AUDITORS' REPORT

To The Shareholders of HDFC Bank Limited

1. We have audited the attached Balance Sheet of HDFC Bank Limited ("the Bank") as at 31st March 2007 and also the Profit and Loss Account of the Bank and the Cash Flow Statement annexed thereto for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

4. We report that:

   a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of the audit and found them to be satisfactory.

   b) In our opinion the transactions of the Bank, which have come to our notice have been within the powers of the Bank.

   c) As the financial accounting systems of the Bank are centralized no separate accounting returns are received from the branches.

5. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, in so far as they apply to Bank.

6. We further report that :

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

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

   c) On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section 1 of Section 274 of the Companies Act, 1956.

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

   a) in case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2007;

   b) in case of the Profit and Loss Account, of true balance of profit for the year ended on that date; and

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

For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner
Membership No.30823

Mumbai : April 24, 2007

HDFC Bank Limited
Balance Sheet

AS AT 31 MARCH, 2007

(Rs. in lacs)

	Schedule	As at 31-03-2007	As at 31-03-2006
CAPITAL AND LIABILITIES			
Capital	1	319,39	313,14
Reserves and Surplus	2	6,113,76	4,986,39
Employees' Stock Options (Grants) Outstanding		-	7
Deposits	3	68,297,94	55,796,82
Borrowings	4	2,815,39	2,858,48
Other Liabilities and Provisions	5	13,689,13	9,551,49
Total		91,235,61	73,506,39
ASSETS			
Cash and balances with			
Reserve Bank of India	6	5,182,48	3,306,61
Balances with Banks and Money at Call and Short notice	7	3,971,40	3,612,39
Investments	8	30,564,80	28,393,96
Advances	9	46,944,78	35,061,26
Fixed Assets	10	966,67	855,08
Other Assets	11	3,605,48	2,277,09
Total		91,235,61	73,506,39
Contingent Liabilities	12	328,148,24	214,782,34
Bills for Collection		4,606,83	2,828,89
Notes and Principal Accounting Policies forming integral part of the financial statements	19		

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President
(Legal) & Company Secretary

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

HDFC Bank Limited
Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Schedule	Year ended 31-03-2007	Year ended 31-03-2006
I. INCOME			
Interest earned	13	6,889,02	4,475,34
Other income	14	1,516,23	1,123,98
Total		8,405,25	5,599,32
II. EXPENDITURE			
Interest expended	15	3,179,45	1,929,50
Operating expenses	16	2,420,80	1,691,09
Provisions and contingencies [includes provision for income tax and fringe benefit tax of Rs. 497,30 lacs (previous year: Rs. 382,73 lacs)]	17	1,663,55	1,107,95
Total		7,263,80	4,728,54
III. PROFIT			
Net Profit for the year		1,141,45	870,78
Profit brought forward		1,455,02	602,34
Transfer from Investment Fluctuation Reserve		-	484,19
Total		2,596,47	1,957,31
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		285,36	217,70
Proposed dividend		223,57	172,23
Tax (including cess) on dividend		38,00	24,16
Dividend (including tax/cess thereon) pertaining to previous year paid during the year		35	-
Transfer to General Reserve		114,14	87,08
Transfer to Capital Reserve		4	1,12
Transfer to Investment Reserve Account		2,98	-
Balance carried over to Balance Sheet		1,932,03	1,455,02
Total		2,596,47	1,957,31
V. EARNINGS PER EQUITY SHARE			
(Face value Rs.10 per share)	18	Rs.	Rs.
Basic		36.29	27.92
Diluted		36.06	26.33
Notes and Principal Accounting Policies forming integral part of the financial statements	19		

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board

Jagdish Capoor
Chairman

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

HDFC Bank Limited
Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
Cash flows from operating activities		
Net profit before income tax	1,638,75	1,253,51
Adjustments for:		
Depreciation	219,60	178,59
(Profit)/Loss on Revaluation of Investments	(5,99)	89,66
Amortisation of premia on investments	241,09	245,16
Loan Loss provisions	691,15	384,85
Provision against standard assets	169,86	94,91
Provision for wealth tax	40	30
Contingency provision	63,75	-
Loss/(Profit) on sale of fixed assets	1,05	(27)
	3,019,66	2,246,71
Adjustments for :		
(Increase) in Investments	(2,420,94)	(9,350,30)
(Increase) in Advances	(12,574,67)	(9,889,35)
(Decrease) in Borrowings	(43,09)	(1,931,53)
Increase in Deposits	12,501,12	19,442,57
(Increase) in Other assets	(1,443,48)	(738,33)
Increase in Other liabilities and provisions	2,246,80	2,495,49
(Increase)/Decrease in Deposit Placements	(241,77)	2,66
	1,043,63	2,277,92
Direct taxes paid (net of refunds)	(377,00)	(553,16)
Net cash flow from/(used in) operating activities	666,63	1,724,76
Cash flows from investing activities		
Purchase of fixed assets	(313,33)	(367,99)
Proceeds from sale of fixed assets	1,93	5,15
Long term investments	-	(19,13)
Net cash used in investing activities	(311,40)	(381,97)

HDFC Bank Limited

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
Cash flows from financing activities		
Money received on exercise of stock options by employees	254,02	62,58
Proceeds from issue of Upper Tier II capital, Lower Tier II capital and Innovative Perpetual Debt Instruments	1,680,60	1,202,00
Redemption of subordinated debt	(100,00)	-
Dividend during the year	(172,58)	(140,07)
Tax on Dividend	(24,16)	(19,64)
Net cash generated from financing activities	1,637,88	1,104,87
Net increase in cash and cash equivalents	1,993,11	2,447,66
Cash and cash equivalents as at 1 April, 2006	6,188,66	3,741,00
Cash and cash equivalents as at 31 March, 2007	8,181,77	6,188,66

In terms of our report of even date attached.
For Haribhakti & Co.
Chartered Accountants

Shailesh V. Haribhakti
Partner

Mumbai, 24 April, 2007

For and on behalf of the Board

Jagdish Capoor
Chairman

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

Schedules to the Accounts

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 1 - CAPITAL		
Authorised Capital	450,00	450,00
45,00,00,000 (31 March, 2006 : 45,00,00,000)		
Equity Shares of Rs. 10/- each		
Issued, Subscribed and Paid-up Capital	319,39	313,14
31,93,89,608 (31 March, 2006 : 31,31,42,408)		
Equity Shares of Rs. 10/- each		
Total	319,39	313,14
SCHEDULE 2-RESERVES AND SURPLUS		
I. Statutory Reserve		
Opening Balance	836,46	618,76
Additions during the year	285,36	217,70
Total	1,121,82	836,46
II. General Reserve		
Opening Balance	301,94	214,86
Additions during the year	114,14	87,08
Total	416,08	301,94
III. Balance in Profit and Loss Account	1,932,03	1,455,02
IV. Share Premium Account		
Opening Balance	2,376,71	2,274,68
Additions during the year	247,84	102,03
Total	2,624,55	2,376,71
V. Investment Fluctuation Reserve		
Opening Balance	-	484,19
Transfer to Profit and Loss Account	-	(484,19)
Total	-	-

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

		As at 31-03-2007	As at 31-03-2006
VI. Amalgamation Reserve			
Opening Balance		14,52	14,52
	Total	14,52	14,52
VII. Capital Reserve			
Opening Balance		1,74	62
Additions during the year		4	1,12
	Total	1,78	1,74
VIII. Investment Reserve Account			
Opening Balance		-	-
Additions during the year		2,98	-
	Total	2,98	-
	Total	6,113,76	4,986,39
SCHEDULE 3 - DEPOSITS			
I. Demand Deposits			
(i) From Banks		695,35	595,78
(ii) From Others		19,116,49	14,156,68
	Total	19,811,84	14,752,46
II. Savings Bank Deposits		19,584,82	16,185,79
III. Term Deposits			
(i) From Banks		1,505,29	860,47
(ii) From Others		27,395,99	23,998,10
	Total	28,901,28	24,858,57
	Total	68,297,94	55,796,82

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
(i) Reserve Bank of India	-	-
(ii) Other Banks	925,63	1,243,97
(iii) Other Institutions and agencies	155,66	166,81
Total	1,081,29	1,410,78
II. Borrowings outside India	1,734,10	1,447,70
Total	2,815,39	2,858,48
Secured borrowings included in I & II above: Rs.155,66 lacs (previous year: Rs. 166,81 lacs)		
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I. Bills Payable	3,678,14	2,079,58
II. Interest Accrued	1,703,81	826,41
III. Others (including provisions)	4,419,09	4,563,03
IV. Upper and Lower Tier II capital and		
Innovative Perpetual Debt*	3,282,60	1,702,00
V. Contingent Provisions against standard assets	343,92	184,08
VI. Proposed Dividend (including tax on dividend)	261,57	196,39
Total	13,689,13	9,551,49

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

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in hand (including foreign currency notes and gold coins)	746,51	507,71
II. Balances with Reserve Bank of India		
(a) In current accounts	4,335,97	2,698,90
(b) In other accounts	100,00	100,00
Total	4,435,97	2,798,90
Total	5,182,48	3,306,61
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
(i) Balances with Banks :		
(a) In current accounts	429,74	487,50
(b) In other deposit accounts	1,223,54	1,288,15
Total	1,653,28	1,775,65
(ii) Money at call and short notice :		
(a) With banks	100,00	-
(b) With other institutions	90,00	-
Total	190,00	-
Total	1,843,28	1,775,65
II. Outside India		
(i) In current accounts	420,66	432,93
(ii) In deposit accounts	12,13	20,75
(iii) Money at call and short notice	1,695,33	1,383,06
Total	2,128,12	1,836,74
Total	3,971,40	3,612,39

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

		As at 31-03-2007	As at 31-03-2006
SCHEDULE 8 - INVESTMENTS			
A. Investments in India in			
(i) Government securities		22,544,22	19,632,84
(ii) Other approved securities		68	5,73
(iii) Shares		58,31	76,87
(iv) Debentures and Bonds		7,389,85	8,121,82
(v) Subsidiary / Joint Ventures		21,56	21,56
(vi) Units, Certificate of Deposits and Others		549,96	535,07
	Total	30,564,58	28,393,89
B. Investments outside India		22	7
	Total	30,564,80	28,393,96
1) Gross Value of Investments			
(a) In India		30,658,83	28,494,12
(b) Outside India		22	7
	Total	30,659,05	28,494,19
2) Provision for Depreciation			
(a) In India		94,25	100,23
(b) Outside India		-	-
	Total	94,25	100,23
3) Net Value of Investments			
(a) In India		30,564,58	28,393,89
(b) Outside India		22	7
	Total	30,564,80	28,393,96

Rs. 10 lacs = Rs. 1 million

Schedules to the Accounts

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 9 - ADVANCES		
A (i) Bills purchased and discounted	804,76	1,376,77
(ii) Cash Credits, Overdrafts and Loans repayable on demand	10,344,53	7,881,99
(iii) Term loans	35,795,49	25,802,50
Total	46,944,78	35,061,26
B (i) Secured by tangible assets*	32,845,44	23,729,96
(ii) Covered by Bank/Government Guarantees	522,36	518,58
(iii) Unsecured	13,576,98	10,812,72
Total	46,944,78	35,061,26
** Including advances against Book Debts*		
C Advances in India		
(i) Priority Sector	17,683,07	10,864,53
(ii) Public Sector	205,15	384,99
(iii) Banks	38,32	11,87
(iv) Others	29,018,24	23,799,87
Total	46,944,78	35,061,26
(Advances are net of specific loan loss provisions)		
SCHEDULE 10 - FIXED ASSETS		
A. Premises (including Land)		
Gross Block		
At cost on 31 March of the preceding year	314,50	291,22
Additions during the year	53,21	27,27
Deductions during the year	-	(3,99)
Total	367,71	314,50

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
Depreciation		
As at 31 March of the preceding year	51,24	40,60
Charge for the year	14,05	11,18
On deductions during the year	-	(54)
Total	65,29	51,24
Net Block	302,42	263,26
B. Other Fixed Assets (including furniture and fixtures)		
Gross Block		
At cost on 31 March of the preceding year	1,231,14	955,46
Additions during the year	283,18	302,96
Deductions during the year	(8,30)	(27,28)
Total	1,506,02	1,231,14
Depreciation		
As at 31 March of the preceding year	639,32	497,76
Charge for the year	205,55	167,41
On deductions during the year	(3,10)	(25,85)
Total	841,77	639,32
Net Block	664,25	591,82
C. Assets on Lease (Plant and Machinery)		
Gross Block		
At Cost on 31 March of the preceding year	43,83	43,83
Total	43,83	43,83
Depreciation		
As at 31 March of the preceding year	11,75	11,75
Total	11,75	11,75
Lease Adjustment Account		
As at 31 March of the preceding year	32,08	32,08
Total	32,08	32,08
Unamortised cost of assets on lease	-	-
Total	966,67	855,08

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. in lacs)

	As at 31-03-2007	As at 31-03-2006
SCHEDULE 11 - OTHER ASSETS		
I. Interest accrued	1,592,54	921,83
II. Advance tax (net of provision)	445,23	349,50
III. Stationery and stamps	16,87	17,96
IV. Bond and share application money pending allotment	15,00	-
V. Security deposit for commercial and residential property	129,20	107,57
VI. Cheques in course of collection	6,59	9,17
VII. Other assets*	1,400,05	871,06
Total	3,605,48	2,277,09
* *Includes deferred tax asset (net) of Rs. 157,91 lacs (previous year: Rs. 61,33 lacs)*		
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the bank not acknowledged as debts - Taxation	389,17	243,97
II. Claims against the bank not acknowledged as debts - Others	13,10	13,10
III. Liability on account of outstanding forward exchange contracts	123,416,46	73,473,37
IV. Liability on account of outstanding derivative contracts	193,736,67	131,969,84
V. Guarantees given on behalf of constituents - in India	4,054,22	3,088,77
VI. Acceptances, endorsements and other obligations	2,605,05	2,410,37
VII. Other items for which the Bank is contingently liable	3,933,57	3,582,92
Total	328,148,24	214,782,34

Rs. 10 lacs = Rs. 1 million

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
SCHEDULE 13- INTEREST EARNED		
I. Interest/discount on advances/bills	4,334,15	2,700,20
II. Income from investments	2,298,62	1,631,66
III. Interest on balance with RBI and other inter-bank funds	252,94	142,55
IV. Others	3,31	93
Total	6,889,02	4,475,34
SCHEDULE 14 - OTHER INCOME		
I. Commission, exchange and brokerage	1,292,38	1,045,05
II. (Loss) / Profit on sale of investments	(74,40)	37,54
III. Profit / (Loss) on revaluation of investments	5,99	(89,66)
IV. (Loss) / Profit on sale of building and other assets (net)	(1,05)	27
V. Profit on exchange transactions (net)	190,35	99,40
VI. Miscellaneous income	102,96	31,38
Total	1,516,23	1,123,98
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	2,695,32	1,559,43
II. Interest on RBI/Inter-bank borrowings	274,05	315,01
III. Other interest*	210,08	55,06
Total	3,179,45	1,929,50
* *Principally includes interest on subordinated debt.*		
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and provisions for employees	776,86	486,82
II. Rent, taxes and lighting	193,97	168,31
III. Printing and stationery	85,30	68,76
IV. Advertisement and publicity	74,88	80,85
V. Depreciation on Bank's property	219,60	178,59
VI. Directors' fees, allowances and expenses	46	19

Rs. 10 lacs = Rs. 1 million

FOR THE YEAR ENDED 31 MARCH, 2007

(Rs. in lacs)

	Year ended 31-03-2007	Year ended 31-03-2006
VII. Auditors' fees and expenses*	57	59
VIII. Law charges	5,55	2,43
IX. Postage ,telegram, telephone etc.	185,05	150,29
X. Repairs and maintenance	125,74	90,51
XI. Insurance	71,66	51,82
XII. Other Expenditure **	681,16	411,93
Total	2,420,80	1,691,09
* *Excludes Nil (previous year: Rs. 51 lacs) payable for professional services to a firm of auditors in which partners of the firm of statutory auditors are partners.*		
** *Includes marketing expenses, professional fees, travel and hotel charges, entertainment, registrar and transfer agency fees and system management fees.*		
SCHEDULE 17- PROVISIONS AND CONTINGENCIES		
I. Income tax	497,30	382,73
II. Wealth tax	40	30
III. Loan loss provision	691,15	384,85
IV. Provision against standard assets	169,86	94,91
V. Amortisation on investments	241,09	245,16
VI. Others*	63,75	-
Total	1,663,55	1,107,95
* *Includes: Contingent provisions for tax Rs. 54,71 lacs (previous year: nil); Provisions for securitised-out assets Rs. 11,95 lacs (previous year:nil) and write back of provision of country risk: Rs. 2,91 lacs (previous year: nil)*		

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

Schedule 18 - EARNING PER EQUITY SHARE

Annualised earnings per equity share have been calculated based on the net profit after taxation of Rs.114,145 lacs (previous year: Rs. 870,78 lacs) and the weighted average number of equity shares outstanding during the year amounting to 31,45,63,347 (previous year: 31,19,39,366).

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

(Rupees)

	For the year	
	2006-2007	2005-2006
Nominal value per share	10.00	10.00
Basic earnings per share	36.29	27.92
Effect of potential equity shares for stock options and subordinated debt (per share)	(0.23)	(1.59)
Diluted earnings per share	36.06	26.33

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

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

(Rs.lacs)

	For the year	
	2006-2007	2005-2006
Earnings used in basic earnings per share	114,145	870,78
Impact of dilution on profits	-	7,48
Earnings used in diluted earnings per share	114,145	878,26

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	
	2006-2007	2005-2006
Weighted average number of equity shares used in computing basic earnings per equity share	31,45,63,347	31,19,39,366
Effect of potential equity shares for stock options outstanding and subordinated debt	19,69,537	2,15,64,239
Weighted average number of equity shares used in computing diluted earnings per equity share	31,65,32,884	33,35,03,605

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

SCHEDULE 19 - NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007.

1 Capital Adequacy Ratio

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

(Rs. lacs)

		For the year
	2006-2007	2005-2006
CAPITAL STRUCTURE		
Tier I capital		
Subscribed and paid-up capital	319,39	313,14
Innovative perpetual debt	200,00	-
Statutory reserve	1,121,82	836,46
Balance in profit and loss account	1,932,03	1,455,02
Share premium account	2,624,55	2,376,71
Amalgamation reserve	14,52	14,52
General reserve	416,08	301,94
Capital reserve	1,78	1,74
Less: Deferred tax asset	(157,91)	(61,33)
Less: Credit enhancement on securitisation (50%)	(99,54)	(68,28)
Less: Investment in subsidiary	(20,01)	(20,01)
Total	6,352,71	5,149,91
Tier II capital		
Upper Tier II capital	1,070,60	-
Lower Tier II capital	2,012,00	1,602,00
Provision for Standard assets	343,92	184,08
Provision for country risk	-	2,91
Floating Provision	10,03	-
Investment Reserve Account	2,98	-
Less: Credit enhancement on securitization	(99,54)	(68,28)
Total	3,339,99	1,720,71
Total capital funds	9,692,70	6,870,62
Risk weighted assets and contingents		
Credit risk	65,624,80	49,936,63
Market risk (including specific risk)	8,457,12	10,280,99
Total	74,081,92	60,217,62
Capital Adequacy Ratios		
Tier 1	8.57%	8.55%
Tier 2	4.51%	2.86%
Total	13.08%	11.41%

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

The Bank maintains capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks in respect of:

(i) Securities included in the HFT category, open gold and foreign exchange position limit, trading positions in derivatives and derivatives entered into for hedging trading book exposures and

(ii) Securities included in the AFS category.

Pursuant to the issuance of securitisation guidelines by the RBI, the Bank has given the following treatment to credit enhancements provided to an investor or a special purpose vehicle: -

- 50% of each of the first and second loss credit enhancement* is reduced from Tier 1 and Tier 2 capital respectively.
- Commitment to provide liquidity facility, to the extent not drawn, is considered an off-balance sheet item and is given 100% credit conversion factor as well as 100% risk weight.

*(*For transactions prior to issuance of Draft Securitisation Guidelines, credit enhancements provided as cash collateral have been reduced from tier 1 and tier 2 capital)*

2 Business ratios/information

		For the year
	2006-2007	2005-2006
Interest income as a percentage of working funds[1]	8.01%	7.11%
Net interest income as a percentage of working funds	4.32%	4.04%
Non-interest income as a percentage of working funds	1.76%	1.79%
Operating profit[2] as a percentage of working funds	2.98%	2.75%
Return on assets *(average)*	1.33%	1.38%
Business[3] per employee[4] (Rs. lacs)	607	758
Profit per employee[4] (Rs. Lacs)	6.13	7.39
Percentage of net non performing assets[5] to customer assets[6]	0.38%	0.36%
Percentage of net non performing assets to net advances[7]	0.43%	0.44%
Gross non performing assets to gross advances	1.32%	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 – amortisation of premia on investments - profit/(loss) on sale of fixed assets).
3. "Business" is the total of net advances and deposits (net of inter-bank deposits).
4. Productivity ratios are based on average employee numbers.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

5. Net NPAs are non-performing assets net of interest in suspense, specific provisions and ECGC claims received.
6. Customer assets include gross advances (but net of specific provisions), credit substitutes like debentures, commercial paper and loans and investments in securitised assets bought in.
7. Net advances are equivalent to gross advances net of bills rediscounted, specific loan loss provisions, interest in suspense and ECGC claims received.

3 Reserves and surplus

General reserve

The Bank has made an appropriation of Rs. 114,14 lacs (previous year: Rs 87,08 lacs) out of profits for the year ended March 31, 2007 to general reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment reserve account

During the year, the Bank has transferred an amount of Rs. 2,98 lacs from the Profit and Loss Account to Investment Reserve Account pursuant to the Reserve Bank of India guidelines under reference RBI No. 2006-07/ 30 DBOD No. BP. BC. 14 / 21.04.141 / 2006-07 'Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks' dated July 1, 2006.

4 Upper and lower Tier II capital and Innovative perpetual debt instruments

Subordinated debt (lower Tier II capital), Upper tier II capital and Innovative Perpetual Debt Instruments outstanding as at March 31, 2007 are Rs. 2,012,00 lacs (previous year: Rs. 1,702,00 lacs), Rs. 1,070,60 lacs (previous year: Rs. Nil) and Rs. 200,00 lacs (previous year: Rs. Nil) respectively.

During the year, the Bank raised Rs. 635,90 lacs as Upper Tier II capital at an annualized coupon ranging between 8.80 % to 9.20 %. The Bank also raised foreign currency borrowing of USD 100 million as Upper Tier II capital at an annualized coupon rate of 6-month USD LIBOR plus 120 bps. The Bank raised Rs. 410,00 lacs as Lower Tier II capital at an annualized coupon ranging between 8.45% to 9.10%. The Bank raised a further Rs. 200,00 lacs as unsecured non-convertible subordinated perpetual bonds (Innovative perpetual debt instruments) in the nature of debentures for inclusion as Tier I capital at an annualized coupon of 9.92 % payable semi annually.

Based on the balance term to maturity as at March 31, 2007, 100% of the book value of subordinated debt (lower tier II capital) and upper tier II capital is considered as Tier 2 capital for the purpose of capital adequacy computation.

Conversion clause

Of the outstanding amount of subordinated debt, principal amount of Rs. Nil (previous year: Rs. 90 crores) 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, 2007, such amount would approximately be Nil shares (previous year: 1,84 lac shares).

AS AT 31 MARCH, 2007

5 Other liabilities

- Other liabilities include Provision towards standard assets of Rs. 343,92 lacs (previous year Rs. 184,08 lacs)
- Others in other liabilities include provision for country risk of Rs. Nil (previous year: Rs. 2,91 lacs) and floating provision of Rs.10,03 lacs (previous year : Rs. Nil)

  Movement in Floating Provision

(Rs.lacs)

Particulars	March 31, 2007
Opening Balance*	10,03
Provisions made during the year	-
Draw down made during the year	-
Closing Balance	10,03

* Consequent upon the Reserve Bank of India circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006 the excess in the bank's general provision for standard assets over the regulatory provisions for standard assets was categorized as floating provisions effective June 1, 2006

6 Dividend in respect of shares to be allotted 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.

7 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.lacs)

	As at March 31, 2007				As at March 31, 2006			
	Held for Trading	Available for Sale	Held to Maturity	Total	Held for Trading	Available for Sale	Held to Maturity	Total
Government securities	163,79	3,268,52	19,111,91	22,544,22	294,56	3,000,79	16,337,49	19,632,84
Other approved securities	-	68	-	68	-	5,73	-	5,73
Shares	8,19	33,34	17,00	58,53	-	43,53	33,41	76,94
Bonds and debentures	-	7,046,53	3,43,32	7,389,85	-	7,665,90	455,92	8,121,82
Subsidiary / joint ventures	-	-	21,56	21,56	-	-	21,56	21,56
Others	256,23	293,73	-	549,96	-	535,07	-	535,07
Total	428,21	10,642,80	19,493,79	30,564,80	294,56	11,251,02	16,848,38	28,393,96

- Investments as at March 31, 2007 include securities held under Liquidity Adjustment Facility with Reserve Bank of India Rs. Nil (previous year: Rs. 420,00 lacs).
- Investments include securities aggregating Rs. 89,40 lacs (previous year: Rs. 90,95 lacs) which are kept as margin for clearing of securities and Rs 3,841,08 lacs (previous year: Rs. 4,783,45 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments amounting to Rs. 8,467,73 lacs (previous year: Rs. 4,244,36 lacs) are kept as margin with the Reserve Bank of India towards Real Time Gross Settlement (RTGS).

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

- Other investments include commercial paper amounting to Rs. 9,89 lacs (previous year: Rs Nil), investments in debt mutual fund units amounting to Rs. 256,23 lacs (previous year: Rs 318,71 lacs), investments in equity mutual fund units amounting to Rs. 100 lacs (previous year : Rs Nil) and deposit with NABARD under the RIDF Deposit Scheme amounting to Rs. 282,84 lacs (previous year: Rs. 216,36 lacs).
- 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 Ltd. has become a subsidiary company of the Bank since that date.
- Issuer composition of Non-SLR Investments as on March 31, 2007 (Rs.lacs)

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated" securities*	Extent of "unlisted" securities
1	Public sector undertakings	2,874,02	1,897,34	-	282,84	317,20
2	Financial institutions	90,18	10,94	-	-	-
3	Banks	425,39	350,00	-	-	350,00
4	Private corporate	698,00	399,97	-	26,54	71,54
5	Subsidiaries/ Joint ventures	21,56	21,56	-	-	21,56
6	Others	4,004,81	2,837,39	-	-	3,745,33
7	Provision held towards depreciation	(94,06)				
	Total	8,019,90	5,517,20	-	309,38	4,505,63

* *Excludes investments in equity and units*

- Issuer composition of Non-SLR Investments as on March 31, 2006 (Rs.lacs)

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated" securities*	Extent of "unlisted" securities
1	Public sector undertakings	2,932,37	2,452,43	-	235,18	708,36
2	Financial institutions	65,75	10,94	-	-	-
3	Banks	17,80	17,80	-	-	-
4	Private corporate	976,21	553,68	-	42,95	162,62
5	Subsidiaries/ Joint ventures	21,56	21,56	-	-	21,56
6	Others	4,841,67	3,275,75	-	22,04	4,510,72
7	Provision held towards depreciation	(99,98)				
	Total	8,755,38	6,332,16	-	300,17	5,403,26

* *Excludes investments in equity and units*

AS AT 31 MARCH, 2007

- Details of Repo / Reverse Repo deals done during the year ended March 31, 2007 (Rs.lacs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2007
Securities sold under repos	—	2,489,75	173,93	1,050,00
Securities purchased under reverse repos	—	12,180,00	956,59	—

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

- Details of Repo / Reverse Repo deals done during the year ended March 31, 2006 (Rs.lacs)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	As on March 31, 2006
Securities sold under repos	—	4,376,65	606,59	—
Securities purchased under reverse repos	—	5,040,00	253,79	420,00

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

- Details of investments

(Rs. lacs)

	March 31, 2007	March 31, 2006
Value of investments		
Gross value of investment		
In India	30,658,83	28,494,12
Outside India	22	7
Provisions for Depreciation		
In India	94,25	100,23
Outside India	-	-
Net Value of Investments		
In India	30,564,58	28,393,89
Outside India	22	7

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. lacs)

	March 31, 2007	March 31, 2006
Movement of provisions held towards depreciation		
on investments.		
As at April 1	100,23	5,50
Add: Provisions made during the year *	5	100,08
Less: Write-off, write back of excess provision during the year	6,03	5,35
As at March 31	94,25	100,23

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

* *Previous year figure includes transfer of provision form an existing non-performing loan, which has been partially restructured as an investment.*

8 Non performing Non-SLR investments

(Rs. lacs)

Particulars	2006-2007	2005-2006
Opening balance	9,69	9,08
Additions during the year since 1st April*	-	9,54
Reductions during the above period	-	8,93
Closing balance	9,69	9,69
Total provisions held	9,69	9,69

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

9 Other assets

Other assets include deferred tax asset (net) of Rs. 157,91 lacs (previous year: Rs. 61,33 lacs). The break up of the same is as follows:

(Rs. lacs)

Deferred tax asset	March 31, 2007	March 31, 2006
Loan loss provisions	204,29	128,56
Others	37,30	13,25
Total	241,59	141,81
Deferred tax liability		
Depreciation	(83,68)	(80,48)
Total	(83,68)	(80,48)
Deferred tax asset (net)	157,91	61,33

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

Management believes that the realisation of the recognised deferred tax assets is virtually certain on the basis of convincing evidence.

10 Interest Income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2007 on units, equity and preference shares amounting to Rs. 141,83 lacs (previous year: Rs 36,36 lacs).

11 Earnings from Securitised-out Assets

(Rs. lacs except numbers)

Particulars	March 31, 2007	March 31, 2006
Book value of loans securitized	641,76	1,987,83*
Total no. of contracts securitised (nos.)	834,30	1,666,41
Sale consideration received	653,58	1,973,33
Profit / (Loss) on sell off**	5,40	(3,13)

**Includes unsold portions of receivable pools securitized out during 2004-05, which were subsequently sold during 2005-2006.*

*** Pursuant to RBI guidelines dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/ 2005-06, the Bank amortises any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the profit/ loss account for the period in which the sale occurs.*

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

The Bank has provided credit and liquidity enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees/subordination of cash flows etc., to the senior pass through certificates (PTCs). The total value of credit and liquidity enhancement outstanding in the books as on March 31, 2007 was Rs. 462,84 lacs (previous year Rs. 474,45 lacs)

12 Commission, exchange and brokerage income

Commission, exchange and brokerage income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

13 Miscellaneous income

Miscellaneous income includes Rs. 89,91 lacs (previous year: Rs. 19,21 lacs) pertaining to derivative transactions.

14 Other expenditure

Other expenditure includes sales and marketing expense amounting to Rs. 113,08 lacs (previous year: Rs. 136,44 lacs), Expenses on collections and recoveries amounting to Rs. 113,59 lacs (previous

AS AT 31 MARCH, 2007

year: Rs. 47,77 lacs) and outsourcing fees amounting to Rs. 197,29 lacs (previous year: Rs. 119,54 lacs) exceeding 1% of the total income of the Bank.

15 Income Taxes

The income tax expense comprises the following:

(Rs. lacs)

	2006-2007	2005-2006
Current income tax expense	581,88	359,56
Deferred income tax (benefit) / expense	(96,58)	12,17
	485,30	371,73
Fringe benefit tax (FBT)	12,00	11,00
Income tax expense	497,30	382,73
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	1,638,75	1,253,51
Effective statutory income tax rate	33.66%	33.66%
Expected income tax expense	551,60	421,93
Adjustments to reconcile expected income tax to		
actual tax expense:		
Permanent differences:		
Income exempt from taxes	(64,88)	(50,68)
Other (including adjustments for prior years) net	11	48
Effect of change in statutory tax rates – net	(153)	-
	485,30	371,73
Fringe benefit tax (FBT)	12,00	11,00
Income tax expense	497,30	382,73

AS AT 31 MARCH, 2007

16 Maturity pattern of key assets and liabilities

(Rs. lacs)

As at March 31, 2007	1 - 14 Days	15 - 28 Days	29 Days - 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & advances	4,481,81	(1,613,33)	3,231,20	4,491,54	7,563,55	22,427,23	3,127,39	3,235,39	46,944,78
Investments	3,160,80	921,77	2,310,01	1,705,30	2,741,86	16,169,09	1,660,93	1,895,04	30,564,80
Deposits	8,417,19	1,440,50	4,379,40	3,656,22	4,173,62	40,451,21	3,811,43	1,968,37	68,297,94
Borrowings	1,016,30	6,14	1,715,12	37,87	5,00	4,69	30,27	-	2,815,39
FCY assets	2,683,27	94,68	430,25	372,81	22,17	159,06	271,75	154,20	4,188,19
FCY liabilities	506,42	46,12	1,856,55	209,98	514,12	681,88	105,97	434,70	4,355,74

The negative figure in the 15-28 day bucket under loans and advances is due to the expected maturity of inter-bank participation certificates which are netted from advances.

(Rs. lacs)

As at March 31, 2006	1 - 14 Days	15 - 28 Days	29 days - 3 Months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & advances	3,360,72	315,32	2,446,84	3,104,58	4,634,42	15,948,78	2,611,71	2,638,89	35,061,26
Investments	3,562,17	785,15	2,627,09	1,773,99	2,568,55	12,912,01	2,499,37	1,665,63	28,393,96
Deposits	2,450,96	2,856,83	4,139,03	3,778,42	5,867,68	32,688,93	3,736,19	278,78	55,796,82
Borrowings	1,360,21	159,25	1,251,89	-	-	52,59	34,54	-	2,858,48
FCY assets	2,339,77	114,93	351,38	452,20	99,59	250,04	45,39	44,11	3,697,41
FCY liabilities	263,21	202,71	1,321,63	128,82	436,43	762,31	82,36	-	3,197,47

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.

AS AT 31 MARCH, 2007

17 Lending to sensitive sector

Details of exposure to real estate sector

(Rs. lacs)

Category		March 31, 2007	March 31, 2006
a)	*Direct exposure*	6,841,36	4,327,51
(i)	Residential mortgages	1,803,11	789,10
(ii)	Commercial real estate	3,552,72	1,818,04
(iii)	Investments in mortgage backed securities (MBS) and other securitised exposures		
	1) Residential	1,485,53	1,720,37
	2) Commercial real estate	-	-
b)	*Indirect exposure*	478,76	507,02
	Fund based and non-fund based exposures on National Housing Bank (NHB) and housing finance companies (HFCs)	478,76	507,02
Total real estate exposure		7,320,12	4,834,53

Details of capital market exposure

(Rs. lacs)

		March 31, 2007	March 31, 2006
(i)	Investments made in equity shares	38,03	40,02
(ii)	Investments in bonds/ convertible debentures	-	-
(iii)	Investments in units of equity-oriented mutual funds	100	-
(iv)	Advances against shares to individuals for investment in equity shares (including IPOs / ESOPS), bonds and debentures, units of equity oriented mutual funds	109,83	117,27
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	1,415,62	1,406,92
(vi)	Others	-	30,00
	Total exposure to capital market	1,564,48	1,594,21
	Of (v) above, the total finance extended to stockbrokers for margin trading.	-	-
	Capital market exposure as a ratio of advances	4.42%	6.12%
	Capital market exposure as a ratio of net worth	29.52%	35.27%

AS AT 31 MARCH, 2007

- 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.

18 Details of Risk Category wise Country Risk Exposure

(Rs. lacs)

Risk Category	**Exposure (Net) March 2007**	**Provision March 2007**	Exposure (Net) March 2006	Provision March 2006
Insignificant	**1,874,86**	-	1,909,95	2,91
Low	**435,47**	-	75,58	-
Moderate	**24,25**	-	8,66	-
High	**20**	-	6,27	-
Very high	**4,24**	-	2,18	-
Restricted	-	-	11	-
Off-credit	-	-	-	-
Total	**2,339,02**	-	2,002,75	2,91

19 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. In the previous year, in case of NABARD single borrower limits were exceeded, which was approved by the board of directors of the Bank. As at March 31, 2006, the book value of outstanding exposure to NABARD was at Rs. 1,199,14 lacs and was within the board approved limit of 20% of capital funds as at March 31, 2006.

20 Movements in NPAs (funded)

(Rs. lacs)

	2006-2007	2005-2006
(i) Net NPAs to Net Advances (%)	**0.43%**	0.44%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	**508,89**	439,17
(b) Additions during the year	**778,60**	569,00

AS AT 31 MARCH, 2007

(Rs. lacs)

	2006-2007	2005-2006
(c) Reductions during the year	629,73	499,28
(d) Closing balance	657,76	508,89
(iii) Movement of Net NPAs		
(a) Opening balance	155,18	60,63
(b) Additions during the year	54,68	110,78
(c) Reductions during the year	6,97	16,23
(d) Closing balance	202,89	155,18
(iv) Movement of provisions for NPAs		
(excluding provisions on standard assets)		
(a) Opening balance	353,71	378,54
(b) Additions during the year	723,92	458,22
(c) Write-off/ write-back of excess provisions	622,76	483,05
(d) Closing balance	454,87	353,71

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

21 Category-wise NPAs (funded)

(Rs. lacs)

Non Performing Asset Category	March 31, 2007	March 31, 2006
Gross NPAs		
Sub-standard	375,94	292,14
Doubtful	105,75	86,61
Loss	176,07	130,14
As at March 31	657,76	508,89
Provisions		
Sub-standard	173,72	138,50
Doubtful	105,08	85,07
Loss	176,07	130,14
As at March 31	454,87	353,71
Net NPA	202,89	155,18

AS AT 31 MARCH, 2007

22 Loans Restructured

(Rs. lacs)

Item		2006-2007	2005-2006
(i)	Total amount of loan assets subjected to restructuring, rescheduling, renegotiation	9,42	65,61
	Of which under CDR	9,42	63,78
(ii)	Total amount of Standard assets subjected to restructuring, rescheduling, renegotiation	9,42	46,53
	Of which under CDR	9,42	44,70
(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	-	19,08
	Of which under CDR	-	19,08

23 Other Fixed Assets (including furniture and fixtures)

It includes amount capitalized on software having useful life of four years: Cost as on March 31, 2006: Rs. 204,95 lacs, Additions during the year Rs. 58,15 lacs, Accumulated depreciation: Rs. 166,75 lacs, Net value: Rs. 96,35 lacs.

24 Penalty

- During the previous year, based on a special scrutiny of certain customer accounts, RBI imposed penalties on the Bank aggregating to Rs. 30 lacs 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.
- During the year, SEBI, in the course of its investigations into the same subject matter, had observed that several DPs including HDFC Bank Ltd. had, prima facie, appeared to have grossly failed in adhering to the Know Your Client norms as laid down by SEBI and thereby facilitated opening of demat accounts in fictitious / benami names. Consequently SEBI passed an ex- parte interim order directing all the said DPs not to open fresh demat accounts till further directions. The Bank in its response submitted that the prescribed Know Your Client norms were followed by the Bank and the Bank had obtained all the prescribed documentation as prescribed by SEBI at the relevant points of time. Subsequently in November, 2006, SEBI issued directions that there is no need to continue the directions issued to HDFC Bank not to

open fresh demat accounts. Simultaneously, however, SEBI also initiated Enquiry Proceedings against the Bank. The Bank has already submitted its response to the Enquiry Notice and is awaiting the response from SEBI. Meanwhile, an order of disgorgement was also passed by SEBI in November 2006 whereby HDFC Bank Ltd. was required to disgorge an amount of Rs. 1.64 crores. An appeal against the order was filed by the Bank with the Honorable Securities Appellate Tribunal. The Honorable Securities Appellate Tribunal has passed an interim order staying the operations of the disgorgement order.

- During the year, the National Securities Depository Limited (NSDL) imposed a penalty of Rs. 23 lacs due to incorrect Permanent Account No. (PAN) records maintained for certain depository clients.

25 Related Party Disclosures

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

Promoter

Housing Development Finance Corporation Ltd. (HDFC Ltd.)

Subsidiaries

HDFC Securities Limited (from September 28, 2005; Associate upto 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.

HDFC Property Ventures Ltd.

AS AT 31 MARCH, 2007

Associates

Computer Age Management Services Private Ltd.

SolutionNET India Private Ltd.

Softcell Technologies Ltd.

Flexcel International Private Ltd.

Atlas Documentary Facilitators Company 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 2006-07, the Bank paid Rs. 57 lacs (previous year: Rs. 68 lacs) 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 lacs (previous year: Rs. 2 lacs) to secure these leased properties.

For the fiscal year ended 2006-07, the Bank earned Rs. 27,80 lacs (previous year: Rs. 23,93 lacs) from HDFC Limited as fees for sourcing home loans (pursuant to the MOU between HDFC Ltd. and HDFC Bank) and other services rendered. As on March 31, 2007, fees amounting to Rs. 3,68 lacs (previous year: Rs. 2,92 lacs) are receivable as fees for sourcing home loans. The Bank also enters into foreign exchange and derivative transactions with HDFC Limited in the normal course of business.

HDFC Securities Ltd (HSL)

On September 28, 2005, the Bank increased its stake in HSL from 29.5% to 55%. Consequently, HSL became a subsidiary of the Bank since that date. As of March 31, 2007, the book value of the Bank's investment in HSL was Rs. 20,01 lacs (March 31, 2006: Rs. 20,01 lacs).

In fiscal year 2006-07, the Bank earned Rs. 1,61 lacs (previous year: Rs. 3,38 lacs) from HSL towards services rendered. The Bank paid Rs. 14 lacs (previous year: Rs. 2 lacs) for sales assistance provided by HSL. In the fiscal year 2005-06, the Bank received Rs. 51 lacs as reimbursement of expenses incurred for HSL. An amount of Rs. 1,03 lacs (previous year: Rs. 2,27 lacs) was receivable from HSL as of March 31, 2007.

HDFC Asset Management Company Ltd. (HDFC AMC)

The Bank had 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 was upto June 30, 2006. The

Rs. 10 lacs = Rs. 1 million

amount of investment outstanding as of March 31, 2007 was Rs. 162,86 lacs (previous year: Rs. 341,66 lacs). In fiscal year 2006-07, the Bank paid Rs. 2 lacs (previous year: Rs. 7 lacs) as professional fees and incurred an expense of Rs. 33 lacs (previous year: Rs. 33 lacs) towards rent for premises occupied by the Bank. Security deposit of Rs. 17 lacs (previous year: Rs. 17 lacs) has been kept with HDFC AMC to secure the above-mentioned leased property. The Bank earned Rs. 18,69 lacs (previous year: Rs. 23,43 lacs) for distribution of units of mutual funds of HDFC AMC and for other services provided. As on March 31, 2007, commission amounting to Rs. 2,58 lacs (previous year: Rs. 2,28 lacs) is receivable from HDFC AMC.

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

In fiscal year 2006-07, the Bank contributed Rs. 4,95 lacs (previous year: Rs. 2,18 lacs) in respect of gratuity, superannuation and group insurance for the Bank's employees. In the same period, the Bank earned Rs. 112,09 lacs (previous year: Rs. 88,14 lacs) from HDFC Standard Life for sale of insurance policies and other services provided by the bank to its customers. As on March 31, 2007, commission amounting to Rs. 6,14 lacs (previous year: Rs. 2,92 lacs) is receivable from HDFC Standard Life.

HDFC Chubb General Insurance Company Ltd. (HDFC Chubb)

In fiscal year 2006-07, the Bank paid Rs. 1,13 lacs (previous year: Rs. 1,06 lacs) towards insurance premium. A deposit of Rs. 1 lac (previous year: Rs. 1 lac) has been kept with HDFC Chubb. The Bank earned commission of Rs. 2,05 lacs (previous year: Rs. 2,03 lacs) for sale of HDFC Chubb's insurance policies to the Bank's customers. As on March 31, 2007, an amount of Rs. 20 lacs (previous year: nil) is receivable from HDFC Chubb. Consequent to the expiry of the corporate agency license in October 2006, the agency with HDFC Chubb has been mutually terminated.

Atlas Documentary Facilitators Company Private Ltd (ADFC)

In fiscal year 2006-07, the Bank incurred a net expense of Rs. 96,49 lacs (previous year: Rs. 56,30 lacs) for back-office processing services provided by ADFC. Deposit of Rs. 4,10 lacs (previous year: Rs. 4,00 lacs) has been kept with ADFC for various services provided. As on March 31, 2007, an amount of Rs 10,41 lacs (previous year: Rs. 7,25 lacs) is payable to ADFC. As of March 31, 2007, the Bank has an equity investment of Rs. 2 lacs (previous year Rs. 2 lacs) in the company.

The Reserve Bank of India issued Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks vide circular DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006. Consequent to these guidelines, the Bank can use the services of ADFC as an outsourcing agent only if it is a subsidiary of the Bank. Recently, the board of directors of the Bank has approved subscribing to additional shares of ADFC to make it a subsidiary of the Bank. The Bank is in the process of seeking approval from the Reserve Bank of India in this regard. ADFC acquired 98.0% stake in HBL Global Private Ltd (HBL Global) on March 28, 2007, thereby making HBL Global a subsidiary of ADFC.

Flexcel International Private Ltd (Flexcel)

As on March 31, 2007, loan outstanding of Flexcel is Rs. 30 lacs (previous year: Rs. 5 lacs). Interest received during fiscal year 2006-2007 on loan outstanding is Rs. 3 lacs (previous year: Rs. 1 lac). As of March 31, 2007, the Bank has an equity investment of Rs. 1,53 lacs (previous year Rs. 1,53 lacs) in the company. During the fiscal year 2006-07, the Bank received Rs. Nil (previous year: Rs. 0.46 lacs) as dividend from Flexcel.

AS AT 31 MARCH, 2007

HBL Global Private Ltd (HBL Global)

In fiscal year 2006-07, the Bank incurred a net expense of Rs. 134,37 lacs (previous year: Rs. 190,53 lacs) in respect of sales and promotional services provided by HBL Global.

A security deposit of Rs. 9,00 lacs (previous year: Rs. 9,01 lacs) has been kept with HBL Global towards services provided by them. The Bank has received a deposit of Rs. 20 lacs (previous year : nil) to secure properties leased to HBL Global. As at March 31, 2007 an amount of Rs. 1,05 lacs (previous year Rs. 22,31 lacs) is outstanding as temporary advance paid in respect of services to be provided by HBL Global.

Managerial Remuneration

The Bank paid a total amount of Rs. 2,16 lacs (previous year: Rs. 1,55 lacs) 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, 2007, the security deposit outstanding with Salisbury Investments was Rs. 3,50 lacs (previous year: Rs. 3,50 lacs). For the year ended March 31, 2007, the Bank paid rent of Rs. 43 lacs (previous year: Rs. 22 lacs) 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 lacs (previous year: Rs. 61 lacs) in the capital of CAMS, Rs. 76 lacs (previous year: Rs. 76 lacs) in the capital of SolutionNET and Rs. 2,60 lacs (previous year: Rs. 2,60 lacs) in the capital of Softcell. During the fiscal year 2006-07, the Bank received Rs. 5,02 lacs (previous year: Rs. 57 lacs) as dividend from CAMS, Rs. 0.63 lacs (previous year: Rs. 0.42 lacs) as dividend from SolutionNet and Rs. 20 lacs (previous year: Nil) as dividend from Softcell.

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, 2007, the Bank paid CAMS Rs. 48 lacs (previous year: Rs.41 lacs) for mutual fund back office processing services. It paid Softcell Rs. 1,04 lacs (previous year: Rs. 84 lacs) and SolutionNET Rs. 29 lacs (previous year Rs. 53 lacs) for providing software related services. In the same period the Bank paid Softcell Rs. 9,52 lacs (previous year Rs. 7,44 lacs) and SolutionNET Rs. 1,87 lacs (previous year Rs. 1,35 lacs) towards purchase of fixed assets.

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

26 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:

(Rs. lacs)

	Particulars	2006-2007	2005-2006
1.	Segment Revenue		
	a) Retail Banking	7,764,88	5,173,84
	b) Wholesale Banking	5,094,46	2,853,38
	c) Treasury	710,45	773,89
	Total	13,569,79	8,801,11
	Less: Inter Segment Revenue	5,164,54	3,201,79
	Income from Operations	8,405,25	5,599,32
2.	Segment Results		
	a) Retail Banking	875,71	701,67
	b) Wholesale Banking	746,74	537,87
	c) Treasury	16,30	13,97
	Total Profit Before Tax	1,638,75	1,253,51
	Income Tax expense	(497,30)	(382,73)
	Total Result	1,141,45	870,78
3.	Capital Employed		
	Segment assets		
	a) Retail Banking	50,100,34	38,571,09
	b) Wholesale Banking	36,053,47	28,790,53
	c) Treasury	4,478,66	5,733,94
	d) Unallocated	603,14	410,83
	Total Assets	91,235,61	73,506,39
	Segment liabilities		
	a) Retail Banking	47,862,73	38,584,25
	b) Wholesale Banking	33,475,77	26,717,93
	c) Treasury	3,202,39	2,708,22
	d) Unallocated	261,57	196,46
	Total Liabilities	84,802,46	68,206,86

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

(Rs. lacs)

	Particulars	2006-2007	2005-2006
	Net Segment assets / (liabilities)		
	a) Retail Banking	2,237,61	(13,16)
	b) Wholesale Banking	2,577,70	2,072,60
	c) Treasury	1,276,27	3,025,72
	d) Unallocated	341,57	214,37
	Other Information		
4.	Capital Expenditure (including net CWIP)		
	a) Retail Banking	209,13	248,74
	b) Wholesale Banking	64,02	74,40
	c) Treasury	40,18	44,85
	Total	313,33	367,99
5.	Depreciation		
	a) Retail Banking	174,62	134,87
	b) Wholesale Banking	32,45	31,02
	c) Treasury	12,53	12,70
	Total	219,60	178,59

27 Derivatives

Overview of business and processes

The Bank offers derivative products to its customers, who use them to hedge their market risks, within the framework of regulations as may apply from time to time. The Bank also deals in derivatives on its own account and also for the purpose of its own balance sheet risk management.

The Bank has a derivatives desk within the treasury front office, which deals in derivative transactions. The Bank has an independent back-office and mid-office as per regulatory guidelines. The Bank has a credit and market risk department that processes various counterparty and market risks limit assessments, within the risk architecture and processes of the Bank.

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.

AS AT 31 MARCH, 2007

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

Provisioning, collateral and credit risk mitigation

The Bank enters into derivative deals with counter parties based on their business ranking and financial position. The Bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallization of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The Bank, at the minimum, conforms to the Reserve Bank of India guidelines with regard to provisioning requirements. On a conservative basis, the bank may make incremental provisions based on its assessment of impairment of the credit.

Disclosure on risk exposure in derivatives

(Rs. lacs)

Sr. No	Particulars	Currency derivatives	Interest rate derivatives
1	Derivatives (notional principal amount)		
	a) Banking (including hedging)	9,632,68	12,922,14
	b) Trading	4,694,95	166,486,90
2	Marked to market positions (net)		
	a) Asset (+)	59,68	73,82
	b) Liability (-)	-	-
3	Credit exposure	634,12	2,595,17
4	Likely change of one percentage change in interest rate (100*PV01)		
	a) Banking (including hedging)	2,27	18,92
	b) Trading	-	16,13
5	Maximum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	2,27	55,79
	b) Trading	-	34,27
6	Minimum of 100 * PV01 observed during the year		
	a) Banking (including hedging)	14	14,91
	b) Trading	-	5,22

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

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. lacs)

Items		March 31, 2007	March 31, 2006
i.	The notional principal of swap agreements	174,645,68	117,198,80
ii.	Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	2,018,68	910,40
iii.	Concentration of credit risk arising from the swaps (with banks)	89%	86%
iv.	The fair value of the swap book	(25,24)	(64,08)

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

28 Provisions, contingent liabilities and contingent assets

Given below are movements in provision for credit card reward points and a brief description of the nature of contingent liabilities recognised by the Bank.

a) Movement in provision for credit card reward points

(Rs. lacs)

	March 31, 2007	March 31, 2006
Opening provision for reward points	8,75	3,24
Provision for reward points made during the year	9,24	6,60
Utilisation/Write back of provision for reward points	(1,86)	(1,09)
Closing provision for reward points	16,13	8,75

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.

AS AT 31 MARCH, 2007

b) Description of contingent liabilities

Sr. No.	Contingent liability*	Brief description
1.	Claims against the Bank not acknowledged as debts - taxation	The Bank is a party to various taxation matters in respect of which appeals are pending. The Bank expects the outcome of the appeals to be favorable based on decisions on similar issues in the previous years by the appellate authorities.
2.	Claims against the Bank not acknowledged as debts - others	The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, results of operations or cash flows.
3.	Liability on account of forward exchange and derivative contracts.	The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts 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. d) Repo borrowings.

**Also refer Schedule 12 – Contingent liabilities*

AS AT 31 MARCH, 2007

29 Accounting for Employee Share based Payments

The shareholders of the Bank approved Plan "A" in January 2000, 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 mentioned 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 provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. 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 as at March 31, 2007

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,36,01,700	503.18
Granted during the year	66,33,300	994.85
Exercised during the year	62,47,200	406.61
Forfeited / lapsed during the year	26,66,200	679.11
Options outstanding, end of year	1,13,21,600	803.10
Options Exercisable	16,90,000	-

AS AT 31 MARCH, 2007

Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2006

	Options	Weighted average exercise price (Rs.)
Options outstanding, beginning of year	1,03,13,500	344.88
Granted during the year	80,97,300	630.60
Exercised during the year	32,67,100	321.19
Forfeited / lapsed during the year	15,42,000	499.10
Options outstanding, end of year	1,36,01,700	503.18
Options Exercisable	18,98,500	-

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

Plan	Range of exercise price	Number of shares arising out of options	Weighted average life of unvested options	Weighted average Exercise Price
Plan A	Rs. 225.43 to Rs.226.96	9,100	-	226.71
Plan B and C	Rs. 358.60 to Rs. 994.85	1,13,12,500	1.40	803.57

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 life of unvested options	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	1,33,33,800	1.19	508.91

Rs. 10 lacs = Rs. 1 million

AS AT 31 MARCH, 2007

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, 2007 are:

	March 31, 2007	March 31, 2006
Dividend yield	0.5%	0.7%
Expected volatility	31.75%	21.25%
Risk—free interest rate	7.8%-7.9%	6.1%-6.6%
Expected life of the option	1-5 yrs	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 and earnings per share would have been as per the proforma amounts indicated below:

(Rs. lacs)

	March 31, 2007	March 31, 2006
Net Profit (as reported)	1,141,45	870,78
Add: Stock-based employee compensation		
expense included in net income	-	-
Less: Stock based compensation expense		
determined under fair value based method:		
(pro forma)	89,48	84,68
Net Profit: (pro forma)	1,051,97	786,10
	(Rs.)	(Rs.)
Basic earnings per share (as reported)	36.29	27.92
Basic earnings per share (pro forma)	33.44	25.20
Diluted earnings per share (as reported)	36.06	26.33
Diluted earnings per share (pro forma)	33.23	23.79

AS AT 31 MARCH, 2007

30 Disclosure for customer complaints / unimplemented awards of Banking Ombudsman

Customer complaints

(a)	No. of complaints pending at the beginning of the year	4,003
(b)	No. of complaints received during the year	3,07,538
(c)	No. of complaints redressed during the year	3,06,809
(d)	No. of complaints pending at the end of the year	4,732

Unimplemented awards of Banking Ombudsmen

(a)	No. of unimplemented awards at the beginning of the year	0
(b)	No. of Awards passed by the Banking Ombudsmen during the year	15
(c)	No. of Awards implemented during the year	15
(d)	No. of unimplemented Awards at the end of the year	0

31 Comparative figures

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

PRINCIPAL ACCOUNTING POLICIES

A BASIS OF PREPARATION

The financial statements are prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and conform with statutory provisions under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India from time to time, accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable and current practices prevailing within the banking industry in India.

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

B SIGNIFICANT ACCOUNTING POLICIES

1 Investments

Classification

Rs. 10 lacs = Rs. 1 million

In accordance with the Reserve Bank of India guidelines, Investments are classified into "Held for Trading", "Available for Sale" and "Held to Maturity" categories (hereinafter called "categories"). Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint ventures and Other Investments.

Basis of classification:

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

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

An investment is classified under "Held for Trading" category, "Available for Sale" category and "Held to Maturity" category at the time of its purchase.

Transfer of security between categories:

The transfer of a security between these categories is accounted for at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer is fully provided for.

Acquisition Cost:

Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.

Broken period interest on debt instruments is treated as a revenue item.

Cost of investments is based on the weighted average cost method.

Valuation:

Investments classified under Available for Sale category and Held for Trading category are marked to market as per the RBI guidelines. Net depreciation, if any, in any of the six groups, is charged to the Profit and Loss account. The net appreciation, if any, in any of the six groups is not recognised except to the extent of depreciation already provided. The book value of individual securities is not changed after the valuation of investments.

Investments classified under Held for Maturity category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining maturity period of the security on a straight-line basis.

Non-performing investments are identified and depreciation/provision is made thereon based on the Reserve Bank of India guidelines. The depreciation/provision is not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is transferred to an interest suspense account and not recognised in the Profit or Loss Account until received.

AS AT 31 MARCH, 2007

Repo and Reverse Repo Transactions:

In a repo transaction, the bank borrows monies against pledge of securities. The book value of the securities pledged is credited to the investment account. Borrowing costs on repo transactions are accounted for as interest expense. In respect of repo transactions outstanding at the balance sheet date, the difference between the sale price and book value, if the latter is lower than the former, is provided in the income statement.

In a reverse repo transaction, the bank lends monies against incoming pledge of securities. The securities purchased are debited to the investment account at the market price on the date of the transaction. Revenues thereon are accounted as interest income.

In respect of repo transactions under Liquidity Adjustment Facility with RBI (LAF), monies borrowed from RBI are credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse repo transactions under LAF, monies paid to RBI are debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

2 Advances

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

Advances are classified as secured or unseured pursuant to the Reserve Bank of India quidelines under reference DBOD NO. Dir. BC.33/13.03.00/2006-07 dated October 10, 2006.

Advances are net of specific loan loss provisions, interest in suspense, ECGC claims received and bills rediscounted.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. The specific provision levels for retail loan non performing assets are also based on the nature of product and delinquency levels.

During the fiscal year 2006-07, the RBI issued guidelines on creation and utilisation of floating provisions vide its circular dated June 22, 2006 under reference no. DBOD.No.BP.BC.89/21.04.048/2005-06. Pursuant to this circular the Bank maintains general provision for standard assets, only at levels stipulated by RBI from time to time. Provisions made in excess of these regulatory levels or provisions which are not made with respect to specific non- performing assets are categorised as floating provisions. Creation of further floating provisions are considered by the Bank upto a level approved by the board of directors of the Bank. Floating provisions are not reversed by credit to Profit and Loss account and can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining Board approval and with prior permission of RBI. Hitherto general provision for standard assets were 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. Provision for standard assets and floating provision are included under Other Liabilities.

In respect of restructured standard and sub-standard assets, provision is made for interest component specified while restructuring the assets, based on the Reserve Bank of India guidelines. The sub-standard assets which are subject to restructuring are eligible to be upgraded to the standard category only after a minimum period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due, subject to satisfactory performance during the said period. Once the asset is upgraded, the amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms, as aforesaid, is reversed.

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 liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to senior Pass Through Certificates (PTCs).

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

During the fiscal year 2005-06 the RBI issued guidelines on securitisation transactions vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, the Bank amortizes any profit/premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognized in the profit/loss account for the period in which the sale occurs. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

4 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefit/ functioning capability from/of such assets.

AS AT 31 MARCH, 2007

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.

For assets purchased and sold during the year, depreciation is being provided on pro rata basis by the Bank.

5 Transactions involving foreign exchange

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

Foreign currency monetary items are translated at the exchange rates notified by Foreign Exchange Dealers' Association of India at the balance sheet date and the resulting profit or loss is included in the Profit and Loss account.

Income and expenditure denominated in foreign currencies are accounted at the exchange rates prevailing on the dates of the transactions.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively and the resulting profit or losses are included in the Profit or Loss account.

Foreign exchange forward contracts, which are not intended for trading and are outstanding at the balance sheet date are, in effect, valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortized as expense or income over the life of the contract.

Contingent Liabilities for guarantees, letters of credit, acceptances and endorsements are reported at the rates prevailing on the Balance Sheet date.

AS AT 31 MARCH, 2007

6 Lease accounting

The Bank recognises 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.

7 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 as at March 31.

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 an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Bank contributes an amount (currently 8.33% of the lower of Rs. 6,500 or employee's basic salary) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. 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 employees.

8 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.

AS AT 31 MARCH, 2007

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.

Profit on sale of investments under Held to Maturity category is first taken to the Profit and Loss account and thereafter is appropriated to "Capital Reserve".

9 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.

10 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 for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

11 Income tax

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

12 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.

AS AT 31 MARCH, 2007

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.

13 Earnings per share

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

14 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.

15 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 realised.

AS AT 31 MARCH, 2007

16 Bullion

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The wholesale consignment imports are on a back to back basis and are priced to the customer based on the price quoted by the supplier. The Bank earns a fee on the wholesale bullion transactions. The fee is classified under commission income. On the retail front, the Bank sells the precious metal bars through its branch network after adding a markup on an estimated purchase price. The Bank consolidates the sales and prices the bullion with the supplier. The gain on sale is classified under commission income.

The Bank also borrows and lends gold which is treated as borrowing or as lending respectively with the interest paid/received classified as interest expense/income.

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.

For and on behalf of the Board

Jagdish Capoor
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President
(Legal) & Company Secretary

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

Mumbai, 24 April, 2007

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

In terms of the approval u/s 212(8) of the Companies Act, 1956 granted by the Ministry of Company Affairs vide its letter no. 47/346/2006-CL-III dated January 8, 2007.

(As on/for the year ended March 31, 2007)	Rs. lacs
Name of the subsidiary	**HDFC Securities Ltd.**
Capital	15,00
Reserves and Surplus	48,59
Total Assets (Fixed Assets + Investments + Current Assets + Deferred Tax Assets)	109,04
Total Liabilities (Debts + Current Laibilities + Deferred Tax Liability)	45,45
Investments	-
Total Income	67,04
Profit/(Loss) Before Taxation	11,49
Provision for Taxation	4,26
Profit/(Loss) After Taxation	7,23
Proposed Dividend and Tax (including cess) thereon	-