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated securities"	Extent of "unlisted securities"
1	Public Sector Undertakings	293,237	245,243	-	23,518	70,836
2	Financial Institutions	6,575	1,094	-	-	-
3	Banks	1,780	1,780	-	-	-
4	Private Corporates	97,621	55,368	-	4,295	16,262
5	Subsidiaries/ Joint Ventures	2,156	2,156	-	2,156	2,156
6	Others	484,167	327,575	-	37,221	451,072
7	Provision held towards depreciation	(9,998)	-	-	-	-
	Total	875,538	633,216	-	67,190	540,326

- Details of Repo / Reverse Repo deals done during the year ended March 31, 2006

(Rs lac)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2005
Security sold under repos	-	437,665	60,659	-
Security purchased under reverse repos	-	504,000	25,379	42,000

The above includes deals done under Liquidity Adjustment Facility (LAF) with the Reserve Bank of India (net of margin).

- Details of investments

(Rs. lac)

	March 31, 2006
Value of investments	
Gross value of investment	2,849,419
Depreciation in the value of investment	10,023
Net book value	2,839,396
Movement of provisions held towards depreciation on investments.	
As at April 1	550
Add: Provisions made during the year *	10,008
Less: Write-off, write back of excess provision during the year	535
As at March 31	10,023

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

*Includes transfer of provision from an existing non-performing loan, which has been partially restructured as an investment during the current year.

9) Non performing Non-SLR investments

(Rs. Lac)

Particulars	2005-2006
Opening balance	908
Additions during the year since April 1*	954
Reductions during the above period	893
Closing balance	969
Total provisions held	969

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

10) Other Assets

Other assets include deferred tax asset (net) of Rs. 6,133 lac. The break up of the same is as follows:

	(Rs. lac)
Deferred tax asset	March 31, 2006
Loan loss provisions	12,856
Others	1,325
Total	14,181
Deferred tax liability	
Depreciation	(8,048)
Total	(8,048)
Deferred Tax Asset (net)	6,133

11) Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2006 on units, equity and preference shares amounting to Rs.3,636 lac.

12) Earnings from Securitised-out Assets

(Rs. lac except numbers)

Particulars	March 31, 2006
Book value of loans securitised	198,783*
Total no. of contracts securitised (nos.)	166,641
Sale consideration received	197,333
(Loss) / Profit on sell off	(313)

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

Form and quantum of services provided by way of credit enhancement

The Bank has provided credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees/subordination of cash flows etc., to the senior pass through certificates (PTCs). The total value of credit and liquidity enhancement outstanding in the books as on March 31, 2006 was Rs. 47,445 lac.

13) Commission, exchange and brokerage income

Commission, exchange and brokerage income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

14) Other expenditure

Other Expenditure includes Sales and Marketing Expense amounting to Rs. 13,644 lac and Outsourcing Fees amounting to Rs. 11,954 lac exceeding 1% of the total income of the bank.

15) Income taxes

The income tax expense comprises the following:

	(Rs. lac)
	2005-2006
Current income tax expense	35,956
Deferred income tax expense / (benefit)	1,217
	37,173
Fringe benefit tax (FBT)	1,100
Income tax expense	38,273

The following is the reconciliation of estimated income taxes at the statutory income tax rate to income tax expense as reported:

Net income before taxes	1,25,351
Effective statutory income tax rate	33.66%
Expected income tax expense	42,193
Adjustments to reconcile expected income tax to actual tax expense:	
Permanent differences:	
Income exempt from taxes	(5,068)
Other (including adjustments for prior years), net	48
	37,173
Fringe benefit tax (FBT)	1,100
Income tax expense	38,273

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

16) Maturity pattern of key assets and liabilities

(Rs. lac)

As at March 31, 2005	1 to 14 Days	15 to 28 Days	29 days to 3 Months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & Advances	336,072	31,532	244,684	310,458	463,442	1,594,878	261,171	263,889	3,506,126
Investments	356,217	78,515	262,709	177,399	256,855	1,291,201	249,937	166,563	2,839,396
Deposits	245,096	285,683	413,903	377,842	586,768	3,268,893	373,619	27,878	5,579,682
Borrowings	136,021	15,925	125,189	-	-	5,259	3,454	-	285,848
FCY Assets	233,977	11,493	35,138	45,220	9,959	25,004	4,539	4,411	369,741
FCY Liabilities	26,321	20,271	132,163	12,882	43,643	76,231	8,236	-	319,747

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the Reserve Bank of India, vide its circular No.BP.BC /8/21.040098/99 dated February 10, 1999.

17) Lending to sensitive sector

Details of exposure to real estate sector

(Rs. lac)

Category	March 31, 2006
a) Direct exposure	432,751
(i) Residential mortgages	78,910
(ii) Commercial real estate	181,804
(iii) Investments in mortgage backed securities (MBS) and other securitised exposures	
a. Residential	172,037
b. Commercial real estate	-
b) Indirect exposure	50,702
Fund based and non-fund based exposures on National Housing Bank (NHB) and housing finance companies (HFCs).	50,702
Total real estate exposure	483,453

Details of capital market exposure

	(Rs. lac)
	March 31, 2006
(i) Investments made in equity shares,	4,002
(ii) Investments in bonds/ convertible debentures	-
(iii) Investments in units of equity-oriented mutual funds	-
(iv) Advances against shares to individuals for investment in equity shares (including IPOs/ESOPS), bonds and debentures, units of equity oriented mutual funds	11,727
(v) Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	140,692
(vi) Others	3,000
Total exposure to capital market	159,421
Of (v) above, the total finance extended to stockbrokers for margin trading.	-
Capital market exposure as a ratio of advances	6.12%
Capital market exposure as a ratio of net worth	35.27%

- Exposure is higher of limits sanctioned or the amount outstanding.
- Advances reckoned for capital market exposure are gross advances netted for bills refinanced and includes investment in commercial paper. Advance so reckoned is the amount outstanding at the end of the previous year.
- Net worth as of the end of previous year is reckoned for capital market exposure

The capital market exposure is within the norms prescribed by the Reserve Bank of India.

Details of Risk Category wise Country Risk Exposure

	(Rs. lac)	
Risk Category	Exposure (Net) March 2006	Provision March 2006
Insignificant	190,995	291
Low	7,558	-
Moderate	866	-
High	627	-
Very high	218	-
Restricted	11	-
Off-credit	-	-
Total	200,275	291

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

During the year, the bank's credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in case of NABARD, where the single borrower limits were exceeded. The board of directors of the bank approved the excess over the prudential limits subject to a ceiling of 20% of capital funds. As at March 31, 2006, the book value of outstanding exposure to NABARD was at Rs. 119,914 lac. This exposure was within the board approved limit of 20% of capital funds as at March 31, 2006.

18) Movements in NPAs (funded)

	(Rs. lac)
	2005-2006
(i) Net NPAs to Net Advances (%)	0.44%
(ii) Movement of NPAs (Gross)	
(a) Opening balance	43,917
(b) Additions during the year	56,900
(c) Reductions during the year	49,928
(d) Closing balance	50,889
(iii) Movement of Net NPAs	
(a) Opening balance	6,063
(b) Additions during the year	11,078
(c) Reductions during the year	1,623
(d) Closing balance	15,518
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)	
(a) Opening balance	37,854
(b) Additions during the year	45,822
(c) Reductions during the year	48,305
(d) Closing balance	35,371

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

19) Category-wise NPAs (funded)

	(Rs. lac)
Non Performing Asset Category	March 31, 2006
Gross NPAs	
Sub-standard	29,214
Doubtful	8,661
Loss	13,014
As at March 31	50,889
Provisions	
Sub-standard	13,850
Doubtful	8,057
Loss	13,014
As at March 31	35,371
Net NPA	15,518

20) Loans Restructured

	(Rs. lac)
Item	2005-2006
(i) Total amount of loan assets subjected to restructuring, rescheduling, renegotiation	6,561
Of which under CDR	6,378
(ii) Total amount of Standard assets subjected to restructuring, rescheduling, renegotiation	4,653
Of which under CDR	4,470
(iii) Total amount of Sub - Standard assets subjected to restructuring, rescheduling, renegotiation	-
Of which under CDR	-
(iv) Total amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation	1,908
Of which under CDR	1,908

21) Other fixed assets (including furniture and fixtures) includes amount capitalised on software having useful life of four years: Cost as on March 31, 2005: Rs. 15,865 lac, Additions during the year Rs. 4,785 lac, Accumulated depreciation: Rs. 13,181 lac, Net value: Rs. 7,469 lac.

22) Penalty

Based on a special scrutiny of certain customer accounts, RBI recently imposed penalties on the Bank aggregating to Rs. 30 lac under the provisions of The Banking Regulation Act, 1949. The said penalties were imposed mainly for not displaying prudence in the opening and operations of certain deposit accounts, non compliance of Know Your Customer norms in certain accounts and non adherence to certain extant guidelines of the Reserve Bank of India.

23) Related Party Disclosures

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

Promoter

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

Subsidiary

HDFC Securities Limited (From September 28, 2005, associate up to that date)

Enterprises under common control of the promoter

HDFC Asset Management Company Ltd.
HDFC Standard Life Insurance Company Ltd.
HDFC Developers Ltd.
HDFC Holdings Ltd.
HDFC Investments Ltd.
HDFC Trustee Company Ltd.
GRUH Finance Ltd.
HDFC Realty Ltd.
HDFC Chubb General Insurance Company Ltd.
HDFC Venture Capital Ltd.
HDFC Ventures Trustee Company Ltd.
Home Loan Services India Pvt. Ltd.

Associates

Computer Age Management Services Private Ltd.
SolutionNET India Private Ltd.
Softcell Technologies Ltd.
Atlas Documentary Facilitators Company Private Ltd.
Flexcel International Private Ltd.
HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

The Bank's related party balances and transactions are summarized as follows:

Housing Development Finance Corporation Ltd (HDFC Ltd.)

In fiscal year 2005-06, the Bank paid Rs. 68 lac to HDFC Ltd. as rent, maintenance and service charges for the properties of HDFC Ltd. occupied by the Bank. The Bank has deposited an amount of Rs. 2 lac to secure these leased properties.

During the fiscal year 2005-06 the Bank earned Rs. 2,393 lac from HDFC Ltd. as fees for sourcing home loans (pursuant to the MOU between HDFC Ltd. and the Bank) and other services rendered. As on March 31, 2006, fees amounting to Rs. 292 lac are receivable as fees for sourcing home loans. During the year, the Bank paid Rs. 1,913 lac to HDFC Ltd. for purchase of additional 25.5% shares of HDFC Securities Ltd.

HDFC Securities Ltd (HSL)

On September 28, 2005, the Bank increased its stake in HSL from 29.5 % to 55 %. Consequently HSL has become a subsidiary of the Bank since that date. As of March 31, 2006, the book value of the Bank's investment in HSL was Rs. 2,001 lac

In fiscal year 2005-06, the Bank earned Rs. 338 lac from HSL towards services rendered by the Bank and as rent and maintenance charges for the area sublet to HSL by the Bank. The Bank paid Rs. 2 lac for sales assistance provided by HSL. The Bank received Rs. 51 lac as reimbursement of expenses incurred for HSL. An amount of Rs. 227 lac was receivable from HSL as of March 31, 2006.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank has an arrangement with HDFC AMC to invest its funds primarily in debt instruments up to an amount approved by the Board of Directors of the Bank. This arrangement is up to March 31, 2006. The amount of investment outstanding as of March 31, 2006 was Rs 34,166 lac. In fiscal year 2005-06, the Bank paid Rs. 7 lac as professional fees and Rs 33 lac towards rent for premises occupied by the Bank. Security deposit of Rs. 17 lac has been kept with HDFC AMC to secure the above-mentioned leased property. The Bank earned Rs. 2,343 lac for distribution of units of mutual funds of HDFC AMC and for other services provided. As of March 31, 2006, commission amounting to Rs. 228 lac is receivable from HDFC AMC.

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

In fiscal year 2005-06, the Bank contributed Rs. 218 lac to a defined benefit plan to cover gratuity of the bank's employees managed by HDFC Standard Life. In the same period, the Bank earned Rs. 8,814 lac from HDFC Standard Life for sale of insurance policies and other services provided by the Bank to its customers. As of March 31, 2006, commission amounting to Rs. 292 lac is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2005-06, the Bank paid Rs 106 lac towards insurance premium covering the professional liability of directors and officers of the bank. A deposit of Rs. 1 lac has been kept with HDFC Chubb. The Bank earned commission of Rs. 203 lac for sale of HDFC Chubb's insurance policies to the bank's customers.

Atlas Documentary Facilitators Company Private Ltd (ADFC)

In fiscal year 2005-06, the Bank incurred an expense of Rs. 6,168 lac for back-office processing services provided by ADFC. Deposit of Rs. 400 lac has been kept with ADFC for various services provided. As of March 31, 2006, an amount of Rs 725 lac is payable to ADFC for various back-office processing services rendered to the Bank. The Bank earned Rs 538 lac from ADFC as rent of the premises occupied by ADFC and towards other services rendered by the Bank. As of March 31, 2006, the Bank has an equity investment of Rs. 2 lac in the company.

Flexcel International Private Ltd (Flexcel)

The Bank has given a loan to Flexcel, the outstanding of which as of March 31, 2006 is Rs 5 lac. Interest received on the same during the current year is Rs. 1 lac. As of that date, the Bank has an equity investment of Rs.153 lac in the company. During the fiscal year 2005-06, the Bank received Rs. 0.46 lac as dividend from Flexcel.

HBL Global Private Ltd (HBL Global)

In fiscal year 2005-06, the Bank incurred a net expense of Rs. 19,179 lac in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 901 lac has been kept with HBL Global towards services provided by them. As at March 31, 2006 an amount of Rs. 2,231 lac was outstanding as temporary advance paid in respect of services to be provided by HBL Global. The Bank earned Rs. 126 lac as rent for premises let to HBL Global by the bank, during the fiscal year 2005-06.

Managerial Remuneration

The Bank paid a total amount of Rs. 155 lac as remuneration to the managing director. This includes the taxable value of perquisites as defined in the Income Tax Rules.

Salisbury Investments Private Ltd

Salisbury Investments Private Ltd is a company in which the relatives of the managing director hold a stake. The company has leased a flat to the bank towards the residential accommodation of the managing director of the bank. As of March 31, 2006, the security deposit outstanding with Salisbury Investments was Rs 350 lac. For the year ended March 31, 2006, the Bank paid rent of Rs. 22 lac to the company.

Other Strategic Investments

The Bank frequently partners with other HDFC group companies when making strategic investments. The Bank currently has three strategic investments, Computer Age Management Services Private Ltd. (CAMS), SolutionNET India Private Ltd. (SolutionNET) and Softcell Technologies Ltd. (Softcell) in which HDFC group companies are co-investors. The Bank has invested an amount of Rs. 61 lac in capital of CAMS, Rs. 76 lac in capital of SolutionNET and Rs. 260 lac in the capital of Softcell. During the fiscal year 2005-06 the Bank received Rs. 57 lac as dividend from CAMS and Rs. 0.42 lac as dividend from SolutionNet.

The Bank also conducts business with some of the companies in which it has made strategic investments in the normal course. For the year ended March 31, 2006, the Bank paid CAMS Rs. 41 lac for mutual fund back office processing services and Softcell Rs. 84 lac for providing software-related services. During the year ended March 31, 2006 the Bank has paid Rs. 724 lac towards fixed assets purchased and Rs. 20 lac as capital advance to Softcell.

24) Segment reporting

The bank operates in three segments viz. retail banking, wholesale banking and treasury services.

Summary of the three operating segments of the bank is:

Particulars	(Rs. lac)
	2005-2006
1. Segment Revenue	
a) Retail Banking	517,384
b) Wholesale Banking	285,338
c) Treasury	77,389
Total	880,111
Less: Inter Segment Revenue	320,179
Income from Operations	559,932
2. Segment Results	
a) Retail Banking	70,167
b) Wholesale Banking	53,787
c) Treasury	1,397
Total Profit Before Tax	125,351
Income Tax expense	(38,273)
Total Result	87,078
3. Capital Employed	
Segment assets	
a) Retail Banking	3,857,109
b) Wholesale Banking	2,879,053
c) Treasury	573,394
d) Unallocated	41,083
Total Assets	7,350,639
Segment liabilities	
a) Retail Banking	3,858,425
b) Wholesale Banking	2,671,793
c) Treasury	270,822
d) Unallocated	19,646
Total Liabilities	6,820,686
Net Segment assets / (liabilities)	
a) Retail Banking	(1,316)
b) Wholesale Banking	207,260
c) Treasury	302,572
d) Unallocated	21,437
Other Information	
4. Capital Expenditure	
a) Retail Banking	24,874
b) Wholesale Banking	7,440
c) Treasury	4,485
Total	36,799
5. Depreciation	
a) Retail Banking	13,487
b) Wholesale Banking	3,102
c) Treasury	1,270
Total	17,859

25) Derivatives

Overview of business and processes

The Bank offers derivative products to its customers, who use them to hedge their market risks, within the framework of regulations as may apply from time to time. The Bank deals in derivatives on its own account and also for the purpose of its own balance sheet risk management.

The Bank has a derivatives desk within the treasury front office, which deals in derivative transactions. The Bank has an independent back-office and mid-office as per regulatory guidelines. The Bank has a credit and market risk department that processes various counterparty and market risks limit assessments, within the risk architecture and processes of the Bank.

The Bank has in place a policy which covers various aspects that apply to the functioning of the derivatives business. The derivatives business is administered by various market risk limits such as position limits, tenor limits, sensitivity limits and value-at-risk limits that are approved by the Board and the Risk Management Committee (RMC). All methodologies used to assess credit and market risk for derivative transactions are specified by the market risk unit. Limits are monitored on a daily basis by the mid-office.

Policies for hedging risk

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

Provisioning, Collateral and Credit Risk Mitigation

The bank enters into derivative deals with counter parties based on the their business ranking and financial position. The bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallization of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The bank conforms to the Reserve Bank of India guidelines on provisioning, unless the bank estimates the requirement of holding provisions in excess of the Reserve Bank of India guidelines, wherein such excess provision is provided for.

Disclosure on Risk Exposure in Derivatives

(Rs. crore)

Sr. No	Particular	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a) Banking (including Hedging)	6,165	11,650
	b) Trading	4,741	109,414
2	Marked to Market Positions		
	a) Asset (+)	40	-
	b) Liability (-)	-	(5)
3	Credit Exposure	422	1,363
4	Likely change of one percentage change in interest rate (100*PV01)		
	a) Banking (including Hedging)	2	54
	b) Trading	0	98
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including Hedging)	7	58
	b) Trading	0	118
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including Hedging)	0	29
	b) Trading	0	39

The bank has computed Maximum and Minimum of PV01 for the year based on balances at the end of every month

Forward rate agreements/ Interest rate swaps (Rupees)

(Rs. lac)

Items	March 31, 2006
i. The notional principal of swap agreements	11,719,880
ii. Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	91,040
iii. Concentration of credit risk arising from the swaps (with banks)	86%
iv. The fair value of the swap book	(6,408)

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

26) Provisions, Contingent Liabilities and Contingent Assets

Given below are movements in provision for credit card reward points and a brief description of the nature of contingent liabilities recognised by the Bank

a) Movement in provision for credit card reward points

	(Rs. lac) March 31, 2006
Opening provision for reward points	324
Provision for reward points made during the year	660
Utilisation/Write back of provision for reward points	(109)
Closing provision for reward points	875

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

b) Description of contingent liabilities

Sr. No.	Contingent liability	Brief description
1.	Claims against the Bank not acknowledged as debts - taxation	The Bank is a party to various taxation matters in respect of which appeals are pending. This is being disputed by the Bank and not provided for.
2.	Claims against the Bank not acknowledged as debts - others	The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, results of operations or cash flows.
3.	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded, as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.
4.	Guarantees given on behalf of constituents, acceptances, endorsements and other obligations	As a part of its commercial banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.
5.	Other items for which the Bank is contingently liable	These include: a. Credit enhancements in respect of securitised out loans b. Bills rediscounted by the Bank c. Capital commitments.

27) Accounting for Employee Share based Payments

The shareholders of the Bank approved in January 2000 Plan “A”, Plan “B” in June 2003 and Plan “C” in June 2005. Under the terms of each of these Plans, the Bank may issue stock options to employees and directors of the Bank, each of which is convertible into one equity share. The Bank reserved 1 crore equity shares, with an aggregate nominal value of Rs. 10 crore, for issuance under each of the above mention Plans.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the “Compensation Committee”) at an average of the daily closing prices on the Bombay Stock Exchange Ltd. during the 60 days preceding the date of grant of options.

Plan B and Plan C provides for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. The price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks.

Such options vest at the discretion of the Compensation Committee, subject to a maximum vesting not exceeding five years, set forth at the time the grants are made. Such options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of the grant.

Method used for accounting for shared based payment plan

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

Activity in the options outstanding under the Employees Stock Options Plan

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	10,313,500	344.88
Granted during the year	8,097,300	630.60
Exercised during the year	3,267,100	321.19
Forfeited / lapsed during the year	1,542,000	499.10
Options outstanding, end of year	13,601,700	503.18
Options Exercisable	1,898,500	-

Following summarises information about stock options outstanding as of March 31,2006

Plan	Range of exercise price	Number of shares arising out of options	Weighted average remaining life	Weighted average Exercise Price
Plan A	Rs.131.33 to Rs.226.96	267,900	—	217.87
Plan B and C	Rs. 358.60 to Rs. 630.60	13,333,800	1.19	508.91

Fair Value methodology

The fair value of options used to compute pro forma net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2006 are:

	March 31, 2006
Dividend yield	0.7%
Expected volatility	21.25%
Risk—free interest rate	6.1%-6.6%
Expected life of the option	1-7 yrs

Impact of fair value method on net profit and EPS

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

	(Rs. Lac)
	March 31, 2006
Net Profit (as reported)	87,078
Add: Stock-based employee compensation expense included in net income.	-
Less: Stock based compensation expense determined under fair value based method: (pro forma)	8,468
Net Profit: (pro forma)	78,610
	(Rs.)
Basic earnings per share (as reported)	27.92
Basic earnings per share (pro forma)	25.20
Diluted earnings per share (as reported)	26.33
Diluted earnings per share (pro forma)	23.79

PRINCIPAL ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The financial statements are prepared on the historical cost convention, on the accrual basis of accounting, and conform to statutory provisions and practices prevailing within the banking industry in India.

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

B) SIGNIFICANT ACCOUNTING POLICIES

1) Investments

In accordance with the Reserve Bank of India guidelines, Investments are classified into “Held for Trading”, “Available for Sale” and “Held to Maturity” categories (hereinafter called “categories”). Under each of these categories, investments are further classified under six groups (hereinafter called “groups”) - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.

Broken period interest on debt instruments is treated as a revenue item.

Cost of investments is based on the weighted average cost method.

Basis of classification:

Securities that are held principally for resale within 90 days from the date of purchase are classified as “Held for Trading”.

Investments that the Bank intends to hold till maturity are classified as “Held to Maturity”. These are carried at acquisition cost, unless acquired at a premium, which is amortised over the period remaining to maturity.

Securities which are not to be classified in the above categories, are classified as “Available for Sale”.

An investment is classified as "Held for Trading", "Available for Sale" and "Held to Maturity" at the time of its purchase.

Transfer of security between categories:

The transfer of a security between these categories is accounted for at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer is fully provided for.

Valuation:

Held for Trading and Available for Sale categories

Each scrip in the above two categories is revalued at the market price or fair value and only the net depreciation of each group for each category is recognised in the Profit and Loss Account.

The valuation of investments is made in accordance with the Reserve Bank of India guidelines.

Held to Maturity

These are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining maturity period of the security on a straight-line basis.

Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

2) Advances

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

Advances are net of specific loan loss provisions, interest in suspense, ECGC claims received and bills rediscounted.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines.

The Bank also maintains general provisions to cover potential credit losses, which are inherent in any loan portfolio but not yet identified. These general provisions are made based on management's assessment of the projected delinquencies having regard to overall portfolio quality, asset growth, economic conditions and other risk factors subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. This provision is included under Other Liabilities.

In respect of restructured standard and sub-standard assets, provision is made for interest component specified while restructuring the assets, based in the Reserve Bank of India guidelines.

The sub-standard assets which are thus subject to restructuring are eligible to be upgraded to the standard category only after a minimum period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due, subject to satisfactory performance during the said period. Once the asset is thus upgraded, the amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms, as aforesaid, is reversed.

3) Securitisation Transactions

The Bank securitises out its receivables to Special Purpose Vehicles (SPV) in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration has been received by the Bank. Sales/transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitised-out, the Bank provides credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to senior Pass Through Certificates (PTCs).

Gain or loss from the sale of receivables is computed as the difference between the sale consideration and the book value. Expenses incurred on account of servicing and incidental costs of the contracts so securitised out are not deferred but expensed out at the time of the transaction.

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

During the fiscal year 2005-06 the RBI issued guidelines on securitization transactions vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, the Bank amortizes any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognized in the profit/loss account for the period in which the sale occurs. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

4) Non Performing Assets

The Bank classifies any credit facility/investment, other than advances granted for specified agricultural purposes, in respect of which the interest and / or installment of principal has remained due for over 90 days (180 days up to March, 31, 2003) as a non-performing asset. Loans granted for specified agricultural purposes are treated as non-performing when interest and/or installment of principal remain overdue for two harvest seasons but for a period not exceeding two half years.

5) Fixed assets and depreciation

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

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are:

- Improvements to lease hold premises are charged off over the primary period of lease.
- VSATs at 10% per annum
- ATMs at 12.5% per annum
- Office equipment at 16.21% per annum
- Computers at 33.33% per annum
- Motor cars at 25% per annum
- Software and System development expenditure at 25% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items costing less than Rs 5,000/- are fully depreciated in the year of purchase
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

6) Transactions involving foreign exchange

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

Foreign currency monetary items are reported using the closing rate.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively and the resulting profit or losses are included in the Profit or Loss account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date are, in effect, valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortized as expense or income over the life of the contract.

7) Lease accounting

The Bank recognizes lease income based on the Internal Rate of Return method over the primary period of the lease and accounted for in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8) Staff Benefits

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on retirement, on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually.

Superannuation

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's superannuation fund. The Bank annually contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director) to an insurance company, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Provident fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes monthly at a determined rate (currently 12% of employee's basic salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that in the case of employees who receive salary of up to Rs. 6,500 (specified employees), the Bank contributes monthly at a determined rate (currently 8.33% of employee's basic salary) out of the aforesaid contribution of the employer, to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC). The Bank has no liability for future provident fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Leave Encashment

The Bank does not have a policy of encashing unutilised / unavailed leave for its employee.

9) Interest Income

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets.

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

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

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

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

10) Fees and commission income

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

11) Credit cards reward points

The Bank estimates the probable redemption of credit card reward points using an actuarial method by employing an independent actuary. Provision is based on the expected redemption value up to March 31, 2004 and actuarial valuation thereafter, based on the actuarial valuation report as furnished by an independent actuary.

12) Income tax

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and fringe benefit tax (w.e.f financial year ended March 31, 2006). Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognised subject to Management’s judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the timing differences are expected to be received, settled or reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

13) Derivative Financial Instruments

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

The Bank enters into forward exchange contracts and currency options with its customers and typically covers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations. Option premia paid or received is generally recorded in profit and loss account at the expiry of the option.

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

14) Earnings per share

The Bank reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued, by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

15) Segment Information – Basis of preparation

Business Segments

The Bank operates in three segments: retail banking, wholesale banking and treasury services. Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the internal business reporting systems.

The retail-banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, net of commission (net of subvention received) paid to sales agents, interest on card receivables, gains / loans from securitization receivables, fees for banking and advisory services and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The wholesale banking segment provides loans and transaction services to corporate and institutional customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers and the corporate supply chain customers, investment income from commercial paper, debentures and bonds, interest earned on the cash float arising from transaction services, fees from such transaction services and also trading operations on behalf of corporate customers in debt, foreign exchange and derivatives segment. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading. Revenues of the treasury services segment primarily consist of fees and gains or losses from trading operations and net interest earnings on assets held in the treasury desk book.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments.

Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment.

Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve, which broadly tracks market discovered interest rates. Transaction charges are made by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels; such transaction costs are determined on a cost plus basis.

Segment capital employed represents the net assets in that segment. It excludes capital and net unallocated items.

Geographic Segments

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

16) Accounting for Provisions, Contingent Liabilities and Contingent Assets

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Bank recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

No provision is recognised for -

- a. Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
- b. Any present obligation that arises from past events but is not recognised because –
 - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - A reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

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

17) Net Profit

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

CONDENSED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	Rs. lac
	2005-2006
1. Cash flows from operating activities	172,476
2. Cash flows used in investing activities	(38,197)
3. Cash flows from financing activities	110,487
4. Net increase in cash and cash equivalents	244,766
5. Cash and cash equivalents as at April 1, 2005	374,100
6. Cash and cash equivalents as at March 31, 2006	618,866

SIGNIFICANT EVENTS THAT HAVE OCCURRED AFTER THE AUDITED BALANCE SHEET DATE

The Securities and Exchange Board of India (SEBI) vide its order under sections 11, 11B and 11(4) of Securities and Exchange Board of India Act, 1992 and section 19 of Depositories Act 1996, in the matter of investigation into initial public offerings, has directed the Bank not to open fresh demat accounts till further directions. The bank has contested the same.

C. OTHER FINANCIAL INFORMATION

Capitalization Statement

Particulars	Rs. lac	
	Pre Issue-as at 31-Mar-06	Adjusted for the present issue as at 31-Mar-06*
Borrowings		
- Short Term Debt	287,135	-
- Long Term Debt	168,913	-
Total Debt (A)	456,048	-
Shareholders Funds		
- Share Capital	31,314	-
- Reserves	498,639	-
Total Shareholders' Funds (B)	529,953	-
Total Capitalisation (A) + (B)	986,001	-
Long Term Debt/Equity Ratio	0.32	-

*information shall be provided at the time of issuance

Note:

- Borrowings exclude Deposits but include subordinated debt.
- Short term debt is debt maturing within the next one year from the date of the above statement.
- Long term debt/Equity Ratio is calculated by dividing the long term debt by total shareholders' funds.
- The bank on May 8, 2006, has allotted 550,500 shares on account of options exercised by its employees for a total consideration of Rs. 1,942 lac.

FINANCIAL INFORMATION / RATIOS

Particulars	Amounts in Rs. lac				
	2006	Years ended March 31,			2002
		2005	2004	2003	
Earnings per share (par value Rs. 10/- each)					
Basic (Rs.)	27.92	22.92	18.70	12.99	11.01
Diluted (Rs.)	26.33	21.64	17.23	12.11	10.29
Book value per share (Rs.)	169.24	145.86	94.52	78.83	69.03
Return on average net worth	17.47%	20.44%	20.14%	17.03%	18.08%
Interest service coverage ratio*	1.87	1.90	1.77	1.52	1.45
Net Advances	3,506,126	2,556,630	1,774,451	1,175,486	681,372
Net Non Performing Assets	15,518	6,063	2,795	4,292	3,436
Gross Non Performing Assets	50,889	43,917	33,561	26,545	22,286
Total Customer Assets	4,344,952	2,996,318	2,237,948	1,661,075	1,138,370
General Provisions	18,699	15,054	15,893	11,470	11,734
Net NPA to Net Advances	0.44%	0.24%	0.16%	0.37%	0.50%
Net NPA to Customer Assets	0.36%	0.20%	0.12%	0.26%	0.30%
Gross NPA to Customer Assets	1.17%	1.47%	1.50%	1.60%	1.96%
General Provisions to Net Advances	0.53%	0.59%	0.90%	0.98%	1.72%
General Provisions to Customer Assets	0.43%	0.50%	0.71%	0.69%	1.03%
Return on Average Assets	1.38%	1.47%	1.52%	1.44%	1.48%
Net interest income as a percentage to working funds	4.04%	3.94%	3.91%	3.08%	3.12%

* Interest service coverage ratio has been calculated by dividing the aggregate net profit after tax, interest expense and non-cash charges by interest expense. Non cash charges include provision for standard, bad and doubtful debts, depreciation, appreciation/depreciation on investments, provision for contingencies and others.

TAXATION STATEMENT

	2006	2005	2004	2003	2002
The income tax expenses comprises the following:					
Current Income tax expenses	35,956	33,389	24,271	17,226	14,272
Deferred Income tax expenses / (benefits), including on adjustments	1,217	(2,051)	(2,133)	(93)	(1,438)
Fringe benefit tax (FBT)	1,100	-	-	-	-
Total Income tax expenses	38,273	31,338	22,138	17,133	12,834

The following is the reconciliation of estimated income taxes at the statutory income tax rate to the income tax expenses as reported:

Net income before taxes, as restated	125,351	97,894	75,218	53,763	42,538
Statutory income tax rate	33.66%	36.59%	35.88%	36.75%	35.70%
Expected income tax expenses	42,193	35,822	26,988	19,758	15,186

Adjustments to reconcile expected income tax to actual tax expenses:

Permanent differences:

Income exempt from taxes	(5,068)	(5,048)	(5,294)	(2,731)	(2,844)
Other, including effect of change in statutory tax rate, net	48	564	444	106	492
Fringe benefit tax (FBT)	1,100	-	-	-	-
Income tax expenses	38,273	31,338	22,138	17,133	12,834

Tax effect of significant temporary differences are as follows:

Tax effect of:

Deductible temporary differences:

Provision for loan loss	(1,199)	2,523	4,427	1,713	2,303
Other, net	332	(73)	(831)	1,192	-
<u>Deferred tax asset</u>	<u>(867)</u>	<u>2,450</u>	<u>3,596</u>	<u>2,905</u>	<u>2,303</u>

Taxable temporary differences:

Depreciation	(350)	(399)	(1,544)	(2,693)	(808)
Other, including effect of change in statutory tax rate & change in accounting policy, net	-	-	81	(119)	(57)
<u>Deferred tax liability</u>	<u>(350)</u>	<u>(399)</u>	<u>(1,463)</u>	<u>(2,812)</u>	<u>(865)</u>

<u>Net deferred tax asset / (liability)</u>	<u>(1,217)</u>	<u>2,051</u>	<u>2,133</u>	<u>93</u>	<u>1,438</u>
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STATEMENT OF DIVIDEND DECLARED BY THE BANK

For the years ended	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02
Number of shares in crore	31.31	30.99	28.48	28.20	28.14
Rate of Dividend	55%*	45%	35%	30%	25%
Amount of Dividend (Rs. crore)**	196.39	159.97***	112.87	95.83	70.34

* proposed

** including dividend tax

*** including education cess on dividend for previous year.

DETAILS OF UNSECURED LOANS TAKEN BY THE BANK

The bank has raised Tier II Capital by way of Private Placement of unsecured, redeemable bonds to augment capital adequacy. The aggregate amount of these bonds that were outstanding as on March 31, 2006 was Rs. 1,702 crore. The details of these borrowings have been given elsewhere in the Shelf Memorandum of Information.

The bank has also borrowed money in the inter-bank market from Banks and Institutions. These are in the normal course of banking business. As on March 31, 2006, these borrowings aggregate Rs. 1,243.97 crore in India and Rs. 1,447.70 crore outside India (in various currencies) for tenors up to 5 years with interest rates ranging between 0.2% to 5.6%.

D. CONSOLIDATED FINANCIAL STATEMENTS

	(Rs. lac)
CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT	Year ended
Particulars	31.03.2006
Interest earned	
Interest/discount on advances/bills	270,026
Income from Investments	163,109
Interest on balances with Reserve Bank of India and other Inter Bank funds	14,255
Others	142
Total (A)	447,532
Other Income	
Commission, exchange and brokerage	107,744
Profit / (Loss) on sale of investments	3,754
Profit / (Loss) on revaluation of investments	(8,966)
Profit / (Loss) on sale of building and Other Assets	27
Profit on exchange transactions	9,940
Derivative Income	1,921
Others	1,140
Total (B)	115,560
TOTAL INCOME (C) = (A+B)	563,092
Interest Expended	
Interest on Deposits	155,907
Interest on RBI/Inter-bank borrowings	31,501
Others	5,510
Total (D)	192,918
Operating Expenses	
Payments to and provisions for employees	49,408
Depreciation on property	18,121
Establishment and other expenses	103,950
Total (E)	171,479
TOTAL EXPENDITURE (F=D+E)	364,397
OPERATING PROFIT (G=C-F) (Profit before Provisions and Contingencies and Extraordinary items)	198,695
Provisions and Contingencies	
Provision for Loan Loss	47,963
Amortisation on investments	24,516
Others	30
Total (H)	72,509
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS (I=G-H)	126,186
Less: Provision for Tax	38,602
NET PROFIT BEFORE EXTRAORDINARY ITEMS	87,584
Less: Extraordinary items (net of tax)	-
NET PROFIT FOR THE YEAR (J)	87,584
Minority Interest	(253)
Share in the profits of associates	825
Sub-total (K)	572
Consolidated profit for the year attributable to the Group (J+K)	88,156

	(Rs. 1 ac)
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES	
ASSETS	As of
	31.03.2006
Cash in hand (including foreign currency and gold coins)	50,771
Balances with Reserve Bank of India	279,890
Balances with banks and Money at call and short notice in India	179,902
Balances with banks and Money at call and short notice outside India	183,674
Investments, in India (including goodwill net of capital reserves, on account of investments in associates, amounting to Rs. 142 lac)	2,839,067
Advances, in India	3,506,230
Fixed Assets	87,146
Other Assets	233,452
Total (A)	7,360,132
LIABILITIES	
Employees' Stock Options (grants) outstanding	7
Demand Deposits	1,471,242
<i>From banks</i>	59,578
<i>From others</i>	1,411,664
Savings Deposits	1,618,579
Term Deposits	2,484,893
<i>From banks</i>	86,047
<i>From others</i>	2,398,846
Total Deposits	5,574,714
Borrowings in India	141,078
Borrowings outside India	144,770
Total Borrowings	285,848
Subordinated Debt	170,200
Other liabilities and provisions	794,103
Total (B)	6,824,872
NET ASSETS (A-B)	535,260
Represented by:	
SHARE CAPITAL (C)	31,314
RESERVES AND SURPLUS	
Statutory reserve	83,646
General Reserve	30,194
Balance in profit and loss account	147,484
Share Premium	237,671
Amalgamation Reserve	1,452
Capital Reserve	174
Capital Reserve on Consolidation	789
TOTAL (D)	501,410
NET WORTH (C+D)	532,724
MINORITY INTEREST	2,536
TOTAL	535,260
CONTINGENT LIABILITIES	
Claims against the bank not acknowledged as debts	25,765
Liability on account of outstanding forward exchange contracts	7,347,337
Liability on account of outstanding derivative contracts	13,196,984
Guarantees given on behalf of constituents in India	308,877
Acceptances, endorsements and other obligations	241,037
Other items for which the Bank is contingently liable	362,745
	21,482,745

NOTES TO CONSOLIDATED ACCOUNTS

1) Earnings Per Equity Share

Annualised earnings per equity share have been calculated based on the net income after taxation of Rs. 881,56 lac and the weighted average number of equity shares in issue during the year amounting to 31,19,39,366.

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

	(Rupees)
	<u>For the year</u>
	2005-2006
Nominal value per share	10.00
Basic earnings per share	28.26
Effect of potential equity shares for stock options and subordinated debt (per share)	<u>(1.60)</u>
Diluted earnings per share	<u>26.66</u>

Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

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

	(Rs. lac)
	<u>For the year</u>
	2005-2006
Earnings used in basic earnings per share	88,156
Impact of dilution on profits	<u>748</u>
Earnings used in diluted earnings per share	<u>88,904</u>

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

	<u>For the year</u>
	2005-2006
Weighted average number of equity shares used in computing basic earnings per equity share	31,19,39,366
Effect of potential equity shares for stock options outstanding and subordinated debt	<u>2,15,64,239</u>
Weighted average number of equity shares used in computing diluted earnings per equity share	<u>33,35,03,605</u>

2) Subordinated Debt

Subordinated debt outstanding as at March 31, 2006 is a long-term unsecured non-convertible debt aggregating Rs.1,702 crores.

During the year the Bank raised Rs. 1,202 crores subordinated debt at an annualised coupon between 7.5% to 8.6% having a maturity ranging from 9 to 10 years. The debt is subordinated to present and future senior indebtedness of the Bank and qualifies as Tier 2 risk-based capital under RBI's guidelines for assessing capital adequacy.

Conversion clause

Of the outstanding amount of debt, principal amount of Rs. 90 crores issued to certain Government owned Indian Financial Institutions contains a clause, to convert into fully paid equity shares an amount not exceeding 20% of the amount outstanding in the event of a default in the payment of interest or principal. If the Bank were to default on all such debts and be obligated to issue the maximum number of shares based on the amount outstanding and interest payable until March 31, 2006, such amount would approximately be 184 lac shares.

3) Investments

- Investments as at March 31, 2006 include securities held under Liquidity Adjustment Facility with Reserve Bank of India Rs. 42,000 lac.
- Investments include securities aggregating Rs. 9,095 lac, which are kept as margin for clearing and Rs. 478,345 lac, which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments amounting to Rs. 424,436 lac are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).
- Other investments include deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 21,636 lac. (*for transactions prior to issuance of Draft Securitisation Guidelines, credit enhancements provided as cash collateral have been reduced from Tier1 and Tier 2 capital)

4) Other Assets

Other assets include deferred tax asset (net) of Rs. 5,962 lac. The break up of the same is as follows:

	(Rs. Lac)
	March 31, 2006
Deferred tax asset	12,860
Loan loss provisions	1,328
Others	<u>14,188</u>
Total	<u>14,188</u>
Deferred tax liability	
Depreciation	<u>(8,226)</u>
Total	<u>(8,226)</u>
Deferred Tax Asset (net)	<u>5,962</u>

5) Related Party Transactions

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

Promoter

Housing Development Finance Corporation Ltd.

Enterprises under common control of the promoter

HDFC Asset Management Company Ltd.
HDFC Standard Life Insurance Company Ltd.
HDFC Developers Ltd.
HDFC Holdings Ltd.
HDFC Investments Ltd.
HDFC Trustee Company Ltd.
GRUH Finance Ltd.
HDFC Realty Ltd.
HDFC Chubb General Insurance Company Ltd.
HDFC Venture Capital Ltd.
HDFC Ventures Trustee Company Ltd.
Home Loan Services India Pvt. Ltd.

Associates

Computer Age Management Services Private Ltd.
SolutionNET India Private Ltd.
Softcell Technologies Ltd.
Atlas Documentary Facilitators Company Private Ltd.
Flexcel International Private Ltd.
HBL Global Private Ltd.

Key Management Personnel

Aditya Puri, Managing Director

Related Party to Key Management Personnel

Salisbury Investments Pvt. Ltd.

The related party balances and transactions are summarized as follows:

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

In fiscal year 2005-06, the Bank paid Rs. 68 lac to HDFC Ltd. as rent, maintenance and service charges for the properties of HDFC Ltd. occupied by the Bank. The Bank has deposited an amount of Rs. 2 lac to secure these leased properties.

During the fiscal year 2005-06, the Bank earned Rs. 2,393 lac from HDFC Ltd. as fees for sourcing home loans (pursuant to the MOU between HDFC Ltd. and HDFC Bank) and other services rendered. As on March 31, 2006, fees amounting to Rs. 292 lac are receivable as fees for sourcing home loans. During the year, the Bank paid Rs. 1,913 lac to HDFC Ltd. for purchase of additional 25.5% shares of HDFC Securities Ltd.

During the fiscal year 2005-06, HDFC Securities Ltd. incurred an expense of Rs. 2 lac towards services received from HDFC Ltd.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank has an arrangement with HDFC AMC to invest its funds primarily in debt instruments up to an amount approved by the Board of Directors of the Bank. This arrangement is up to 31st March, 2006. The amount of investment outstanding as of March 31, 2006 was Rs 34,166 lac. In fiscal year 2005-06, the Bank paid Rs. 7 lac as professional fees and Rs. 33 lac towards rent for premises occupied by the Bank. Security deposit of Rs. 17 lac has been kept with HDFC AMC to secure the above-mentioned leased property. The Bank earned Rs. 2,343 lac for distribution of units of mutual funds of HDFC AMC and for other services provided. As on March 31, 2006, commission amounting to Rs. 228 lac is receivable from HDFC AMC.

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

In fiscal year 2005-06, the Bank contributed Rs. 218 lac to a defined benefit plan to cover gratuity of the Bank's employees managed by HDFC Standard Life. In the same period, the Bank earned Rs. 8,814 lac from HDFC Standard Life for sale of insurance policies and other services provided by the Bank to its customers. As on March 31, 2006, commission amounting to Rs. 292 lac is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2005-06, the Bank paid Rs 106 lac towards insurance premium covering the professional liability of directors & officers of the Bank. A deposit of Rs. 1 lac has been kept with HDFC Chubb. The Bank earned commission of Rs. 203 lac for sale of HDFC Chubb's insurance policies to the Bank's customers.

Atlas Documentary Facilitators Company Private Ltd. (ADFC)

In fiscal year 2005-06, the Bank incurred an expense of Rs. 6,168 lac for back-office processing services provided by ADFC. Deposit of Rs. 400 lac has been kept with ADFC for various services provided. As on March 31, 2006, an amount of Rs 725 lac is payable to ADFC for various back-office processing services rendered to the Bank. The Bank earned Rs 538 lac from ADFC as rent of the premises occupied by ADFC and towards other services rendered by the Bank. As of March 31, 2006, the Bank has an equity investment of Rs. 2 lac in the company.

Flexcel International Private Ltd. (Flexcel)

The Bank has given a loan to Flexcel, the outstanding of which as of March 31, 2006 is Rs. 5 lac. Interest received on the same during the current year is Rs. 1 lac. As of that date, the Bank has an equity investment of Rs.153 lac in the company. During the fiscal year 2005-06, the Bank received Rs. 0.46 lac as dividend from Flexcel.

HBL Global Private Ltd. (HBL Global)

In fiscal year 2005-06, the Bank incurred a net expense of Rs. 19,179 lac in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 901 lac has been kept with HBL Global towards services provided by them. As at March 31, 2006 an amount of Rs. 2,231 lac was outstanding as temporary advance paid in respect of services to be provided by HBL Global. The Bank earned Rs. 126 lac as rent for those premises let to HBL Global by the Bank, during the fiscal year 2005-06.

Managerial Remuneration

The Bank paid a total amount of Rs. 155 lac as remuneration to the Managing Director. This includes the taxable value of perquisites as defined in the Income Tax Rules.

Salisbury Investments Private Ltd.

Salisbury Investments Private Ltd. is a company in which the relatives of the Managing Director hold a stake. The company has leased a flat to the bank towards the residential accommodation of the Managing Director of the Bank. As at March 31, 2006, the security deposit outstanding with Salisbury Investments was Rs. 350 lac. For the year ended March 31, 2006, the Bank paid rent of Rs. 22 lac to the company.

Other Strategic Investments

The Bank frequently partners with other HDFC Group companies when making strategic investments. The Bank currently has three strategic investments, Computer Age Management Services Private Ltd. (CAMS), SolutionNET India Private Ltd. (SolutionNET) and Softcell Technologies Ltd. (Softcell) in which HDFC group companies are co-investors. The Bank has invested an amount of Rs. 61 lac in capital of CAMS, Rs. 76 lac in capital of SolutionNET and Rs. 260 lac in the capital of Softcell. During the fiscal year 2005-06 the Bank received Rs. 57 lac as dividend from CAMS and Rs. 0.42 lac as dividend from SolutionNet.

The Bank also conducts business with some of the companies in which it has made strategic investments in the normal course. For the year ended March 31, 2006, the Bank paid CAMS Rs. 41 lac for mutual fund back office processing services and Softcell Rs. 84 lac for providing software-related services. During the year ended March 31, 2006 the Bank has paid Rs. 724 lac towards fixed assets purchased and Rs. 20 lac as capital advance to Softcell.

6) Segment reporting

The Group operates in three segments viz. retail banking, wholesale banking and treasury services. Summary of the three operating segments is:

	(Rs. lac)
Particulars	2005-2006
1. Segment Revenue	
a) Retail Banking	520,544
b) Wholesale Banking	285,338
c) Treasury	77,389
Total	883,271
Less: Inter Segment Revenue	320,179
Income from Operations	563,092
2. Segment Results	
a) Retail Banking	71,002
b) Wholesale Banking	53,787
c) Treasury	1,397
Total Profit Before Tax, Minority Interest and Earnings from Associates	126,186
3. Capital Employed	
Segment assets	
a) Retail Banking	3,866,845
b) Wholesale Banking	2,879,053
c) Treasury	573,394
d) Unallocated	40,840
Total Assets	7,360,132
Segment liabilities	
a) Retail Banking	3,865,147
b) Wholesale Banking	2,671,793
c) Treasury	270,822
d) Unallocated	19,646
Total Liabilities	6,827,408
Net Segment assets / (liabilities)	
a) Retail Banking	1,698
b) Wholesale Banking	207,260
c) Treasury	302,572
d) Unallocated	21,194
Other Information	
4. Capital Expenditure	
a) Retail Banking	25,604
b) Wholesale Banking	7,440
c) Treasury	4,485
Total	37,529
5. Depreciation	
a) Retail Banking	13,749
b) Wholesale Banking	3,102
c) Treasury	1,270
Total	18,121

- 7) Other fixed assets (including furniture and fixtures) include amount capitalised on software, website cost and Bombay Stock Exchange Card having useful life of 4/5/10 years: Cost as on March 31, 2005: Rs. 16,722 lac, Additions during the year Rs. 5,162 lac, Accumulated depreciation: Rs. 13,786 lac, Net value: Rs. 8,098 lac.

8) Provisions, Contingent Liabilities and Contingent Assets

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, given below are movements in provision for credit card reward points and a brief description of the nature of contingent liabilities recognised by the Group.

a) Movement in provision for credit card reward points

	(Rs. Lac)
	March 31, 2006
Opening provision for reward points	324
Provision for reward points made during the year	660
Utilisation/Write back of provision for reward points	(109)
Closing provision for reward points	875

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

b) Description of Contingent Liabilities

Sr. No.	Contingent Liability	Brief description
1	Claims against the Group not acknowledged as debts – Taxation	The Group is a party to various taxation matters in respect of which appeals are pending. This is being disputed by the Group and not provided for.
2	Claims against the Group not acknowledged as debts - Others	The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, results of operations or cash flows.
3	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded, as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.
4	Guarantees given on behalf of constituents, Acceptances, Endorsements and other obligations	As a part of its commercial banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.
5	Other items for which the Group is contingently liable	These include: a) Credit enhancements in respect of securitised out loans. b) Bills rediscounted by the Bank. c) Capital Commitments. d) Bank guarantees.

PRINCIPAL ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION

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

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

B. BASIS OF PREPARATION

The financial statements of the Group are prepared on the historical cost convention, on the accrual basis of accounting, and conform to statutory provisions and practices prevailing within the banking industry in India.

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

The Bank had bought a stake of 29.5% in HDFC Securities Ltd. during the fiscal year ended March 31, 2001. During the current financial year, on September 28, 2005, the Bank bought a further stake of 25.5% from HDFC Ltd., thereby obtaining a controlling interest of 55.0% in HDFC Securities Ltd.

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

Name	Relation	Country of Incorporation	Ownership Interest
HDFC Securities Ltd.*	Subsidiary	India	55.0%
Atlas Documentary Facilitators Company Pvt. Ltd.**	Associate	India	29.0%
Flexcel International Pvt. Ltd.*	Associate	India	29.3%
Computer Age Management Services Private Ltd.**	Associate	India	19.0%
SolutionNET India Private Ltd.**	Associate	India	19.0%
Softcell Technologies Ltd.**	Associate	India	12.0%
HBL Global Private Ltd.	Associate	India	Nil

* The audited financial statements of HDFC Securities Ltd. and the un-audited financial statements of Flexcel International Pvt. Ltd. have been drawn up to the same reporting date as that of the Bank, i.e. March 31, 2006.

** The un-audited financial statements of the associates have been drawn for the period ended February 28, 2006.

C. SIGNIFICANT ACCOUNTING POLICIES

1) Investments

HDFC Bank Ltd.

In accordance with the Reserve Bank of India guidelines, Investments are classified into “Held for Trading”, “Available for Sale” and “Held to Maturity” categories (hereinafter called “categories”). Under each of these categories, investments are further classified under six groups (hereinafter called “groups”) - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.

Broken period interest on debt instruments is treated as a revenue item.

Cost of investments is based on the weighted average cost method.

Basis of classification:

Securities that are held principally for resale within 90 days from the date of purchase are classified as “Held for Trading”.

Investments that the Bank intends to hold till maturity are classified as “Held to Maturity”. These are carried at acquisition cost, unless acquired at a premium, which is amortised over the period remaining to maturity.

Securities which are not to be classified in the above categories, are classified as “Available for Sale”.

An investment is classified as "Held for Trading", "Available for Sale" and "Held to Maturity" at the time of its purchase.

Transfer of security between categories:

The transfer of a security between these categories is accounted for at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer is fully provided for.

Valuation:

Held for Trading and Available for Sale categories

Each scrip in the above two categories is revalued at the market price or fair value and only the net depreciation of each group for each category is recognised in the Profit and Loss Account.

The valuation of investments is made in accordance with the Reserve Bank of India guidelines.

Held to Maturity

These are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining maturity period of the security on a straight-line basis.

Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

HDFC Securities Ltd.

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

2) Advances

HDFC Bank Ltd.

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

Advances are net of specific loan loss provisions, interest in suspense, ECGC claims received and bills rediscounted.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines.

The Bank also maintains general provisions to cover potential credit losses, which are inherent in any loan portfolio but not yet identified. These general provisions are made based on management's assessment of the projected delinquencies having regard to overall portfolio quality, asset growth, economic conditions and other risk factors subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. This provision is included under Other Liabilities.

In respect of restructured standard and sub-standard assets, provision is made for interest component specified while restructuring the assets, based in the Reserve Bank of India guidelines.

The sub-standard assets which are thus subject to restructuring are eligible to be upgraded to the standard category only after a minimum period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due, subject to satisfactory performance during the said period. Once the asset is thus upgraded, the amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms, as aforesaid, is reversed.

3) Securitisation Transactions

HDFC Bank Ltd.

The Bank securitises out its receivables to Special Purpose Vehicles (SPV) in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration has been received by the Bank. Sales/transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitised-out, the Bank provides credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to senior Pass Through Certificates (PTCs).

Gain or loss from the sale of receivables is computed as the difference between the sale consideration and the book value. Expenses incurred on account of servicing and incidental costs of the contracts so securitised out are not deferred but expensed out at the time of the transaction.

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

During the fiscal year 2005-06 the RBI issued guidelines on securitization transactions vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, the Bank amortizes any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognized in the profit/loss account for the period in which the sale occurs. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

4) Non Performing Assets

HDFC Bank Ltd.

The Bank classifies any credit facility/investment, other than advances granted for specified agricultural purposes, in respect of which the interest and / or installment of principal has remained due for over 90 days (180 days up to March, 31, 2003) as a non-performing asset. Loans granted for specified agricultural purposes are treated as non-performing when interest and/or installment of principal remain overdue for two harvest seasons but for a period not exceeding two half years.

5) Fixed assets and depreciation

HDFC Bank Ltd.

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

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are:

- Improvements to lease hold premises are charged off over the primary period of lease.
- VSATs at 10% per annum
- ATMs at 12.5% per annum
- Office equipment at 16.21% per annum
- Computers at 33.33% per annum
- Motor cars at 25% per annum
- Software and System development expenditure at 25% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items costing less than Rs 5,000/- are fully depreciated in the year of purchase
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

HDFC Securities Ltd.

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

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

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

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

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

6) Transactions involving foreign exchange

HDFC Bank Ltd.

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

Foreign currency monetary items are reported using the closing rate.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively and the resulting profit or losses are included in the Profit or Loss account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date are, in effect, valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortized as expense or income over the life of the contract.

7) Lease accounting

HDFC Bank Ltd.

The Bank recognizes lease income based on the Internal Rate of Return method over the primary period of the lease and accounted for in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

8) Staff Benefits

HDFC Bank Ltd.

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on retirement, on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually.

Superannuation

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's superannuation fund. The Bank annually contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director) to an insurance company, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Provident fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes monthly at a determined rate (currently 12% of employee's basic salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that in the case of employees who receive salary of up to Rs. 6,500 (specified employees), the Bank contributes monthly at a determined rate (currently 8.33% of employee's basic salary) out of the aforesaid contribution of the employer, to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC). The Bank has no liability for future provident fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred.

Leave Encashment

The Bank does not have a policy of encashing unutilised / unavailed leave for its employee.

HDFC Securities Ltd.

The Company provides for gratuity covering all employees. The Company makes annual contributions to a fund administered by the trustees and managed by HDFC Standard Life Insurance Company Ltd. for an amount notified by HDFC Standard Life Insurance Company Ltd. The Company accounts for the liability for future gratuity benefits based on an actuarial valuation carried out annually.

Contribution to the provident fund is recognised when due. Provision for Superannuation is on accrual basis.

9) Revenue Recognition

HDFC Bank Ltd.

Interest income is recognised in the profit or loss account on an accrual basis, except in the case of non-performing assets.

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

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

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

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

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

HDFC Securities Ltd.

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

Income from other services is recognised on completion of services.

10) Deferred Revenue Expenses and Preliminary Expenses

HDFC Securities Ltd.

Deferred revenue expenditure and preliminary expenses are amortised over the estimated period ranging from 3 to 5 years over which the benefit from these expenses are expected to be realized.

11) Credit cards reward points

HDFC Bank Ltd.

The Bank estimates the probable redemption of credit card reward points using an actuarial method by employing an independent actuary. Provision is based on the expected redemption value up to March 31, 2004 and actuarial valuation thereafter, based on the actuarial valuation report as furnished by an independent actuary.

12) Income tax

Group

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year and fringe benefit tax (w.e.f financial year ended March 31, 2006). Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognised subject to Management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the timing differences are expected to be received, settled or reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

13) Derivative Financial Instruments

HDFC Bank Ltd.

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

The Bank enters into forward exchange contracts and currency options with its customers and typically covers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations. Option premia paid or received is generally recorded in profit and loss account at the expiry of the option.

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

14) Earnings per share

Group

The Group reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued, by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

15) Segment Information – Basis of preparation

Group

Business Segments

The Group operates in three segments: retail banking, wholesale banking and treasury services. Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the internal business reporting systems. The operations of HDFC Securities Ltd. have been classified under the retail banking segment.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, net of commission (net of subvention received) paid to sales agents, interest on card receivables, gains / losses from securitization receivables, fees for banking and advisory services and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The wholesale banking segment provides loans and transaction services to corporate and institutional customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers and the corporate supply chain customers, investment income from commercial paper, debentures and bonds, interest earned on the cash float arising from transaction services, fees from such transaction services and also trading operations on behalf of corporate customers in debt, foreign exchange and derivatives segment. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading. Revenues of the treasury services segment primarily consist of fees and gains or losses from trading operations and net interest earnings on assets held in the treasury desk book.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments.

Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment.

Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve, which broadly tracks market discovered interest rates. Transaction charges are made by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels; such transaction costs are determined on a cost plus basis.

Segment capital employed represents the net assets in that segment. It excludes capital and net unallocated items.

Geographic Segments

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

16) Accounting for Provisions, Contingent Liabilities and Contingent Assets

Group

As per (AS) 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Group recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

No provision is recognised for -

- a) Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- b) Any present obligation that arises from past events but is not recognised because –
 - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

- A reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

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

17) Net Profit

Group

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	Rs. lac
	2005-2006
1. Cash flows used in operating activities	165,947
2. Cash flows used in investing activities	(37,014)
3. Cash flows from financing activities	114,570
4. Net increase in cash and cash equivalents	247,103
5. Cash and cash equivalents as at April 1, 2005	374,100
6. Cash and cash equivalents as at March 31, 2006	621,203

E. STATUTORY AND OTHER INFORMATION

Minimum Subscription

As the Issue of Bonds is being made on private placement basis, the requirement of minimum subscription shall not be applicable.

Expenses of the Issue

The expenses of the Issue payable by the bank such as reimbursement of expenses and payments to Registrars to the Issue, printing expenses, listing fees, fees of the Trustees for the Bondholders, stamp duty and other expenses will be met by the bank.

Fees Payable to the Intermediaries

Fees payable to and terms of appointment of the intermediaries such as registrars to the issue, trustees to the bondholders, credit rating agencies etc., are set out in the relevant appointment letters, copies of which shall be kept open for inspection at the Registered Office of the bank.

Underwriting and Procurement Commission/ Brokerage

The issue is not underwritten and hence no underwriting commission is payable. There are no brokers to this Issue and hence no brokerage is payable.

Previous Issues by the bank

The bank went for its maiden equity issue of 5,00,00,000 shares of Rs. 10/- each, for cash at par aggregating to Rs.50 crore. The issue opened on 14.03.1995 and closed on 16.03.1995. The issue was oversubscribed by 55.073 times. The shares were allotted on 09.05.1995. The despatch of share certificates and refund orders was completed on 22.05.1995. The shares have been listed at the , Bombay Stock Exchange Limited The National Stock Exchange of India Limited, The Stock Exchange, Ahmedabad.

The bank offered 10,845,986 American Depository Shares (32,537,958 Equity Share) on July 20,2001 and 6,644,665 American Depository Shares (19,933,995 equity shares) on January 21, 2005. These ADS are listed on the New York Stock Exchange.

The bank has also raised Tier II Capital by way of Private Placement of unsecured, redeemable bonds to augment capital adequacy. The details of the bonds outstanding as of March 31, 2006 are as under:

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Life Insurance Corporation Of India	2001	23.03.2001	40.00	40	1.00	63	11.00%	22.06.2006
Reliance Capital Trustee Co Ltd	2001	22.03.2001	10.00	10	1.00	63	11.00%	21.06.2006
United India Insurance Company Ltd	1999	01.06.1999	2.50	1	2.50	87	13.75%	31.08.2006
Life Insurance Corporation Of India	1999	30.03.1999	35.00	35	1.00	87	13.75%	29.06.2006
The New India Assurance Company Ltd	1999	01.06.1999	3.00	3	1.00	87	13.75%	31.08.2006
Oriental Insurance Co Ltd	1999	01.06.1999	4.00	4	1.00	87	13.75%	31.08.2006
National Insurance Company Ltd	1999	05.06.1999	2.50	1	2.50	87	13.75%	04.09.2006
General Insurance Corporation Of India	1999	01.06.1999	3.00	3	1.00	87	13.75%	31.08.2006
Life Insurance Corporation Of India	2004	04.02.2004	100.00	1,000	0.10	123	5.90%	03.05.2014
The New India Assurance Company Ltd	2004	04.02.2004	25.00	250	0.10	123	5.90%	03.05.2014
The Federal Bank Limited	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
General Insurance Corporation Of India	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Corporation Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Punjab National Bank	2004	04.02.2004	15.00	150	0.10	123	5.90%	03.05.2014
State Bank Of India	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Uco Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
State Bank Of Travancore	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
State Bank Of Hyderabad	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Indian Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Allahabad Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Infrastructure Development Finance Company Ltd	2004	04.02.2004	20.00	200	0.10	123	5.90%	03.05.2014

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
The Jammu & Kashmir Bank Limited	2004	04.02.2004	15.00	150	0.10	123	5.90%	03.05.2014
Oriental Bank Of Commerce	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Reliance Capital Trustee Co Ltd A/C Reliance Monthly Income Plan	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
The Oriental Insurance Co Ltd	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Bank Of India	2004	04.02.2004	25.00	250	0.10	123	5.90%	03.05.2014
Vijaya Bank	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Standard Chartered Trustee Company Pvt. Ltd. A/C Grindlays Super Saver Income Fund	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employee Pension Fund Trust	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employees Gratuity Fund Trust	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Central Bank Of India - Employees Provident Fund	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Union Bank Of India	2004	04.02.2004	20.00	200	0.10	123	5.90%	03.05.2014
National Insurance Company Limited	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Canara Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Birla Sunlife Trustee Company Private Ltd A/C Birla Balance	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Bank Of Baroda	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Andhra Bank	2004	04.02.2004	10.00	100	0.10	123	5.90%	03.05.2014
Templeton Mutual Fund A/C. Templeton Monthly Income Plan - H/G	2004	04.02.2004	3.00	30	0.10	123	5.90%	03.05.2014
DSP Merrill Lynch Trustee Company Pvt.Ltd. A/C DSP Merrill Lynch Saving Plus Fund	2004	04.02.2004	5.00	50	0.10	123	5.90%	03.05.2014
Standard Chartered Bank A/C ING Vysya Mutual Fund - INC Vysya Income Fund	2004	04.02.2004	2.00	20	0.10	123	5.90%	03.05.2014
The Oriental Insurance Employees Gratuity Fund	2004	04.02.2004	2.00	20	0.10	159	6.00%	03.05.2017
National Insurance Company Ltd Employee Gratuity Fund	2004	04.02.2004	2.00	20	0.10	159	6.00%	03.05.2017
Hdfc Bank Ltd Employees Provident Fund Trust.	2004	04.02.2004	1.00	10	0.10	159	6.00%	03.05.2017
Canara Bank	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Bharat Heavy Electricals Employees Gratuity Fund	2005	27.10.2005	4.00	40	0.10	116	7.50%	27.04.2015
Canara Bank Staff Provident Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Canara Bank Employees Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Rrvk Gpf	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Rrvk Superannuation Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
State Bank Of Indore Employees Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
The Army Group Insurance Fund	2005	27.10.2005	20.00	200	0.10	116	7.50%	27.04.2015
The Oriental Insurance Company (Employees) Pension Fund Trust	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
General Insurance Corporation Of India	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Union Bank Of India (Employees) Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Tamilnad Mercantile Bank Ltd.	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Sbbj Employees' Pension Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Sbbj Employees' Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Bajaj Auto Ltd.	2005	27.10.2005	20.00	200	0.10	116	7.50%	27.04.2015
Karnataka Bank Ltd. Staff Provident Fund	2005	27.10.2005	4.00	40	0.10	116	7.50%	27.04.2015
Union Bank Of India Employees' Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Union Bank Of India Employees' Gratuity Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Sbi Dfhi Ltd.	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Bank Of Baroda	2005	27.10.2005	25.00	250	0.10	116	7.50%	27.04.2015
Bank Of Baroda Gratuity FUND	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Bank Of Baroda Provident Fund Trust	2005	27.10.2005	10.00	200	0.05	116	7.50%	27.04.2015
Bank Of Baroda (Employees') Pension Fund	2005	27.10.2005	10.00	100	0.10	116	7.50%	27.04.2015
Trustees Allahabad Bank (Employees') Pension Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Trustees Allahabad Bank Staff Provident Fund	2005	27.10.2005	5.00	50	0.10	116	7.50%	27.04.2015
Life Insurance Corporation Of India Provident Fund No.1	2005	27.10.2005	50.00	500	0.10	116	7.50%	27.04.2015
Army Group Insurance Fund	2005	28.11.2005	20.00	200	0.10	117	7.50%	28.06.2015
Indian Overseas Bank Employees Pension Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Indian Overseas Bank Staff Provident Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Rrvk Superannuation Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Canara Bank	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Canara Bank Employees Pension Fund	2005	28.11.2005	10.00	100	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Oriental Insurance Company Ltd, Pf	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Air India Employees Provident Fund	2005	05.12.2005	6.00	60	0.10	117	7.50%	28.06.2015
Syndicate Bank Employees Provident Fund	2005	05.12.2005	8.00	80	0.10	117	7.50%	28.06.2015
The Indian Hotels Co. Ltd Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
The Bombay Dying & Staff Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Larsen & Toubro Officers And Supervisory Staff Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Siemens India Ltd. Indian Staff Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Ibp Co. Ltd. Provident Fund	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
The Lakshmi Vilas Bank Ltd	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
The Oriental Insurance Company (Employees) Pension Fund Trusts	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Syndicate Bank	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Union Bank Of India Employees Gratuity Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Vijaya Bank Staff Provident Fund	2005	05.12.2005	3.00	30	0.10	117	7.50%	28.06.2015
Union Bank Of India Employees Provident Fund	2005	05.12.2005	10.00	100	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Pension Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
State Bank Of Indore Employees Pension Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Wipro System PF Trust	2005	05.12.2005	2.00	20	0.10	117	7.50%	28.06.2015
Food Corporation Of India CPF Trust	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Trustees Allahabad Bank Employees Gratuity Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Indian Airlines Employees Provident Fund	2005	05.12.2005	6.00	60	0.10	117	7.50%	28.06.2015
Zensar Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Rrvk Gratuity Fund Trust	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Rrvk Superannuation Fund	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
Rrvk Gpf Trust	2005	05.12.2005	5.00	50	0.10	117	7.50%	28.06.2015
U.P. Cooperative Sugar Factories Federation Ltd. Employees Provident Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
U.P. Sugar Cooperative Sugar Factory Federation Ltd. Employees Gratuity Fund	2005	05.12.2005	1.00	10	0.10	117	7.50%	28.06.2015
Bank Of Maharashtra Employees Pension Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
Bank Of Maharashtra -Employees Provident Fund	2006	20.01.2006	3.00	30	0.10	113	7.75%	20.04.2015
Union Bank Of India- Employees Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Food Corp Of India CPF Trust	2006	20.01.2006	7.00	70	0.10	113	7.75%	20.04.2015
Trustees Allahabad Bank Staff Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Bhel New Delhi Employees Provident Fund	2006	20.01.2006	3.00	30	0.10	113	7.75%	20.04.2015
Trustees Guj Co-Op Milk Mktg Federation Staff Provident Fund, Anand	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Rcf Ltd., Employees Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Rcf Ltd., Employees Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Vijaya Bank Staff Provident Fund	2006	20.01.2006	8.00	80	0.10	113	7.75%	20.04.2015
Secretary Rsrte Cpf Trust	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Corporation Bank	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Maharashtra Scooters Ltd	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Vijaya Bank	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Trustees Fact Employees Provident Fund	2006	20.01.2006	3.50	35	0.10	113	7.75%	20.04.2015
State Bank Of Travancore Employees Provident Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
General Insurance Corporation Of India	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Indian Airlines Employees Provident Fund	2006	20.01.2006	13.00	130	0.10	113	7.75%	20.04.2015
Central Bank Employees Provident Fund Trust	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Central Bank Employees Pension Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Central Bank Employees Gratuity Fund Trust	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Securities Trading Corporation Of India Ltd,	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Mdl. Operative Provident Fund	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Npcil- Employees Provident Fund	2006	20.01.2006	5.50	55	0.10	113	7.75%	20.04.2015
Tata Consultancy Services - Employees Provident Fund	2006	20.01.2006	16.00	160	0.10	113	7.75%	20.04.2015
Uco Bank Employees Provident Fund	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
State Bank Of Mysore	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
The Catholic Syrian Bank Ltd.	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Bhel Epf Trust Ranipur Hardwar	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Hindustan Petroleum Corporation Ltd. Pf	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Army Group Insurance Fund	2006	20.01.2006	20.00	200	0.10	113	7.75%	20.04.2015
Bajaj Auto Ltd	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
The Oriental Insurance Company Ltd	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Birla Brothers Pvt Ltd PF Institution	2006	20.01.2006	2.00	20	0.10	113	7.75%	20.04.2015
Syndicate Bank Gratuity Fund	2006	20.01.2006	4.00	40	0.10	113	7.75%	20.04.2015
Birla Sun Life Asset Management Copmany Ltd A/C Birla MIP	2006	20.01.2006	5.00	50	0.10	113	7.75%	20.04.2015
Syndicate Bank	2006	20.01.2006	10.00	100	0.10	113	7.75%	20.04.2015
Sahara India Financial Corporation Ltd.	2006	24.02.2006	50.00	500	0.10	118	8.25%	24.10.2015
Bajaj Auto Ltd	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Army Group Insurance Fund	2006	24.02.2006	25.00	250	0.10	118	8.25%	24.10.2015
Agriculture Insurance Co. Of India Ltd.	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Hindustan Instruments Ltd EPF Trust	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Coal Mines Provident Fund	2006	24.02.2006	65.00	650	0.10	118	8.25%	24.10.2015
Hindalco Employees Provident Fund Institution	2006	24.02.2006	6.00	60	0.10	118	8.25%	24.10.2015
The Provident Fund Of TCIL	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015

Name of the Original Allottee	Year of Placement	Deemed Date of Allotment	Issue Amount (Rs. in crore)	No. of bonds	Denomination of each bond in Rs. crore	Tenure (in months)	Coupon Rate (% p.a., annually)	Redemption Date
The Tinsplate Co. Executive Staff Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
The Mission Of The USA FSN Staff PF	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
Bank Of India Provident Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
RCF Ltd. Employees Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Indian Provident Fund Of Bharat Petroleum Corp Ltd.	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Indo Gulf Fertilisers Ltd. Employees Provident Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Rites Contributory Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
National Insurance Company (Employees') Pension Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
Indian Airlines Emp Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Iti Ltd. PF Trust Raebareli	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
India Overseas Bank Staff Provident Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Indian Overseas Bank Employees Pension Fund	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
State Bank Of Travancore	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
Coal Mines Provident Fund	2006	24.02.2006	7.00	70	0.10	118	8.25%	24.10.2015
Idbi Capital Market Services Ltd	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Cesc Limited Provident Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
State Bank Of Patiala Employees Pension Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Bank Of Baroda Provident Fund Trust	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
Bank Of Baroda Gratuity Fund	2006	24.02.2006	5.00	50	0.10	118	8.25%	24.10.2015
South Indian Bank Employees Provident Fund	2006	24.02.2006	3.00	30	0.10	118	8.25%	24.10.2015
Chairman The Dhanlaskhmi Bank Ltd. Staff Provident Fund Trust	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
Bhel Employees Provident Fund	2006	24.02.2006	1.00	10	0.10	118	8.25%	24.10.2015
J&K Bank Employees Provident Fund Trust	2006	24.02.2006	4.00	40	0.10	118	8.25%	24.10.2015
J&K Bank Employees Gratuity Fund Trust	2006	24.02.2006	4.00	40	0.10	118	8.25%	24.10.2015
J&K Bank Employees Pension Fund Trust	2006	24.02.2006	2.00	20	0.10	118	8.25%	24.10.2015
State Bank Of Saurashtra	2006	24.02.2006	10.00	100	0.10	118	8.25%	24.10.2015
Central Board Of Trustees Employees Provident Fund	2006	28.04.2006	300.00	3,000	0.10	120	8.60%	04.02.2016

Commission and Brokerage

In July 2001 the bank issued American Depository Shares (ADS) amounting to US\$ 172.5 million. In January 2005 the bank issued ADS amounting to US\$ 300 million. With regard to the July 2001 ADS issue, the bank paid underwriting commission @ 4.0% of the total issue amount to the underwriters. With regard to the ADS issue of January 2005, the bank paid underwriting commission @ 2.9 % of the total issue amount to the underwriters.

Offer Otherwise than for Cash

There have not been any issues for consideration other than cash, save as except stated elsewhere in the Shelf Memorandum of Information.

Option to Subscribe

Save as otherwise stated in the Shelf Memorandum of Information, the bank has not given any person nor does it propose to give any person any option to subscribe to the bonds of the bank.

Undertaking regarding purchase of property

There is no property which the bank has purchased or acquired or proposes to purchase or acquire, which is to be paid for, wholly or partly, out of the proceeds of the present Issue or the purchase or acquisition of which has not been completed on the date of issue of this Shelf Memorandum of Information, other than the property as given hereunder:

- the contracts for the purchase or acquisition whereof were entered into, or may be entered into, in the ordinary course of the bank's business, such contracts not being made in contemplation of the Issue or in consequence of the contract; or
- in respect of which the amount of the purchase consideration is not material.

The bank has not purchased any property in which any of its directors had or have any direct or indirect interest or in respect of any payment thereof. The bank has no plans, at present, to acquire any running business out of the proceeds of the Issue.

Terms of Appointment of Chief Executive Officer

Mr. Aditya Puri has been the Managing Director of the bank since September 1994. At the Annual General Meeting of the bank held on May 26, 2004, he was re-appointed as Managing Director of the bank from September 30, 2005 to March 31, 2007 upon revised terms and conditions. The Reserve Bank of India has approved the remuneration of the Managing Director w.e.f April 1, 2004.

The details of remuneration paid to the Managing Director during the year 2005-06 are:

Break up of remuneration	Amount (Rs.)
Basic	72,00,000
Allowance	61,508
Performance Bonus (For F.Y. 2004-05)	36,05,000
Provident Fund	8,64,000
Superannuation	10,80,000

In addition to the above, the Managing Director is eligible for gratuity as per the Payment of Gratuity Act, 1972.

Perquisites (evaluated as per Income Tax Rules wherever applicable and at actual cost to the bank, otherwise) such as the benefit of the bank's furnished accommodation, gas, electricity, water and furnishings, club fees, personal accident insurance, use of car and telephone at residence, medical reimbursement, leave and leave travel concessions, provident fund, super annuation and gratuity were provided in accordance with the rules of the bank in this regard.

Terms of Appointment of Chairman

Mr. Jagdish Capoor was appointed as part-time Chairman of the bank for a period of three years with effect from July 6, 2001. At the Annual General Meeting of the bank held on May 26, 2004, the shareholders approved the re-appointment of Mr. Capoor as Chairman on a part-time basis for three years beginning July 6, 2004 upon revised terms and conditions. During e fiscal 2005-06, Mr. Capoor was paid a remuneration of Rs. 9,00,000/- Mr. Capoor has not availed of the benefit of Bank's leased accommodation.. Mr. Capoor is also paid sitting fees for attending the Board and Committee meetings. The remuneration of the Chairman has been approved by the Reserve Bank of India.

Payment or Benefit to the Directors and Officers of the bank

Except the benefits as provided under the relevant rules framed by the Board of Directors of the bank and the Reserve Bank of India from time to time, the Directors of the bank are not eligible to any additional benefits upon termination of employment. The bank pays sitting fees of Rs. 20,000/- per meeting to the non-executive directors for attending meetings of the Board and its various Committees except the Investors' Grievance (Share) Committee where the sitting fees is Rs. 5,000 per meeting.

**Nature and Interest of Directors**

No Director is interested in the appointment of any of the intermediaries to the issue such as registrars, trustees, credit rating agencies etc. No Director of the bank is interested in any property acquired by the bank within two years of the date of the Shelf Memorandum of Information or proposed to be acquired by it. The Directors are not interested in any loan or advance given by the bank to any person(s)/ Company(ies) nor is any beneficiary of such loan or advance related to any of the Directors of the bank.

Capitalisation of Reserves or Profits

The bank has never capitalised its Reserves, since its incorporation.

F. MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

The main provisions of the Articles of Association of the bank (hereinafter referred to as the Article(s) are reproduced below.

SHARE CERTIFICATES

The certificates of title to shares shall be issued under the Common Seal of the Company which shall be affixed in the presence of and shall be signed by :

- (i) two Directors or persons acting on behalf of the Directors under a duly registered Power of Attorney, and
 - (ii) the Secretary or some other person appointed by the Board for the purpose;
- provided that at least one of the aforesaid two Directors shall be a person other than a Managing or Wholetime Director. A Director may sign a share certificate by affixing his signature thereon by means of any machine, equipment or other mechanical means such as engraving in metal or lithography. PROVIDED ALWAYS that notwithstanding anything contained in this article the certificates of title to shares.

FORFEITURE AND LIEN

If money payable on share not paid, notice to be given to member

If any member fails to pay any call or instalment of a call on or before the day appointed for the payment of the same or any such extension thereof as aforesaid, the Board of Directors may, at any time thereafter while the call or instalment remains unpaid, give notice to him requiring him to pay the same together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non-payment.

Terms of Notice

The notice shall name a day (not being less than fourteen days from the date of the notice) and a place or places, on and at which such call or instalment and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which the call was made or instalment is payable, will be liable to be forfeiture.

In default of payment shares to be forfeited

If the requirements of any such shares notice as aforesaid are not complied with, any shares in respect of which such notice has been given may, at any time thereafter and before payment of all calls or instalments, interest and expenses due in respect thereof be forfeited by a resolution of the Board of Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

Notice of forfeiture to a member

When any share shall have been so forfeited notice of the forfeiture shall be given to the

member in whose name it stood immediately prior to the forfeiture and an entry of the forfeiture, with the date thereof, shall forthwith be made in the Register.

Any share so forfeited, shall be deemed to be the property of the Company, and may be

sold, re-allotted or otherwise disposed of, either to the original holder thereof or to any other person, upon such terms and in such manner as the Board of Directors may think fit.

Power to annul forfeiture.

The Board of Directors may, at any time before any share so forfeited shall have been sold, reallocated or otherwise disposed of, annul the forfeiture thereof upon such conditions as it thinks fit.

Member liable to pay money owing at time of forfeiture and interest

Any Member whose shares have been forfeited shall, notwithstanding the forfeiture, be liable to pay and shall forthwith pay to the Company, on demand, all calls, instalments, interest, expenses and other moneys owing upon or in respect of such shares at the time of the forfeiture together with further interest thereon from the time of the forfeiture until payment at such rate as the Directors may determine and the Directors may enforce the payment of the whole or a portion thereof if they think fit but shall not be under any obligation to do so.

Effect of forfeiture

The forfeiture of a share shall involve extinction, at the time of the forfeiture, of all interest in and all claims and demands against the Company, in respect of the share and all other rights incidental to the share, except only such of those rights as by these presents are expressly saved.

Company's lien on shares

The Company shall have no lien on its fully paid-up shares. In the case of partly paid-up shares, the Company shall have a lien only to the extent of all moneys called or payable at a fixed time in respect of such shares. Otherwise such partly paid-up shares shall be free from any lien of the Company. Any lien on shares shall extend to all dividends from time to time declared in respect of such shares, Unless otherwise agreed, the registration of a transfer of shares shall operate as a

waiver of the Company's lien, if any, on such shares. The Board of Directors may at any time declare any shares to be wholly or in part exempt from the provisions of this clause.

Enforcement of lien by sale

For the purpose of enforcing such lien, the Board of Directors may sell the shares subject thereto in such manner as they shall think fit, but no sale shall be made unless a sum in respect of which the lien exists is presently payable and until notice in writing of the intention to sell, shall have been served on such member, or the person (if any) entitled by transmission to the shares and default shall have been made by him in payment of the sum payable as aforesaid for fourteen days after such notice.

Application of proceeds of sale

The net proceeds of any such sale after payment of the costs of such sale shall be applied in or towards satisfaction of all moneys called and payable in respect of such shares and the residue (if any) paid to such member or the person (if any) entitled by transmission to the shares so sold. Provided that the amount so paid to such member or person shall not exceed the amount received by the Company from such Member or person towards such shares.

Validity of sale under Articles 42 and 47

Upon any sale after forfeiture or enforcing a lien in purported exercise of the powers hereinbefore given the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register in respect of the shares sold, and the purchaser shall not be bound to see to the regularity of the proceedings or to the application of the purchase money and after his name has been entered in the Register in respect of such shares, the validity of the sale shall not be impeached by any person and the remedy (if any of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

Neither a judgement nor a decree in favour of the Company for calls or other moneys due in respect of any shares nor any part payment or satisfaction there under nor the receipt by the Company of a portion of any money which shall from time to time be due from any Member in respect of any shares either by way of principal or interest nor any indulgence granted by the Company in respect of payment of any money shall preclude the forfeiture of such shares as herein provided.

A certificate in writing under the hand of any Director or the Secretary or such other person as may be authorised, from time to time that the call in respect of a share was made and that the forfeiture of the share was made by a Resolution of the Directors to that effect, shall be conclusive evidence of the fact stated therein as against all persons entitled to such share.

Application of forfeiture

The provisions of the Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of the issue of a share becomes payable at a fixed time, whether on account of the amount of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

TRANSFER AND TRANSMISSION OF SHARES

Execution and Registration of transfer etc.

No transfer shall be registered unless a proper instrument of transfer has been delivered to the Company. Every such instrument of transfer shall be duly stamped and executed both by the transferor and transferee and duly attested. The transferor shall be deemed to remain as the holder of such share until the name of the transferee shall have been entered in the Register in respect thereof.

Form of transfer

The instrument of transfer of any share shall be in the prescribed form and in accordance with the requirements of Section 108 of the Act.

Provided that where on an application in writing made to the Company by the transferee and bearing the stamp required for an instrument of transfer, it is proved to the satisfaction of the Board of Directors that the instrument of transfer signed by or on behalf of the transferor and by or on behalf of the transferee has been lost, the Company may register the transfer on such terms as to indemnity as the Board may think fit.

Directors' right to decline to register transfer

Notwithstanding anything contained herein, but subject to the provisions of Section 111

of the Act and subject to the provisions of the Securities Contracts (Regulation) Act, 1956 and the Rules and Regulations made there under and other applicable laws, the Directors may at their absolute and uncontrolled discretion decline to register or acknowledge any transfer of shares and shall not be bound to give any reason for such refusal and in particular may so decline in respect of the shares upon which the Company has a lien or whilst any monies in respect of the shares desired to be transferred or any of them remain unpaid and such refusal shall not be affected by the fact that the proposed transferee is already a Member. Provided that registration of any transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever. (Article 55(b) and Article 55(c) deleted and Article 55(a) renumbered as Articles 55 vide special resolution passed at the Extraordinary General Meeting held on October 24, 1994). 55 (A) No person / group of persons shall acquire any shares of the Company which would take his/her/its holding to a level of 5% or more (or any such percentage imposed by Reserve Bank of India from time to time) of the total issued capital of the Company unless prior approval of the Reserve Bank of India has been obtained by such person / group of persons. (This article has been inserted vide special resolution passed at the Annual General Meeting held 1st June, 2001)

If the Board of Directors refuse to register a transfer of any shares, they shall, within one month from the date on which the transfer was lodged with the Company, send to the transferee and the transferor notice of the refusal. This Article has been amended vide special resolution passed at 2nd Annual General Meeting held on 14th August, 1996.

Subject to the provisions of the Act and other applicable laws, the Directors may at their absolute discretion approve a minor, an insolvent or a person of unsound mind becoming a Member of the Company on such terms as the Directors may stipulate.

Transfer to be presented with evidence of title

Every instrument of transfer shall be presented to the Company duly stamped for registration accompanied by the certificate or certificates of the shares to be transferred and such other evidence as the Board of Directors may require to prove the title of the transferor, his right to transfer the shares and generally under and subject to such condition and regulation as the Board of Directors shall from time to time prescribe; and every registered instrument of transfer shall remain in the custody of the Company until destroyed by order of the Board of Directors. But any instrument of transfer which the Board of Directors may decline to register shall be returned to the person lodging the same.

No fee on transfer transmission etc

No fee shall be charged for registration of transfer or for effecting transmission or for registering any probates, letters of administration and other similar documents.

Transfer Books when closed

The Board of Directors shall have power on giving not less than twenty one days previous notice by advertisement in some newspaper circulating in the district in which the Company's Registered Office is situated, to close the transfer books, the Register of Members and/or the Register of Debenture holders at such time or times and for such period or periods, not exceeding thirty days at a time and not exceeding in the aggregate forty-five days in each year, as the Board may deem expedient.

Share of deceased member

The executors or administrators of a deceased member shall be the only persons recognised by the Company as having any title to his share except in cases of joint holders, in which case the surviving holder or holders or the executors or administrators of the last surviving holders shall be the only persons entitled to be so recognised; but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share jointly held by him. The Company shall not be bound to recognise such executor or administrator, unless he shall have obtained probate or letters of administration or other legal representation, as the case may be, from a competent court in India. Provided nevertheless that in case, which the Board in its discretion considers to be special cases and in such cases only, it shall be lawful for the Board to dispense with the production of probates or letters of administration or such other legal representations upon such terms as to indemnity, publication of notice or otherwise as the Board may deem fit.

Registration of person entitled to shares otherwise than by transfer (transmission clause)

Any person becoming entitled to shares in consequence of the death, lunacy bankruptcy or insolvency of any member or by any lawful means other than by a transfer in accordance with these presents, may, with the consent of the Board (which the Board shall not be under any obligation to give), upon producing such evidence that he sustains the character in respect of which he proposes to act under the Article, or of his title, as the Board of Directors think sufficient, be registered as a member in respect of such shares, or may, subject to the regulations as to transfer hereinabove contained, transfer such shares. This clause is hereinafter referred to as "the transmission clause".

Board may require evidence of transmission

Every transmission of a share shall be verified in such manner as the Directors may require and the Company may refuse to register any such transmission until the same be so verified or until or unless an indemnity be given to the Company with regard to such registration which the Directors at their discretion shall consider sufficient, provided nevertheless that there shall not be any obligation of the Company or the Directors to accept any indemnity.

Company not liable for disregard of notice prohibiting registration of a transfer

The Company shall incur no liability or responsibility whatever in consequence of its registering or giving any effect to any transfer of shares, made or purporting to be made by any apparent legal owner thereof (as shown or appearing in the Register) to the prejudice of a person having or claiming any equitable right, title or interest to or in the said shares not withstanding that the Company may have had notice of such equitable right, title or interest, or notice prohibiting registration of such transfer and may have entered such notice referred hereto in any book or record of the Company, and the Company shall not be bound or required to regard or to attend or give effect to any notice which may be given to it of any equitable right, title or interest, or be under any liability whatsoever for refusing or neglecting so to do, notwithstanding that the notice may have been entered in or referred to in some book or record of the Company, but the Company shall nevertheless, be at liberty to regard and attend to any such notice, and give effect thereto if the Board of Directors shall so think fit.

The Board may in its absolute discretion refuse applications for the sub-division of share certificates, debenture or bond certificates into denominations of less than the marketable lot except when such sub-divisions is required to be made to comply with a statutory provision or an order of a competent court of law.

Transfer of Debentures

The provisions of these articles shall mutatis mutandis apply to the transfer of debentures and other securities of the Company or transmission thereof by operation of law.

BORROWING POWERS**Power to Borrow**

The Directors may, from time to time, by a resolution passed at a meeting of the Board and not by circulation, borrow moneys for the purpose of the Company. Provided that the Directors shall not borrow moneys except with the approval of the Company in General Meeting, where moneys to be borrowed together with the money already borrowed by the Company, apart from temporary loans obtained in its ordinary course of business and except as otherwise provided hereafter, shall exceed the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose. Provided that:-

- (i) nothing contained hereinabove shall apply to any sums of moneys borrowed by the Company from any other banking companies or from the Reserve Bank, State Bank of India or any other banks established by or under any law for the time being in force; and
- (ii) acceptance by the Company in the ordinary course of business of deposits of money shall not be deemed to be borrowing of moneys by the Company for the purpose aforesaid.
- (iii) the expression "temporary loans" means loans repayable within six months from the date of the loan.

Subject to the provisions of the Act and the Banking Regulation Act, 1949, and these Articles the Directors may raise and secure the payment of such sum or sums in such manner and upon such items and conditions in all respects as they think fit and in particular by the issue of bonds or redeemable debentures of debenture-stock, or any mortgage or charge or other security on the undertaking of the whole or any part of the property of the Company (both present and future). Provided however that the Company shall not create:

- (a) Charge upon any unpaid capital of the Company;

Terms of issue of debentures

Any debenture stock or other securities may be issued at a discount, premium or otherwise and may be issued on condition that they shall be convertible into shares of any denomination, and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares and attending general meeting of the Company and the right to appoint Directors and others. Debentures carrying the right of conversion into or allotment of shares may be issued to the Public Financial Institution, specified by the Central Government in the Rules framed pursuant to clause (a) of the proviso to sub-clause (3) of section 81 of the Act provided that the terms of issue of such debentures is in the said rules. Provided however that Debentures carrying the right of conversion into or allotment of shares shall not be issued to anyone except with the consent accorded by the bank in General Meeting.

This Article has been amended vide special resolution passed at 2nd Annual General Meeting held on 14th August, 1996.

Any bonds, debenture stock or other securities issued or to be issued by the Company shall be under the control of the Directors who may issue them upon such terms and conditions and in such manner and for such consideration as they shall consider to be for the benefit of the Company 73. Debentures, debenture stock, bond or other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

Annual General Meetings

The Directors shall cause a proper register to be kept in accordance with the provisions of Section 143 of the Act of all mortgages and charges specifically affecting the property of the Company, and shall duly comply with requirements of the said Act in regard to registration of mortgages and charges and of copies of instruments creating charges. Such sum as may be prescribed by the Act shall be payable by any person other than a creditor or Member of the Company for each inspection of the Register of Charges.

VOTES OF MEMBERS

Votes may be given by proxy or attorney

Subject to the provisions of the Act and these Articles, votes may be given either personally or by an attorney or by proxy or, in the case of a body corporate, by a representative duly authorised under Section 187 of the Act.

Number of Votes to which members entitled

Subject to any rights or restrictions for the time being attached to any class or classes of shares :-

- (a) on a show of hands, every member present in person shall have one vote; and
- (b) on a poll, the voting rights of members shall be as laid down in Section 87 of the Act.

Provided however that the voting rights shall be subject to the restrictions imposed under Section 12 (2) of the Banking Regulation Act, 1949 as amended.

No voting by proxy on show of hands

No member not personally present shall be entitled to vote on a show of hands unless such member is represented by an Attorney or unless such member is a body corporate present by a representative duly authorised under Section 187 of the Act in which case such Attorney or representative may vote on a show of hands as if he were a member of the Company.

A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee or other legal guardian and any such committee or guardian may, on a poll, vote by proxy.

A body corporate (whether a company within the meaning of the Act or not) may if it is Member duly authorised by a resolution of its Directors or other governing body, appoint a person to act as its representative at any meeting in accordance with the provisions of section 187 of the Act. The Production at the meeting in accordance with the provisions of Section 187 of the Act. The production at the meeting of a copy of such resolution duly signed by one Director of such body corporate or by a member of its governing body and certified by him as being a true copy of the resolution shall on production at the meeting be accepted by the Company as sufficient evidence of the validity of his appointment.

Votes in respect of Shares of deceased and bankrupt members

Any person entitled under the transmission clause (Article 62 hereof) to transfer any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that at least forty-eight hours before the time of holding the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of Directors or any persons authorised by the Board of Directors in that behalf of his right to transfer such shares, or the Directors shall have previously admitted his right to transfer such shares or his right to vote at such meeting in respect thereof.

Joint holder

Where there are any joint registered holders of any share any one of the joint holders may vote at any meeting either personally or by an Attorney duly authorised under a power of attorney or by proxy in respect of such share as if he were solely entitled thereto; and if more than one of such joint holders be personally present at any meeting then one of the said persons so present whose name stands first or higher in the Register in respect of such share shall be entitled to vote in respect thereof.

Instrument appointing proxy

(a) Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint any other person (whether a member or not) as his proxy to attend and vote instead of himself, but a proxy so appointed shall not have any right to speak at the meeting.

(b) the instrument appointing the proxy shall be in writing under the hand of the appointees or of his Attorney duly authorised in writing or if such appointer is a corporation, under its common seal or be signed by an officer or an attorney duly authorised by it. A person may be appointed a proxy though he is not a member of the Company, but such proxy shall not have any right to speak at any meeting.

Members' right to appoint proxy to be stated in notice

Every notice convening a General Meeting of the Company shall state that a member entitled to attend and vote at the meeting is entitled to appoint proxy to attend and vote instead of himself and that a proxy need not be a member of the Company.

Instrument appointing proxy to be stated in notice

The instrument appointing a proxy and the power of Attorney or other Authority (if any) under which it is signed or a materially certified copy of that power of authority shall be deposited at the Registered Office of the Company not less than forty-eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

When vote by proxy valid though authority revoked

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal revocation of the proxy or transfer of the share in respect of which the vote is given provided no intimation in writing of the death, revocation or transfer shall have been revived at the Registered Office of the Company or by the Company or by the Chairman of the meeting at which the vote is given.

Form of proxy

Every instrument of proxy whether for a specified meeting or otherwise shall, as nearly as circumstances shall admit, be in any of the forms set out in Schedule IX of the Act.

Time and place to inspect the proxies lodged

Every member entitled to vote at a meeting of the Company according to the provisions of these Articles on any resolution to be moved thereat shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the Company, provided not less than three days notice in writing of the intention so to inspect is given to the Company.

No member entitled to vote when any call due to Company

No member shall be entitled to vote at any General Meeting either personally or by proxy or as proxy for another member or be reckoned in a quorum while any call or other sum shall be due and payable to the Company in respect of any of the shares of such member or in respect of any shares on which the Company has or had exercised any right of lien.

ROTATION OF DIRECTORS**Retirement of Directors by rotation**

- (a) Two-thirds of the total number of Directors of the Company shall be persons whose period of office is liable to determination by retirement of Directors by rotation and save as otherwise expressly provided in the Act and these Articles, be appointed by the Company in General Meeting.
- (b) The remaining Directors shall be appointed in accordance with the provisions of these Articles.

Ascertainment of Directors retiring by rotation and eligibility for re-appointment

- (a) At every General Meeting of the Company one-third of such of the Directors for the time being as are liable to retire by rotation, or if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office. Special Directors, Managing Director or any whole-time Directors, if any, shall not be subject to retirement under this Article and shall not be taken into account in determining the number of Directors to retire by rotation. In these Articles a 'Retiring Director' means a Director retiring by rotation.

Company to appoint successors

- (b) Subject to Sections 262 (2) and 284 (5) of the Act, the Directors to retire by rotation under the foregoing Article, at every Annual General Meeting shall be those who have been longest in office since their last appointment, but as between persons who become Directors on the same day, those who are to retire shall, in default of and subject to any agreement among themselves, be determined by lot. The retiring Director shall be eligible for re-appointment.

Subject to Sections 257, 258, 259 and 284 of the Act, the Company at the Annual General Meeting at which a Director retires in the manner aforesaid may fill up the vacancy by appointing the retiring Director or some other person thereto.

Provision in default of appointment

- (a) If the place of the retiring Director is not filled up and the meeting has not expressly resolved not to fill the vacancy, the meeting shall stand adjourned till the same day in the next week at the same time and place, or if that day is a public holiday till the next succeeding day which is not a public holiday at the same time and place.
- (b) If at the adjourned meeting also, the place of the retiring Director is not filled up and that meeting also has not expressly resolved not to fill the vacancy the retiring Director shall be deemed to have been re-appointed at the adjourned meeting,

unless :-

- (i) at that meeting or at the previous meeting a resolution for the re-appointment of such Director has been put to the meeting and lost ;
- (ii) the retiring Director, has by a notice in writing addressed to the Company or its Board of Directors, expressed his unwillingness to be so re-appointed ;
- (iii) he is not qualified or is disqualified for appointment.
- (iv) the proviso to sub-section (2) of section 263 and sub-section (3) of Section 280 of the Act is applicable to the case.

Single Resolution for the appointment of several Directors prohibited

At a General Meeting of the Company, a motion shall not be made for the appointment of two or more persons as Directors of the Company by a single resolution, and the provisions of Section 263 of the Act in this behalf shall apply in all respects.

Company may increase or reduce the number of Directors

Subject to Sections 255 and 259 of the Act, the Company may, by Ordinary Resolution, from time to time increase or reduce the number of Directors, within the limits fixed in that behalf by these Articles.

Removal of Directors

Subject to the provisions of Section 284 of the Act, the Company may remove any Director before the expiration of his period of office and appoint another person in his stead. The person so appointed shall hold office until the date up to which the Director, in whose place he is appointed, would have held the same if he had not been removed.

Notice of candidature for office of Directors

- (a) Subject to the provisions of the Act and these Articles any person who is not a retiring Director shall be eligible for appointment to the office of Director at any General Meeting if he or some member intending to propose him has, at least fourteen clear days before the meeting, left at the office of the Company a notice in writing under his hand signifying his candidature for the office of Director or the intention of such member to propose him as a candidate for the office as the case may be.
- (b) Every person (other than a person who has left at the office of the Company a notice under Section 257 signifying his candidature for the office of a Director) proposed as a candidate for the office of a Director shall sign and file with the Company, his consent in writing to act as a director if appointed.
- (c) A Director other than :
- (i) A director re-appointed after retirement by rotation or immediately on the expiry of his term of office : or
- (ii) An additional or alternative Director or a person filling a casual vacancy in the office of a Director under Section 262 of the Act, appointed as a Director or re-appointed as an additional or alternative Director immediately upon the expiry of his term of office : or
- (iii) A person named as a Director of the Company under the Articles as first Director, shall not act as a Director of the Company unless he has within thirty days of his appointment signed and filed with the Registrar of Companies his consent in writing to act as such Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

Meetings of Directors

The Directors may meet together at a Board for the despatch of business from time to time, and shall so meet at least once in every three months and at least four such meetings shall be held in every year. The Directors may adjourn and otherwise regulate their meetings and proceedings as they may think fit.

When meeting to be convened

The Chairman may at any time and the Secretary or such other officer of the Company as authorised, shall, upon the request of any Director, convene a meeting of the Board of Directors. Notice of every meeting of the Directors shall be given in writing to a very Director at his usual address in India and, in the case of any Director residing abroad, such notice shall also be given by fax or telex to such Director's fax or telex number abroad. (Article 145 deleted and substituted by new Article vide special resolution passed at the Extraordinary General Meeting held on October 24, 1994).

Quorum

Subject to Section 287 of the Act, the quorum for a meeting of the Board of Directors shall be one-third of its total strength (excluding Directors, if any, whose place may be vacant at that time and any fraction contained in that one-third being rounded-off as one), or two

Directors, whichever is higher, provided that where at any time the number of interested. Directors exceeds or is equal to two-thirds of the total strength of the number of the remaining Directors, that is to say, the number of directors who are not interested and present at the meeting being not less than two, shall be the quorum during such time.

Adjournment of Meeting for want of Quorum

If a meeting of the Board cannot be held for want of quorum, then the meeting shall stand adjourned to such day, time and place as the Director or Directors present at the meeting may fix.

Power of Board Meeting

A Meeting of the Board for the time being at which a quorum is present shall be competent to exercise all authority, powers and discretions which by or under the Act or the Articles of the Company are for the time being vested in or exercisable by the Board of Directors generally.

Directors may appoint Committees and delegate powers

The Directors may subject to the provisions of the Act and the Banking Regulation Act, 1949, delegate any of their powers to Committees consisting of such member or members of their body as they think fit and they may from time to time revoke such delegation. Any committee so formed shall in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed on it by the Directors.

Meetings of Committees

The meetings and proceedings of any such committee of the Board consisting of two or more members shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Directors, so far as the same are applicable thereto and are not superseded by any regulations made by the directors under the last preceding Article.

Resolution of Circulation

No resolution shall be deemed to have been passed by the Board or by a Committee thereof by circulation, unless

- (a) the resolution has been circulated in draft together with the necessary papers, if any, to all the Directors or to all the members of the Committee at their usual address in India, and in the case of any Director residing abroad, such papers shall also be transmitted by fax or telex to such Director's fax or telex numbers abroad, and
- (b) the resolution has been approved by majority of directors or members of the Committee who are entitled to vote on the resolution. (Article 151 deleted and substituted by new Article vide special resolution passed at the Extraordinary General Meeting held on October 24, 1994).

Act of Board or Committee Valid notwithstanding defective appointment etc

All acts done by any meeting of the Board or by a Committee of the Board, or by any person acting as a Director, shall, notwithstanding that it shall afterwards be discovered that there were some defects in the appointment of such Directors or Committee or person acting as a aforesaid, or that they or any of them were disqualified or had vacated

office, or that the appointment of any of them had been terminated by virtue of any provisions contained in the Act or in these Articles, by as valid as if every such person had been duly appointed and was qualified to be a Director and had not vacated office or his appointment had not been terminated. Provided nothing in the Article shall be deemed to give validity to acts done by a Director after his appointment has been shown to the Company to be invalid or to have been terminated.

Minutes of proceedings of Directors and Committees to be recorded

The Company shall cause minutes of the proceedings of every meeting of the Board of Directors and of every Committee of the Board to be recorded in accordance with the relevant provisions of Section 193 of the Act, within thirty days of the conclusion of every such meeting and the minutes shall contain the matters specified in the said Section.

By whom minutes to be signed and the effect of minutes recorded

The minutes of all such meetings shall be signed by the Chairman of the respective meetings or by the Chairman of the next succeeding meeting and all minutes purported to be so signed shall for all purposes whatsoever be prima facie evidence of the actual passing of the resolutions recorded and the actual and regular transactions or occurrences of the proceedings so recorded and of the regularity of the meeting at which the same shall appear to have taken place.

Registers, Books and Documents to be maintained by the Company

The Company shall maintain the following Registers, Books and Documents, namely :-

- Register of investments not held in the Company's name according to Section 49 of the Act.
- Register of Mortgages and Charges according to Section 143 of the Act.
- Register or Members and an Index of Members according to Sections 150 and 151 of the Act.
- Register of Contracts, Companies and Firms in which Directors are interested according to section 301 of the Act.
- Register and index of Debenture holders according to Section 152 of the Act.
- Register of directors according to Section 303 of the Act.
- Register of Directors' Shareholdings according to Section 307 of the Act.
- Books of Account in accordance with the provisions of section 209 of the Act.
- Copy of instruments creating any charge requiring registration according to Section 136 of the Act.
- Copies of Annual Returns prepared under Section 159 of the Act together with the copies of certificates and documents required to be annexed thereof under Section 161.
- Register of Renewed and Duplicate Certificates according to Rule 7 (2) of the Companies (Issue of Share Certificates) Rules, 1960.
- Foreign Register, if applicable as required by Section 157 of the Act.
- Other Registers or Books, if any as may be required to be maintained under the Banking Regulation Act, 1949.

Inspection of Registers etc

Subject to the provisions of the Banking Regulation Act, 1949, the said Registers, Books and Documents shall be kept open for inspection by such persons as may be entitled thereto respectively, under the Act on every working day during the hours between 11 a.m. and 1 p.m., consistent with the provisions for the Act in that behalf, and copies thereof and extracts there from may be furnished as provided in the Act.

POWERS OF DIRECTORS

Power of Directors

The management and control of the business of the Company shall be vested in the Directors who may exercise all such powers of the Company and do all such acts and things as are not by the act or any statutory modification thereof for the time being in force or by any other Act or any statutory modification thereof for the time being in force or any other Act by the Memorandum or by these Articles required to be exercised by the Company in General Meeting, subject nevertheless to any regulation of these Articles and the provisions of the Act or any statutory modification thereof for the time being in force or any other Act and to such regulations, being not inconsistent with the aforesaid regulations or provisions as may be prescribed by the Company in General Meeting but no regulation made by the Company in General Meeting shall invalidate any prior act of the Board which would have been valid if that regulation had not been made. Provided that the Board of Directors shall not, except with the consent of the Company in General Meeting : -

Sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company, or where the Company owns more than one undertaking, of the whole or substantially the whole of any such undertaking :

Remit or give time for the repayment of any debt due by a Director

Invest otherwise than in trust securities, the amount of compensation received by the Company in respect of compulsory acquisition of any such undertaking as is referred to in clause (a) or of any premises or properties used for any such undertaking and without which it cannot be carried on or can be carried on only with difficulty or only after a considerable time :

Borrow money in excess of the limits provided in Article 69 :

Contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed fifty thousand rupees or five percent of its average net profits as determined in accordance with the provisions of Section 349 and 350 of the Act during the three financial years immediately preceding, whichever is greater;

Provided that in respect of the matters referred to in clauses (d) or (e) every resolution passed by the Company in General Meeting shall specify the total amount up to which moneys may be borrowed by the Board under clause (d) or as the case may be, the total amount which may be contributed to charitable or other funds in any financial year under clause (e).

Contribution to Political Parties

Notwithstanding anything contained in the Act or these Articles, neither the Company in General Meeting nor the Board shall contribute any amount to any political party or for any political purpose, to any individual or body so long as such contribution is prohibited by law.

Certain powers to be exercised only at meetings of the Board

Without derogating from the powers vested in the Board of Directors under these Articles the board shall exercise the following powers on behalf of the Company and they shall do so only by means of resolutions passed at meetings of the Board:-

- (a) The power to make calls on shareholders in respect of money unpaid on their shares ;
- (b) The power to issue debentures ;
- (c) The power to borrow moneys otherwise than on debentures ;
- (d) The power to invest the funds of the Company ;
- (e) The power to make loans ;

Provided that the Board may by resolution passed at a meeting delegate to any Committee of Directors or to the Managing Director or/and other principal officer of the Company or to a principal officer of any of its branch offices, the powers specified in (c), (d) and (e) of this clause to the extent specified below on such conditions as the Board may prescribe.

Every resolution delegating the power referred to in Clause (1) (c) shall specify the total amount outstanding at any one time up to which moneys may be borrowed by the delegates; Provided however, that where the Company has an arrangement with its Bankers for the borrowing of moneys for the day to day operations, such borrowing shall not require the sanction of the Board.

every resolution delegating the power referred to in Clause (1) (d) shall specify the total amount upto which the funds may be invested an the nature of the investments which may be made by the delegates.

Every resolution delegating the power referred to in clause (1) (c) shall specify the total amount upto which loans may be made by the delegates and the purpose for which the loan may be made and the maximum amount of loans which may be made for each such purpose in individual cases.

Nothing contained in this Article shall be deemed to affect the right of the Company in General Meeting to impose restrictions and conditions on the exercise by the Board of any of the powers referred to in (a), (b), (c), (d) and (e) of clause (1) above.

Specific powers of the Board

Without prejudice to the general powers conferred by the preceding Articles and so as not in any way to limit or restrict these powers, and without prejudice to the other powers conferred by these Articles but subject to the restrictions contained in the last preceding two Articles, and the provisions of the Banking Regulation Act, 1949, the Directors shall have the following powers, that is to say, power:-

To pay commission and interest

- a) To pay and charge to the capital account of the Company any commission or interest lawfully payable thereat under the provisions of Sections 76 and 208 of the Act.

To acquire property

- b) Subject to sections 292, 297 and 360 of the Act, to purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire at or for such price or consideration and generally on such terms and conditions as they may think fit, and in any such purchase or other acquisition to accept such title as all the then prevailing circumstances of the case may justify in the interests of the Company.

To have an official Seal abroad

- c) To have an official seal for use abroad.

To pay for property in debentures etc

- d) At their discretion and subject to the provisions of the Act, to pay for any property, rights or privileges acquired by or service rendered to the Company, either wholly or partly, in cash or in shares, bonds, debenture, mortgages, or other securities of the Company, and any such shares may be issued either as fully paid up and any such bonds, debentures, mortgages or securities may be either specifically charges upon all or any part of the property of the Company or not so charged.

To insure properties

- e) To insure and keep insured against loss or damage by fire or otherwise for such period and to such extent as they may think proper all or any part of the buildings, machinery, goods, stores, produce and other moveable property of the Company either separately or jointly, and to sell, assign, surrender or discontinue any policies of assurance effected in pursuance of this power.

To open accounts

- f) To open accounts with any banks or financial institutions in India or abroad and to pay money into and draw money from any such account from time to time as the Directors may think fit.

To secure contracts by mortgage

- g) To secure the fulfilment of any contracts, agreements or engagements entered into by the Company by mortgage or charge of all or any of the property of the Company or in such manner as they may think fit.

To appoint Trustees

- h) To appoint any person or persons (whether incorporated or not) to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purposes and to execute and to do all such acts and things as may be required in relation to any such trust, and to provide for the remuneration of such trustee or trustees.

To bring and defend actions etc

- i) To institute, conduct, defend, compound or abandon, any legal proceedings by or against the Company or its officers or otherwise concerning the affairs of the Company and also to compound and allow time for payment or satisfaction of any debts due or of any claims or demands by or against the Company or any differences to arbitration and observe perform implement and enforce any awards made thereon.

To act in matters relating to Insolvents.

- j) To act on behalf of the Company in all matters relating to bankrupts and insolvents.

To give receipts

- k) To make and give receipts, releases and other discharges for moneys payable to the Company and for the claim and demands of the Company.

To invest moneys

- l) Subject to the provisions of Sections 292, 293 (1), 295, 369, 370, 372 and 373 of the Act, to invest and deal with any moneys of the Company upon such security (not being shares of this Company), or without security and in such manner as they may think fit, and from time to time to vary or realise such investments, save as provided in Section 49 of the Act, all investments shall be made and held in the Company's own name.

To give security by way of indemnity

- m) To execute in the name and on behalf of the Company in favour of any Director or other person who may incur or be about to incur any personal liability whether as principal or surety, for the benefit of the Company, such guarantee or indemnity as it thinks fit. (Article 160 (m) deleted and substituted by new article vide special resolution passed at the extraordinary General Meeting held on October 24, 1994).

To authorise signing of receipts, cheques etc

- n) To determine from time to time who shall be entitled to sign, on the Company's behalf, bills, notes, receipts, acceptance, endorsements, cheques, dividend warrants, releases, contracts and documents and to give the necessary authority for such purpose.

To give gratuities etc

- o) To provide for the welfare of the Directors or Ex-Directors or the employees or ex-employees of the Company and the wives, widows and families of the dependents of such persons, by formulating schemes including the stock option scheme, by building or contributing to the building of houses, dwelling or chawls or by grants of money pensions, gratuities, allowances, bonus(es) or other payments or by creating and from time to time subscribing or contributing to provident and other associations, institutions, funds or trusts and by providing or subscribing or contributing towards places of instruction and recreation, hospitals and dispensaries, medical and other attendance and other assistance as the Board of Directors shall think fit; and to subscribe or contribute or otherwise to assist or to guarantee money to charitable, benevolent, religious, scientific, national or other institutions or objects or for any exhibition, or for any public, general or useful object, or purposes which in the opinion of the Board of Directors are likely to promote the interests of the business of the Company or to further its objects.

To establish reserve funds

- p) Subject to the provisions of Section 205A and other applicable provisions of the Act, and rules made thereunder from time to time, before recommending any dividend, to set aside out of the profits of the Company such sums as they may think proper for depreciation or to a depreciation fund, or to an insurance fund or as a reserve fund or sinking fund or any special fund to meet contingencies or to repay debentures or debenture stock, or for special dividends or for equalising dividends or for repairing, improving, extending and maintaining any of the property of the Company and for such other purposes (including the purposes referred to in the preceding clause), as the Board of Directors may, in their absolute discretion, think conducive to the interest of the Company; and to invest the several sums so set aside or so much thereof as required to be invested (other than in the shares of the Company) as they may think fit; and from time to time deal with and expend all or any part thereof, for the benefit of the Company, in such manner, and for such purpose as the Board of Directors, in their absolute discretion, think conducive to the interests of the Company, notwithstanding that the matters to which the Board of Directors shall apply or upon which they expend the same or any part thereof, may be matters to or upon which they expend the same or any part thereof, any be matters to or upon which they expend the same or any part thereof, may be matters to or upon which the Capital of the Company might rightly be applied or expended; and to divide the Reserve fund into such Special Fund, as the Board of Directors may think fit, and to employ the assets constituting all or any of the above funds, including the depreciation fund, in the business of the Company or in the purchase or repayment of debentures or debenture stock and that without being bound to keep the same separate from the other assets and without being to any interest on the same, with power however to the Board of Directors at their discretion to pay or allow to the credit of such funds interest at such rate as the Board of Directors may think proper.

To make appointments

- q) To appoint and, at their discretion, remove or suspend such managers, secretaries, officers, assistants, supervisors, clerks, agents and servants for permanent, temporary or special services as they may from time to time think fit, and to determine their powers and duties, and fix their salaries, emoluments or remuneration and to require security in such instances and to such amount as they may think fit and also without prejudice as aforesaid, from time to time to provide for the management and transaction of the affairs of the Company in any

specified locality in India or elsewhere in such manner as they think fit and the provisions contained in the two next following sub-clauses shall be without prejudice to the general powers conferred by this sub-clause.

Local Board

- r) From time to time and at any time to establish any Local Board for managing any of the affairs of the affairs of the Company in any specified locality in India or elsewhere and to appoint any persons to be members of such local board or any managers or agents and to fix their remuneration.

Delegation of powers to Local Board etc

- s) Subject to the provisions of Section 292 of the Act and Article 157 from time to time, and at any time to delegate to any such local Board, or any member or members thereof or any managers or agents so appointed any of the powers, authorities and discretions for the time being vested in the Board of Directors and to authorise the members for the time being of any such local Board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies; and any such appointment or delegation under clause(s) of this Article may be made on such terms and subject to such conditions as the Board of Directors may think fit, and the Board of Directors may at any time remove any person so appointed, and may annul or vary any such delegation.

Power of Attorney

- t) At any time and from time to time by Power of Attorney under the Seal of the company to appoint any person or persons to the Attorney or Attorneys of the Company for such purposes and with such powers, authorities and discretions and for such period and subject to such conditions as the Board of directors may from time to time think fit.

To enter into contracts etc

- u) Subject to Sections 294, 297 and 300 of the Act, for or in relation to any of the matters aforesaid or otherwise for the purposes of the Company, to enter into all such negotiations, arrangements and contracts and rescind and vary all such arrangements or contracts, and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purposes of the Company.

Delegation of power

- v) Generally subject to the provisions of the Act and these Articles, to delegate the powers, authorities and discretions vested in the Directors to any person, firm, Company or fluctuating body or persons as aforesaid.

To make laws

- w) From time to time, to make, vary and repeal bylaws for the regulations of the business of the Company, its officers, and servants.

To pay preliminary expenses

- x) To pay costs, charges and expenses incurred, and/or to be incurred, both preliminary and incidental to the promotion, formation, establishment and registration of the Company.

To acquire by purchase or lease, etc

- y) To acquire by purchase, lease or in exchange or otherwise lands, buildings, establishments, machinery, equipment, hereditaments, rights, privileges or properties, moveable or immovable.

To erect, pull down and rebuild buildings etc.

- z) To erect, construct, enlarge, improve, alter, maintain, pull down, rebuild or reconstruct any buildings, offices or other structure necessary or convenient for the purposes of the Company and to acquire the lands for the purposes of the Company.

To mortgage dispose of etc. of property

- aa) To let, mortgage, charge, sell or otherwise dispose of subject to the provisions of Section 293 of the Act, any property of the Company either absolutely or conditionally and in such manner and upon such terms and conditions in all respects as they think fit and to accept payment or satisfaction for the same in cash or otherwise as they think fit.

To attach conditions on transfer of shares issued for consideration other than cash.

- bb) To attach in respect of any shares to be issued as consideration or part of the consideration for any contract with or property acquired by the Company, or in payment for services rendered to the Company, such conditions, subject to the provisions of the Act, as to the transfer thereof as they may think fit.

Arbitration

- cc) To refer any claims or demands by or against the Company to arbitration and observe and perform the awards.

To establish funds and subscribe to these funds or other institutions, etc.

- dd) To establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of , and give or procure the giving of donations, gratuities, pensions, allowances to any persons who are or were at any time in the employment or service of the Company, or of any company which is subsidiary of the Company or with any such subsidiary company or who are or were at any time Directors or officers of the Company, or of any company which is subsidiary of the Company or with any such subsidiary Company or who are or were at any time Directors or officers of the Company or of any such other Company as aforesaid, and also establish and subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of, or to advance the interests and well- being of the Company or of any such other company as aforesaid, and make payments to or towards the insurance of any such person as aforesaid and do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid.
- ee) Subject to the provisions of the Act and these presents to delegate the powers, authorities and discretions vested in the directors to any person, firm, company or fluctuating body of persons as aforesaid.
- ff) Any such delegator attorney as aforesaid may be authorised by the Directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or them.

CHAIRMAN, MANAGING DIRECTOR OR WHOLE TIME DIRECTOR(S)

Chairman/Managing Director

- (a) The Board may appoint one of its Directors as Chairman either on whole-time or part-time basis. Where a Chairman is appointed on whole-time basis. He shall be entrusted with the management of the whole of the affairs of the Company and he shall exercise his powers subject to the superintendence, control and direction of the Board.
- (b) Where Chairman appointed on part-time basis, the Board shall appoint one of its Directors as Managing Director who shall be entrusted with the management of the whole of the affairs of the Company and he shall exercise his powers subject to the superintendence, control and direction of the Board.
- (c) The Chairman appointed on whole time basis or the Managing Director as the case may be shall have the knowledge and experience as required under section 10B(4) of the Banking Regulation Act, 1949.
- (d) The Chairman or as the case may be, the Managing Director who is entrusted with the management of the whole of the affairs of the company shall not be subject to retirement by rotation. He shall be in whole-time employment of the company and may be appointed by the Board for such period not exceeding five years at a time as the Board may deem fit. He shall be eligible for reappointment. Provided that nothing in this sub-section shall be construed as prohibiting a Chairman on whole-time basis or the Managing Director from being a Director of a subsidiary of this Company or a Director of a Company registered under Section 25 of the Act.
- (e) Where a Chairman is appointed on part-time basis and he possesses qualification, knowledge, experience or expertise useful to the Company, he may, in addition to the duties as Chairman, be called upon, if he is willing, to render such extra services on day to day basis, or by way of special assignment or in any other manner as the Board may decide. Such Chairman shall not be subject to retirement by rotation and may be appointed for such period not exceeding five years at a time as the Board may deem fit. He shall be eligible for reappointment.
- (f) Subject to the provisions of the Act, the Board may, from time to time, fix the remuneration payable to and other terms and conditions of service, of the Chairman whether appointed on whole-time or part-time basis or as the case may be, of the Managing Director.
- (g) All meetings of the Directors shall be presided over by the Chairman. But if at any meeting of the Directors the Chairman is not present at the time appointed for holding the same, then and in that case, the directors shall choose one amongst them, then present to preside at the meeting.
- (h) Questions arising at any Board Meeting shall be decided by a majority of votes, and in case of an equality of votes, the Chairman shall have second or casting vote.
- (i) So long as HDFC, its subsidiary or any other company promoted by HDFC, either singly or in the aggregate holds not less than 20% of the paid-up Share Capital of the Company,

- (j) HDFC shall nominate the part time Chairman and the Managing Director or the full time Chairman as the case may be, subject to the approval of the Board and the Company in General Meeting.
- (k) A chairman of the Board of Directors appointed on a whole time basis or a Managing Director, whose term of office has come to an end, either by reason of his resignation or by reason of expiry of the period of his office, shall, subject to the approval of the Reserve Bank, continue in office until his successor assumes office.
- (l) The appointment, reappointment, remuneration payable to and other terms and conditions of service of the Chairman, whether appointed on whole-time or part-time or part-time basis or as the case may be, of the Managing Director shall be subject to the approval of the Reserve bank of India and also subject to such approval as may be necessary under the Act.

Whole time Director(s)

In addition to the managing Director the Company may also appoint whole-time Directors. Subject to the provisions of the Act and these Articles, a Managing Director or a Wholetime Director shall not, while he continues to hold that office, be subject to retirement by rotation under the Act or these Articles but he shall, subject to the provisions of any contracts between him and the Company, be subject to the same provisions as to resignation and removal as the other Directors of the Company and he shall ipso facto immediately cease to be a Managing Director or Wholetime Director if he ceases to hold the office of Director for any cause.

Powers and Duties of managing or whole-time Director(s)

Subject to the superintendence, control and direction of the Board of Directors, the Board may from time to time entrust to and confer upon a Managing Director or Wholetime Director for the time being, save as prohibited in the Act, such of the powers exercisable under these presents by the Directors as they may think fit and may confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they think fit expedient and they may subject to the provisions of the Act and these Articles confer such powers, either collaterally with or to the exclusion of or in substitution for all or any of the powers of the Directors in that behalf, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

WINDING UP

Distribution of assets

If the Company shall be wound up, and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid up capital such assets shall be distributed so that as nearly as may be the losses shall be borne by the members in proportion to the capital paid-up, or which ought to have been paid-up, at the commencement of the winding up, on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the member shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital paid-up or which ought to have been paid up on the shares held by them respectively, at the commencement of the winding up. But this Article is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

(1) If the Company shall be wound up, whether voluntarily or otherwise, the liquidators

Distribution in specie or kind

If the Company shall be wound up, whether voluntarily or otherwise, the liquidators may, with the sanction of a special resolution, divide amongst the contributories, in specie or kind, any part of the assets of the Company and may, with the like sanction, vest any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories, or any of them, as the liquidators shall think fit.

(2) If thought expedient, any such division may, subject to the provisions of the Act be otherwise than in accordance with the legal rights of the contributories (except where unalterably fixed by the Memorandum of Association) and in particular any class may be given preferential or special rights or may be excluded altogether or in part but in case any division otherwise than in accordance with the legal rights of the contributories shall be determined, any contributory who would be prejudiced thereby shall have a right to dissent and consequential rights provided in Section 494 of the Act as if such determination were a special resolution passed pursuant to the said Section of the Act.

(3) In case any shares to be divided as aforesaid involve a liability to calls or otherwise any person entitled under such division to any of the said shares any within seven days after the passing of the special resolution by notice in writing direct the liquidators to sell his shares and pay him his portion of the net proceeds and the liquidators shall if practicable act accordingly.

Rights of share holders in case of sale

A Special resolution sanctioning a sale to any other company duly passed pursuant to Section 494 of the Act may subject to the provisions of the Act in like manner as aforesaid determine that any shares or other consideration receivable by the

liquidators be distributed amongst the members otherwise than in accordance with their existing rights and any such determination shall be binding upon all the members subject to the rights of dissent and consequential rights conferred by the said Section.

INDEMNITY

Indemnity

Subject to the provisions of Section 201 of the Act, every Director, Manager, and every other officer or servant of the Company shall be indemnified by the Company against all costs, losses and expenses which any such Director, Manager, officer or servant may incur or become liable to by reason of any contract entered into or act or thing done by him as such Director, Manager, Officer or servant or in any way in the discharge of his duties including expenses, and it shall be the duty of Directors to pay the same out of the funds of the Company; and in particular, and so as not to limit the generality of the foregoing provisions every Director, Manager and every other office or servant of the Company shall be indemnified by the Company against all liabilities incurred by him as such Director, Manager, Officer or Servant, in defending any proceedings, whether civil or discharged or in connection with any application under Section 633 of the Act in which relief is granted by the Court, and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Company.

Directors and other officers not responsible for acts of others

Subject to the provisions of Section 201 of the Act no Director, Managing or Whole time Director or other Officer of the Company shall be liable for the acts, receipts, neglects or defaults of any other director or officer or for joining in any respect of other act for conformity or for any loss or expenses happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors in or upon which any of the moneys of the Company shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortuous act of any person, company or corporation with whom any moneys, securities or effects shall be entrusted or deposited or for any loss occasioned by any error of judgment, omission or default or oversight on his part or for any other loss or damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto unless the same happens through his own dishonesty.

Division and Consolidation of shares

Subdivision and consolidation of capital

The Company in General Meeting may by Ordinary Resolution

- consolidate and divide all or any of its Share Capital into shares of larger amount than its existing shares;
- convert all or any of its fully paid-up shares into stock and reconvert that stock into fully paid-up shares of any denomination.
- sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, so however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;
- cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its Share Capital by the amount of the shares so cancelled.

MODIFICATION OF CLASS RIGHTS

Class Rights

If at any time the Share Capital by any reason is divided into different classes of shares, all or any of the rights and privileges attached to each class will be effective and binding after approvals, if any, under the Banking Regulation Act, 1949 and may, subject to the provisions of Sections 106 and 107 of the Act, and whether or not the Company it being wound up, be varied, modified, abrogated or dealt with, with the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holder of the issue shares of that class and all the provisions contained in the Articles as to General Meetings (including the provisions relating to quorum at such meetings) shall mutates mutandis apply to every such meeting. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly prohibited by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

G. MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The contracts referred to in Para (A) below (not being contracts entered into in the ordinary course of the business carried on by the bank or entered into more than 2 years before the date of the Shelf Memorandum of Information) which are or may be deemed to be material have been entered into by the bank. Copies of these contracts together with the copies of documents referred to in Para (B) below have been attached to the copy of the Shelf Memorandum of Information and the same may be inspected at the Registered Office of the bank between 10:00 am and 12:00 noon on any working day until the closing of the subscription list.

(A) Material Contracts

- Copy of letter appointing MCS Limited as Registrar and Transfer Agents and copy of MoU entered into between the bank and the Registrar.
- Copy of letter appointing IDBI Trusteeship Services Limited as Trustees to the Bondholders.

(B) Documents

- Memorandum and Articles of Association of the bank.
- Certificate of Incorporation dated August 13, 1994.
- Certificate of commencement of business dated October 10, 1994.
- Copy of the AGM resolution dated May 26, 2004 authorising the issue of Bonds.
- Copy of the Resolution of Board of Directors dated April 17, 2006 granting in principle approval for the current issue of Bonds.
- Auditors' Report dated May 26, 2006 referred to in the Shelf Memorandum of Information and their consent to include the same in the Shelf Memorandum of Information.
- Annual Reports of the bank for Financial Years, 2001-2002, 2002-2003, 2003-2004 2004-2005 and 2005-06.

PART III

A. DECLARATION

All the relevant provisions of the Companies Act, 1956, the Banking Regulation Act, 1949, Securities and Exchange Board of India, the guidelines issued by the Government and any other competent authority have been complied with and no statement made in this Shelf Memorandum of Information is contrary to the provisions of the Companies Act, 1956 and rules framed there under. All the legal requirements applicable till the date of this Shelf Memorandum of Information have been complied with. Further it is certified that, all disclosures made in this Shelf Memorandum of Information are true and correct.

The Issuer Company accepts no responsibility for the statements made otherwise than in this Shelf Memorandum of Information or any other material issued by or at the instance of the issuer and that any one placing reliance on any other source of information would be doing so at his own risk.

Signed by Mr. Aditya Puri on behalf of the Board of Directors of the bank pursuant to the authority granted by the Board of Directors at their meeting held on April 17, 2006.

sd/-
Aditya Puri
Managing Director

Dated: May 29, 2006
Place: Mumbai

ANNEXURES

A. ADDRESSES OF COLLECTING BRANCHES OF THE BANK

HDFC Bank Limited

Registered/ Head Office:

HDFC Bank House,
Senapati Bapat Marg, Mumbai 400 013
Tel.: +91 22 6652 1000
Fax: +91 22 2496 0696 / 2460 0973

Centre	Address	STD Code	Telephone Number	Fax Number
Mumbai	Maneckji Building, Nanik Motwani Marg, Mumbai – 400023	022	22693329	22671661
New Delhi	FIG-OPS 1 st Floor, Kailash Building, K. G. Marg, New Delhi - 110001	011	41699406	41699450
Bangalore	25/1 MG Road, Shankaranarayana Building, Bangalore, 560001	080	51266865	51121485
Ahmedabad	HDFC House, 1st floor, Near Mithakali Circle, Navrangpura, Ahmedabad	079	55217163	26402872
Chennai	751, B - Anna Salai, Mariam Centre, Chennai - 600002	044	28420870	28420869
Kolkata	CMS Abhilasha II, 1 st floor, 6 Royd Street, Kolkata – 700016	033	22273761	22273765
Hyderabad	6-1-73, Saeed Plaza, Lakdikapul, Hyderabad - 500004	040	55511472	55666818

B. TEXT OF CREDIT RATING LETTER FROM CREDIT ANALYSIS & RESEARCH LTD.

Mr. Paresh Sukthankar
Head - Credit & Market Risk
HDFC Bank Ltd.
HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013.

**CREDIT ANALYSIS &
RESEARCH LTD.**

4th Floor, Godrej Coliseum,
Samalya Hospital Road,
Off Eastern Express Highway,
Sion (East), Mumbai - 400 022, INDIA.
☎: 55543456 Fax: (022) 55543457
E-mail: care@careratings.com
www.careratings.com

May 2, 2006

Confidential

Dear Sir,

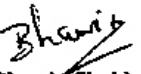
Credit Rating of proposed Upper Tier II Bond Issue of Rs. 1000 crore

Please refer to your request for rating of your proposed Upper Tier II Subordinate Bonds.

2. Our Rating Committee has assigned a 'CARE AAA' [Triple A] rating to the proposed Upper Tier II Bond issue up to an amount of Rs.1000 crore having a maturity of 15-25 years. Instruments with this rating are considered to be of the best credit quality, offering highest safety of timely servicing of debt obligations. Such instruments carry minimal credit risk
3. Our rating symbols for various ratings for long term instruments and explanatory notes thereon are annexed.
4. Please arrange to get the rating revalidated, in case the proposed Bond issue is not made within six months from the date of this letter.
5. Please send us a written confirmation regarding your acceptance of the rating assigned and use thereof, as early as possible, but in any case within two weeks from the date of this letter. Please note that, unless accepted, the above rating should not be used for any purpose whatsoever.
6. Kindly arrange to provide us the subscription details of the bond issue and forward to us a copy of the documents pertaining to the bond issue, including the offer document.
7. CARE reserves the right to suspend/withdraw/revise the rating assigned on the basis of new information or in the event of failure on the part of the company to furnish such information, material and clarifications as may be required by CARE. CARE shall also be entitled to publicise/disseminate/such suspension/withdrawal/revision in the assigned rating in any manner considered appropriate by it, without reference to you.
8. CARE ratings are not recommendations to buy, sell, or hold any security.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,


[Bhavish Shah]
Dy. Manager
[Rajesh Mokashi]
Executive Director

Encl: as above

C. TEXT OF CREDIT RATING LETTER FROM CRISIL RATINGS

— *The Most Reliable Opinion on Risk*



**CRISIL
RATINGS**

CONFIDENTIAL

Ref no. : KS/FSR/HDFCBANK/2006-07/0097

May 04, 2006

Mr. Kalzad Bharucha
Group Head - Wholesale Credit & Market Risk
HDFC Bank Ltd.
HDFC Bank House,
Senapati Bapat Marg,
Mumbai - 400 013
Phone : 022-5652 1140
Fax : 022-2499 4979

CRISIL Limited
CRISIL House, 121-122, Anandhi-Kurta Road,
Andheri (East), Mumbai - 400 093, India.
Phone: +91 (22) 5691 3001 - 09
Fax: +91 (22) 5691 3020
www.crisil.com

Dear Mr. Bharucha,

Re : CRISIL Rating for the Rs. 10.0 billion Upper Tier II Bond Issue of HDFC Bank Ltd.

We refer to your request for a rating for the captioned Debt Programme.

CRISIL has, after due consideration, assigned a 'AAA/Stable' (pronounced 'Triple A rating with stable outlook') rating to the captioned Debt Programme. This rating indicates highest degree of safety with regard to timely payment of interest and principal on the instrument.

As per our Rating Agreement, CRISIL would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL reserves the right to suspend, withdraw, or revise the rating / outlook assigned to the captioned programme at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the rating.

Further, in view of your decision to accept the CRISIL Rating, we request you to apprise us of the instrument details (in the enclosed format) as soon as it has been placed. In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,


Krishnan Saraman
Head - Financial Sector Ratings


Somasekhar Vemuri
Manager - Financial Sector Ratings

A CRISIL rating reflects CRISIL's current opinion on the likelihood of timely payment of the obligations under the rated instrument, and does not constitute an audit of the rated entity by CRISIL. CRISIL ratings are based on information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the rating is based. A CRISIL rating is not a recommendation to buy / sell or hold the rated instrument; it does not comment on the market price or suitability for a particular investor.

CRISIL has a practice of keeping all its ratings under surveillance and ratings are revised as and when circumstances so warrant. CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of its ratings. For the latest rating information on any instrument of any company rated by CRISIL, please contact CRISIL RATING DESK at CRISILratingdesk@crisil.com or at (+91 22) 5691 3001 - 09.