HDFC BANK LTD
Form 20-F
October 02, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended March 31, 2006

OR

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

OR

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

Date of event requiring this shell company report __________
For the transition period from __________ to __________

Commission file number 001-15216

HDFC BANK LIMITED
(Exact name of registrant as specified in its charter)
Not Applicable
(Translation of Registrant s name into English)
India
(Jurisdiction of incorporation or organization)
HDFC Bank House,
Senapati Bapat Marg, Lower Parel, Mumbai- 400 013, India
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares	**The New York Stock Exchange**

Each representing three equity shares, par value Rs. 10 per share

Securities registered pursuant to Section 12(g) of the Act.
Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
Not Applicable
(Title of Class)

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

313,142,408 Equity Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

þ Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes þ No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 þ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

September 29, 2006

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12	Description of Securities Other than Equity Securities	Not Applicable

EXCHANGE RATES

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

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

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

From 1980 until fiscal 2002, the rupee consistently depreciated against the dollar. In fiscal 2004 and 2005 the Indian rupee appreciated compared to fiscal 2003. The rupee s appreciation was due to remittances from exporters and non-resident Indians, foreign direct investment and foreign institutional investor inflows, along with the weakening of the U.S. dollar against major currencies. However in 2006 the rupee has again shown a tendency to depreciate against the US dollar. This is mainly due to higher crude prices and increase of interest rates in the U.S. market.

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

Fiscal Year	Period End(1)	Average(1)(2)	High	Low
2002	48.83	47.81	48.91	46.58
2003	47.53	48.36	49.07	47.53
2004	43.40	45.78	47.46	43.40
2005	43.62	44.87	46.45	43.27
2006	44.48	44.17	46.26	43.05

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

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

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

Month	Period End	Average	High	Low
March	44.48	44.34	44.58	44.09
April	44.86	44.82	45.09	44.39
May	46.22	45.20	46.22	44.69
June	45.87	45.89	46.25	45.50
July	46.52	46.37	46.83	45.84
August	46.43	46.45	46.61	46.32

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. All translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US$ 1.00 = Rs. 44.48 on March 31, 2006. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on September 29, 2006 was Rs. 45.95 per US$ 1.00.

FORWARD LOOKING STATEMENTS

We have included statements in this report which contain words or phrases such as will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, ob should, will pursue and similar expressions or variations of these expressions, that are forward-looking statements . Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy successfully, the market acceptance of and demand for various banking services, future levels of our non-performing loans, our growth and expansion, the adequacy of our allowance for credit and investment losses, technological changes, volatility in investment income, cash flow projections and our exposure to market and operational risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what may actually occur in the future. As a result, actual future gains, losses or impact on net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions in India and the other countries which have an impact on our business activities or investments; the monetary and interest rate policies of the government of India; inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices; the performance of the financial markets in India and globally; changes in Indian and foreign laws and regulations, including tax, accounting and banking regulations; changes in competition and the pricing environment in India; and regional or general changes in asset valuations. For further discussion on the factors that could cause actual results to differ, see Risk Factors .

BUSINESS

Overview

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

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2006, we expanded our operations from 131 branches and 207 ATMs in 53 cities to 535 branches and 1323 ATMs in 228 cities. During the same five years, our customer base grew from 0.9 million customers to 9.6 million customers. As our geographical reach and market penetration have expanded, so too have our assets, which grew from Rs. 161.1 billion as of March 31, 2001 to Rs. 791.0 billion as of March 31, 2006. Our net income has increased from Rs. 2.1 billion for fiscal 2001 to Rs. 9.2 billion for fiscal 2006 at a compounded annual growth rate of 33.9%.

Notwithstanding our pace of growth, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2006, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.4% of net customer assets. In addition, our net customer assets represented 72.7% of our deposits and customer deposits represented 70.5% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest savings accounts represented 57.0% of total deposits for the year ended March 31, 2006. These low-cost deposits, which include the cash float associated with our transactional services, led to an average cost of funds excluding equity for the fiscal year ended March 31, 2006 of 3.4%, which we believe is one of the lowest of all banks in India.

We are part of the HDFC group of companies founded by our parent, Housing Development Finance Corporation Limited (HDFC Limited), a public limited company established under the laws of India. HDFC Limited and its subsidiaries owned approximately 22.0% of our outstanding equity shares as of March 31, 2006.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States is CT Corporation System, 111, 8th Avenue, New York, NY 10011

Our Competitive Strengths

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

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

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

We deliver high quality service with superior execution

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

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

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

We have an experienced management team.

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

Our Business Strategy

Our business strategy emphasizes the following elements:

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

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

Maintain our current high standards for asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. Our ratio of gross non-performing assets to customer assets was 1.2% as of March 31, 2006 and our net non-performing assets amounted to 0.4% of net customer assets. We believe we can maintain our asset quality while still achieving growth.

Maintain a low cost of funds

As of March 31, 2006, our average cost of funds excluding equity was 3.4%. We believe we can maintain this low-cost funding base by expanding our base of retail savings and current deposits and increasing the free float generated by transaction services such as cash management and stock exchange clearing.

Focus on high earnings growth with low volatility

Our aggregate earnings have grown at a compound average rate of 33.9% per year during the five-year period ending March 31, 2006 and our basic earnings per share grew from Rs. 22.78 for fiscal 2005 to Rs. 29.45 for fiscal 2006. We intend to maintain our focus on earnings growth with low volatility through conservative risk management techniques and low cost funding. In addition, we intend not to rely heavily on revenue derived from trading so as to limit volatility.

Our Principal Business Activities

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

	Year ended March 31,			
	2004	2005	2006	2006
	(In millions, except percentage)			
Retail banking	Rs. 8,847.9	Rs. 13,037.0	Rs. 23,293.2	75.1%
Wholesale banking	4,653.2	7,192.4	8,256.0	26.6
Treasury operations	1,461.5	919.6	(527.1)	(1.7)
Net revenue	Rs. 14,962.6	Rs. 21,149.0	Rs. 31,022.1	100.0%

Retail Banking

Overview

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

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

As of March 31, 2006, we had 535 branches, including 23 extension counters, and 1,323 ATMs in 228 cities. We also provide telephone banking in 189 cities as well as internet and mobile banking. We plan to continue to expand our branch and ATM network as well as our other distribution channels.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, two wheelers and commercial vehicles, personal loans, loans against securities, and credit cards. Our retail loans were 57.2% of our gross loans as of March 31, 2006. Apart from our branches we use our ATM screens and the internet to promote our loan products and we employ additional sales methods depending on the type of products. Because there is no well-established credit bureau in India, we perform our own credit analyses of the borrowers and the value of the collateral. See Risk Management Credit Risk Retail Credit Risk . We also buy mortgage and other asset backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain irrevocable instructions to debit the customer s account directly for the making of payments.

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

	As of March 31, 2006			
	No. of Loans (In thousands)	Value (In millions)		% of Total Value
Retail Loans:				
Auto loan.[1]	117	Rs. 51,184.4	US$ 1,150.8	18.7%
Commercial vehicles and construction equipment finance.[1]	64	43,613.2	980.5	15.9
Personal loans	282	47,775.6	1,074.1	17.5
Loans against securities	30	17,669.8	397.3	6.5
Two wheeler loans	651	19,661.2	442.0	7.2
Retail business banking	10	29,291.6	658.6	10.7
Credit cards.[2]	2,417	13,758.0	309.3	5.0
Other retail loans	149	6,347.6	142.7	2.3
Total retail loans	3,720	229,301.4	5,155.3	83.8
Mortgage backed securities (home loans)[3]		17,054.8	383.4	6.2
Asset backed securities [3]		27,126.1	609.9	10.0
Total retail assets		Rs. 273,482.3	US$ 6,148.6	100.0%

(1) Net of receivables securitized.

(2) Number of cards in force.

(3) Reflected at fair value.

Auto Loans

We offer secured loans at fixed interest rates for financing new and used automobile purchases. In addition to our general marketing efforts for retail loans, we market this product through relationships with car dealers, corporate packages and joint promotion programs with automobile manufacturers in more than 1,000 locations across India.

Commercial Vehicles and Construction Equipment Finance

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

Personal Loans

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

Loans against Securities

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

Two Wheeler Loans

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

Retail Business Banking

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

Credit Cards

We have offered titanium gold and silver VISA and MasterCard credit cards since December 2001 and have approximately 2.4 million cards in force as of March 31, 2006 as against 1.3 million as of March 31, 2005. This increase was possible due to focused and stepped up marketing efforts.

Other Retail Loans

Such loans primarily include overdrafts against time deposits.

Mortgage- Backed Securities (Home Loans)

In fiscal 2003 we entered the home loan business through an arrangement with HDFC Limited. Under this arrangement, we sell home loans provided by HDFC Limited, which approves and disburses the loans. The loans are booked in the books of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, HDFC Limited offers us up to 70% of the fully disbursed home loans sourced under the arrangement through the issue of mortgage-backed pass-through certificates (PTCs). We purchase the mortgage backed PTCs at the underlying home loan yields less a fee paid to HDFC Limited for administration and servicing of the loans. A part of the home loans also qualifies for our directed lending requirement. We also invest in mortgage-backed securities of other originators. Most of these securities also qualify toward our directed lending obligations.

Asset-Backed Securities

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

Sale/Transfer of Receivables

The bank from time to time securitizes out its receivables to special purpose vehicles. In respect of certain transactions, we provide credit enhancements generally in the form of cash collaterals/guarantees/interest spreads and/or by subordination of cash flows to senior PTCs (Pass Through Certificates). The Bank also enters into sale transactions, which are similar to asset backed securitization transactions through the SPE route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. During fiscal 2005 and 2006, we securitized loans with carrying values of Rs. 48.0 billion and Rs. 19.9 billion, respectively. In respect of some of the PTCs, we provide options to the investors to sell them to us at predetermined dates and these options are exercisable at par. Principal outstanding on the puttable PTCs as of March 31, 2006 was Rs. 108.6 million. All such puttable PTCs are exercisable within a year and Rs. 21.2 million within two years.

Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented 62.3% of our total deposits as of March 31, 2006. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

	At March 31, 2006				
	Value (in millions)		% of total	No of accounts (in thousands)	% of total
Savings	Rs. 153,072.0	US$ 3,441.4	44.1%	4,480.5	78.7%
Current	70,781.7	1,591.3	20.4	558.9	9.8
Time	123,489.8	2,776.3	35.5	651.9	11.5
Total	Rs. 347,343.5	US$ 7,809.0	100.0%	5,691.3	100.0%

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

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

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

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

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

Debit Cards

Our international debit card allows our customers to purchase goods and make ATM transactions in India as well as abroad. Our debit cards may be used with more than 310,000 merchants and over 18,000 ATMs in India and more than 23 million merchants and 1.15 million ATMs worldwide. We were the first in India to issue international Visa Electron debit cards on a nationwide basis and currently issue both Visa Electron and MasterCard Maestro cards.

Individual Depositary Accounts

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

Mutual Fund Sales

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

Insurance

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

Investment Advice

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

Bill Payment Services

We offer our customers utility bill payment services for more than 77 leading utility companies including electricity, telephone, mobile phone and leading internet service providers. Customers can also review and access their bill details through our direct banking channels. This service is valuable to customers because utility bills must otherwise be paid in person in India. Although other banks offer this service, we believe we are one of the few banks to offer it through multiple distribution channels ATMs, telephone banking, internet banking and mobile telephone banking.

Corporate Salary Accounts

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees individual accounts, and offer them preferred services, such as preferential loan rates, and in some cases lower minimum balance requirements. As of March 31, 2006, these accounts constituted approximately 48% of our total savings accounts by number and approximately 34% of our retail savings deposits by value.

Non-Resident Indian Services

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs. 37.2 billion as of March 31, 2006, *Customers and Marketing*

Our target market for our retail services comprises upper and middle-income persons and high net worth customers. We also target small businesses, trusts and non-profit corporations. As of March 31, 2006, 3.5% of our retail customers contributed approximately 44% of our retail deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

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

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

Wholesale Banking

Overview

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

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

For our commercial banking products, we generally target the top end of the Indian corporate sector, including companies that are part of the large private sector business houses, large public sector enterprises and multinational corporations, as well as leading small and mid-sized businesses. We also target suppliers and distributors of top-end corporations as part of a supply chain initiative for both our commercial banking products and transactional services whereby we provide credit facilities to these suppliers and distributors and thereby establish relationships with them. We aim to provide our corporate customers with high quality customized service. We have relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

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

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

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

We also purchase credit substitutes, which are typically comprised of commercial paper, short-term debentures and preference shares issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and we bear the same customer risk as we do for loans extended to these customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer. Our credit substitutes have declined over the last three years primarily as a result of new RBI and Securities and Exchange Board of India (SEBI) regulations that require the listing and rating of corporate paper, securities and limit our investments in unlisted credit substitutes, making loans more attractive for our corporate customers.

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

	As of March 31,			
	2004	**2005**	**2006**	**2006**
	(In millions)			
Gross commercial loans:				
Working capital	Rs. 54,104.5	Rs. 72,397.6	Rs. 78,693.4	US$ 1,769.2
Term loans	53,819.3	76,861.8	92,932.8	2,089.2
Total commercial loans	Rs. 107,923.8	Rs. 149,259.4	Rs. 171,626.2	US$ 3,858.4
Credit substitutes:				
Commercial paper	Rs. 906.7	Rs. 1,297.3	Rs.	US$
Non-convertible debentures	14,852.0	12,018.7	9,308.1	209.3
Preference shares	799.2	564.9	443.2	9.9
Total credit substitutes	Rs. 16,557.9	Rs. 13,880.9	Rs. 9,751.3	US$ 219.2
Customer assets	Rs. 124,481.7	Rs. 163,140.3	Rs. 181,377.5	US$ 4,077.6

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

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

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see Supervision and Regulation Regulations Relating to Making Loans Directed Lending .

Bill Collection, Documentary Credits and Guarantees

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

	As of March 31,			As of March 31,
	2004	2005	2006	2006
	(In millions)			
Bill collection	Rs. 172,623.6	Rs. 359,609.0	Rs. 381,657.9	US$ 8,580.4
Documentary credits	44,030.0	56,702.9	46,106.1	1,036.6
Bank guarantees	15,197.0	14,518.2	21,949.0	493.5
Total	Rs. 231,850.6	Rs. 430,830.1	Rs. 449,713.0	US$ 10,110.5

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

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

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

Foreign Exchange and Derivatives

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

Precious Metals

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

Wholesale Deposit Products

As of March 31, 2006, we had wholesale deposits totaling Rs. 210.0 billion, which represented 37.7% of our total deposits and 26.5% of our total liabilities, including shareholders equity. We offer both non-interest-bearing current accounts and time deposits. As per RBI regulations, we cannot pay interest for periods of less than seven days. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 1.5 million) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity. See Selected Statistical Information for further information about our total deposits.

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Transactional Services

Cash Management Services

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

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

As of March 31, 2006 over 5,000 wholesale banking clients used our cash management services. These clients include leading Indian private sector companies, public sector undertakings and multinational companies. We also provide these services to most Indian insurance companies, many mutual funds, brokers, financial institutions and various government entities.

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

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

The RBI has introduced a new inter-bank settlement system called the Real Time Gross Settlement (RTGS) system. The system facilitates real time settlements primarily between banks, initially in select locations. This system is currently not fully operational. See Risk Factors Risks Relating to Our Business We could be adversely affected by the development of a nationwide inter-bank settlement system .

Clearing Bank Services for Stock and Commodity Exchanges

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

Custodial Services

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

Correspondent Banking Services

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

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

Tax Collections

In April 2001, we were the first private sector bank to be appointed by the government of India to collect direct taxes. In fiscal 2006, we collected more than Rs. 234 billion of direct taxes for the government of India. We have also been appointed to collect sales, excise and other indirect taxes within certain jurisdictions in India. In fiscal 2006 we collected more than Rs. 24 billion of indirect taxes for the government of India. We earn a fee from each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

Treasury

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

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

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

Foreign Exchange

We trade spot and forward foreign exchange contracts, primarily with maturities of up to three years with our customers. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We believe we are a market maker in the dollar-rupee segments. Although spreads are very narrow, our total volume of trading is significant with US$ 142.9 billion in foreign exchange traded in fiscal 2006.

Derivatives

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

Domestic Money Market and Debt Securities Desk

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

Equities Market

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2006, we had an internal approved limit of Rs. 300 million for secondary market purchases and Rs. 100 million for primary purchases of equity investments for proprietary trading. Our exposure as of March 31, 2006 was approximately Rs. 120 million. We set limits on the amount invested in any individual company as well as stop-loss limits.

Distribution Channels

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

Branch Network

As of March 31, 2006, we had an aggregate of 535 branches, including 23 extension counters. Our branch network covers 228 cities in India, with 171 branches concentrated in the four largest cities, Mumbai, Delhi, Chennai and Kolkata (Calcutta). We centralize our processing of transactions and back office operations in Mumbai and Chennai. This structure enables the branch staff to focus on customer service and selling our products. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

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

Automated Teller Machines

As of March 31, 2006, we had a total of 1,323 ATMs, of which 651 were located at our branches or extension counters and 672 were located off-site, including at large residential developments, or on major roads in metropolitan areas.

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

Telephone Banking Call Centers

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

Internet Banking

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

Mobile Telephone Banking

We launched mobile telephone banking services in January 2000, making us the first bank to do so in India. Customers in over a 150 locations are eligible to sign up for mobile telephone banking, which allows them to access their accounts on their mobile telephone screens and to conduct a variety of banking transactions including balance inquiries, stop payment orders and utility bill payments.

Risk Management

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

Credit Risk

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

Wholesale Credit Risk

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

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

We are subject to RBI policies that limit our exposure to particular counter-parties and with respect to particular instruments. The RBI provides that without prior approval not more than 15% of our capital funds (as defined by RBI and calculated under Indian GAAP) may be extended as credit exposure to an individual borrower, and not more than 40% of our capital funds may be extended as credit exposure to a group of companies under the same management. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and 10% in respect of group borrowers. The RBI has stated that banks may, in exceptional circumstances and with the approval of their boards of directors, consider enhancement of the exposure to a borrower by a further 5% of the capital funds. See Supervision and Regulation Credit Exposure Limits . During the fiscal 2006, the bank s credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in case of National Bank for Agricultural and Rural Development (NABARD), where the single borrower limits were exceeded. The Board of Directors of the Bank approved the excess over the prudential limits subject to a ceiling of 20% of capital funds. At March 31, 2006, the book value of outstanding exposure to NABARD was within the board approved limit of 20% of capital funds.

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

We follow a policy of portfolio diversification by industry. As of March 31, 2006, our funded exposures in any single industry did not exceed 12% of our total funded exposures.

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

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

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

See Selected Statistical Information for a discussion of our policies regarding classification of loans and advances as non-performing (and certain differences between our policies and the practices of U.S. banks), our policies regarding provisioning for loans and information concerning our non-performing assets and allowance for credit losses.

Retail Credit Risk

Our retail credit policy and approval process are designed for the fact that we have high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, our credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. We monitor our own and industry experience to determine and periodically revise product terms and desired customer profiles. We then verify that an individual customer meets our lending criteria. Our retail loans are generally either secured or made against direct debit instructions or delivery of post-dated checks to cover all payments. It is a criminal offense in India to issue a bad check. In the case of most automobile and other vehicle loans as well as unsecured personal loans, we require that the borrower provide post-dated checks for a certain number of payments on the loan at the time the loan is made. Automobile and commercial vehicle loans, two wheeler loans and other vehicle loans, as well as loans against securities are all secured loans. We will generally lend up to 60% of the market value of securities in the case of loans against equity shares, 90% of the value of the automobile in case of automobile loans and 85% of the value of the two-wheeler in the case of two-wheeler loans.

Foreign Exchange, Derivatives and Trading Activities

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

Market Risk

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

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

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

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

Asset Liability Management

We generally fund our core customer assets, consisting of loans and credit substitutes, with our core customer liabilities, consisting principally of deposits. We also borrow in the short-term inter-bank market. We use the majority of our funds to make loans or purchase securities. Most of our liabilities and assets are short and medium term.

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

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

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

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

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

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

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

Liquidity Risk

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

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

Price Risk

Price risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates and exchange rates. Our Treasury Group is responsible for implementing the price risk management process within the limits approved by the Board of Directors. These limits are independently monitored by the treasury operations group. We measure price risk through a two-stage process, the first part of which is to assess the sensitivity of the value of a position to changes in market factors to which our business is exposed. We then assess the probability of these changes or the volatility of market factors. We manage price risk principally by establishing limits for our money market activities and foreign exchange activities.

We monitor and manage our exchange rate risk through a variety of limits on our foreign exchange activities. The RBI also limits the extent to which we can deviate from a near square position at the end of the day (where sales and purchases of each currency are matched). Our own policies set limits on maximum open positions in any currency during the course of the day as well as on overnight positions. We also have gap limits that address the matching of forward positions in various maturities and for different currencies. In addition, the RBI approves the aggregate gap limit for us. This limit is applied to all currencies. We also have stop-loss limits that require our traders to realize and restrict losses. We evaluate our risk on foreign exchange gap positions on a daily basis using a Value at Risk model applied to all of our outstanding foreign exchange instruments.

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

Our Treasury Operations Department monitors actual positions against the required limits. The treasury operations department is independent of the treasury department and has a separate reporting line to the Managing Director through the head of operations.

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

Operational Risk

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

§ to independently evaluate the adequacy of all internal controls;

§ to ensure adherence to the operating guidelines, including regulatory and legal requirements; and

§ to recommend operation process improvements.

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

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

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

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

During the year, the Reserve Bank of India (RBI) had undertaken special scrutiny of certain customer accounts based on which it imposed penalties on the Bank aggregating to Rs. 3.0 million under the provisions of the Banking Regulation Act, 1949. The said penalties were imposed mainly for not displaying prudence in the opening and monitoring operations of certain deposit and depositary accounts in relation to know your customer (KYC) and certain other extant guidelines of the Reserve Bank of India. We submit that we had followed documentation and related requirements as specified in guidelines issued by RBI from time to time in opening and monitoring the operations of the accounts. It appears that the in the said cases the customers planned and executed an ingenious way to beat the system for personal gains resulting in the Bank failing to meet the spirit of the KYC guidelines. Although our processes/systems did throw up these deviant transactions, they passed through because of lack of prudence and negligence on the part of certain employees managing these processes. We have taken stern action against these employees. In the light of the aforesaid experiences, we have further tightened certain internal control processes and have instituted additional measures to ensure strict adherence to Know Your Customer / Anti Money Laundering norms.

Competition

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

Retail Banking

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

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

Wholesale Banking

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

Treasury

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

Employees

Our number of employees increased from 9,030 as of March 31, 2005 to 14,878 as of March 31, 2006, primarily as a result of the expansion of our branch network, an increase in the territories we cover and substantial growth in our retail business, particularly in the credit card market. Almost all our employees are located in India. Approximately 9.8% of our employees were managers or senior managers, and 2.2% were assistant vice presidents, vice presidents or group heads. More than 99% of our employees have university degrees.

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

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

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

We focus on training our employees on a continuous basis. We have a training center in Mumbai, where we conduct regular training programs for our employees. Management and executive trainees generally undergo an 8-12 week training module covering every aspect of banking. We offer courses conducted by both internal and external faculty. In addition to ongoing on-the-job training, we provide employees courses in specific areas or specialized operations on an as-needed basis.

Properties

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

Close to the corporate headquarters is the administrative center at Kamala Mills Compound in Lower Parel, Mumbai. We own our 120,000 square foot operations, training and information technology centers in Chandivili, Mumbai. As of March 31,2006, we had a network consisting of 535 branches, including 23 extension counters, and 1,323 ATMs, including 672 at non-branch locations. These facilities are located throughout India. Nineteen of these branches are located on properties owned by us; the remaining facilities are located on leased properties. The net book value of all our owned properties, including branches, administrative offices and residential premises as of March 31, 2006 was Rs. 2.6 billion.

Legal Proceedings

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

RISK FACTORS

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

Risks Relating to Our Business

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

Our asset growth rate has been significantly higher than the Indian GDP growth rate as well as the growth rate in the Indian banking industry over the last five fiscal years. For example, our total assets in the three year period ended March 31, 2006 grew at a compounded annual growth rate of 36.4%. Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls such as,

§ recruiting, training and retaining sufficient skilled personnel;

§ upgrading and expanding our technology platform;

§ developing and improving our products and delivery channels;

§ preserving our asset quality as our geographical presence increases and customer profile changes; and

§ maintaining high levels of customer satisfaction.

An inability to manage our growth effectively could have a material adverse effect on our business and our future financial performance.

Our business is vulnerable to volatility in interest rates.

Our results of operations depend to a great extent on our net interest revenue. During the fiscal year ended March 31, 2006, net interest revenue after allowances for credit losses represented 60.8% of our net revenue. Changes in market interest rates could affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect investment values. This difference could result in an increase in interest expense relative to interest revenue, leading to a reduction in our net interest revenue and net interest margin. In addition, a rise in interest rates could negatively affect demand for our retail loans and other products.

Interest rates are highly sensitive to many factors beyond our control, including the monetary policies of the RBI, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business, our future financial performance and the price of our equity shares and ADSs. Yields on the Indian government s ten-year bonds were 5.2%, 6.7% and 7.5% as of March 31, 2004, March 31, 2005 and March 31, 2006, respectively.

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

Our gross non-performing loans and impaired credit substitutes represented 1.2% of our gross customer assets as of March 31, 2006. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.4% of our net customer assets portfolio as of March 31, 2006. As of March 31, 2006, we had provided for 118.2% of our total non-performing loans. We cannot assure ADS holder that our provisions will be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a relatively young bank and we have not experienced a significant and prolonged downturn in the economy.

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

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

We calculate customer and industry exposure in accordance with the policies established by Indian GAAP and the RBI. In the case of customer exposures, we aggregate the higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds and equity shares). As of March 31, 2006, our ten largest customer exposures totaled approximately Rs. 53.37 billion, representing approximately 78% of our capital funds valuation as per RBI guidelines based on Indian GAAP figures, and none of these were classified as non-performing. Our largest single customer exposure as of that date was Rs. 11.99 billion, representing approximately 17.4% of the capital funds as on March 31, 2006 based on Indian GAAP figures. However, if any of our ten largest customer exposures of the bank were to become non-performing, the quality of our portfolio and our business could be adversely affected.

We monitor concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2006, our largest industry concentrations were as follows: automotive manufacturing (8.8%), transportation (8.0%), housing finance (3.8%), retail traders (3.1%) and engineering (2.8%). In addition, as of that date, approximately 39.0% of the concentration of our exposure was retail (except where otherwise included in the above classification). As of that date, our total non-performing loans and investments were concentrated in the following industries: automobiles (19.6%), transportation (7.1%), textiles (6.4%) and electronics (4.6%).

In addition we have funded exposures to several state sponsored financial institutions primarily to meet directed lending requirements as of March 31, 2006. This exposure represented 6.5% of our total funded exposures. If these institutions experienced financial difficulties, as a result of difficulties in the sectors to which they lend (such as agriculture) or otherwise, our business could also be adversely affected.

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

One of our principal activities is providing financing to our customers, almost all of whom are based in India. We are subject to the credit risk that our borrowers may not pay us in a timely fashion or at all. The credit risk of all our borrowers is higher than in other developed countries due to the higher uncertainty in our regulatory, political and economic environment. In addition, unlike several developed countries, India does not have a well-established nationwide credit bureau, which may affect the quality of information available to us about the credit history of our borrowers, especially individuals and small businesses. Higher credit risk may expose us to greater potential losses, which would adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

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

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

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

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

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

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

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

The RBI requires a minimum capital adequacy ratio of 9% to our total risk-weighted assets. We must maintain this minimum capital adequacy level to support our continuous growth. Our capital adequacy ratio was 11.4% on March 31, 2006. The implementation of the Basel II capital adequacy standards could also result in a decline in our capital adequacy ratio. Our ability to support and grow our business could be limited by a declining capital adequacy ratio if we are unable to or have difficulty accessing the capital markets.

Material changes in Indian banking regulations could harm our business.

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending, reserve requirements and other areas. For example, the RBI could change its methods of enforcing directed lending standards so as to require more lending to certain sectors, which could require us to change certain aspects of our business. In addition, we could be subject to other changes in laws and regulations such as those affecting the extent to which we can engage in specific businesses or those affecting foreign investment in the banking industry, as well as changes in other governmental policies and enforcement decisions, income tax laws, foreign investment laws and accounting principles. We cannot assure ADS holders that laws and regulations governing the banking sector will not change in the future or that any changes will not adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

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

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

Consolidation in the banking industry could adversely affect us.

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

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

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

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

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

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

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

Because of our many transactions with stock market participants, our business could suffer if there is a prolonged or significant downturn on the Indian stock exchanges.

We provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares and initial public offering finance for retail customers, stock exchange clearing services and depositary accounts. As of March 31, 2006, our capital market exposure was Rs. 15.9 billion that primarily included investments in equity shares, loans to share brokers and financial guarantees issued to stock exchanges on behalf of share brokers. At 6.12% of advances (computed as per the RBI norms) this was within the ceiling approved by the RBI. As a result of our exposure to this industry, a significant or prolonged downturn on the Indian stock exchanges could have a material adverse effect on our business and cause the price of equity shares and ADSs to go down. Our capital market exposure including that of our subsidiaries whose financials we have consolidated is Rs. 16.3 billion.

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

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

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

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

Housing Development Finance Corporation Limited (HDFC Limited) and its subsidiaries owned 22.0% of our equity as of March 31, 2006. So long as HDFC Limited and its subsidiaries hold at least a 20.0% equity stake in us, HDFC Limited is entitled to nominate the two directors who are not required to retire by rotation to our board, including the Chairman and our Managing Director, subject to RBI approval. Accordingly, HDFC Limited may be able to exercise substantial control over our board and over matters subject to a shareholder vote.

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

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

RBI guidelines relating to ownership in private banks could discourage or prevent a change of control or other business combination involving us and could require HDFC Limited to reduce substantially its equity interest in us.

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

We believe that the new rules will not be applied to the equity interest in us held by HDFC Limited and its subsidiaries.

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

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

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

Section 404 of the Sarbanes Oxley Act of 2002 (Section 404) requires us to include in our Annual Report on Form 20-F management s assessment of the effectiveness of our internal controls over financial reporting, together with an attestation report from our auditors. Section 404 applies to us as of March 31, 2007. We have recently begun a formal process for the purposes of compliance with Section 404 and although we expect to complete this in a timely manner, there is no assurance we will be able to do so.

A change in U.S. GAAP accounting standards for employee stock options is likely to have an adverse impact on our net income.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, which eliminates the ability to account for share-based compensation transactions using the intrinsic value approach, which we currently use, and requires instead that such transactions be accounted for using a fair-value based method. Application of SFAS 123(R) is likely to reduce our net income from what we would otherwise report using the intrinsic value approach. We are required to apply SFAS 123(R) to all awards granted, modified or settled in our first reporting period under U.S. GAAP after June 15, 2006. In applying the standard, we can elect to follow either a prospective method or a retrospective method under which we would restate our previously issued financial statements. We have since elected to follow prospective method in implementing SFAS 123(R). If we were to adopt the standard using the retrospective method, our net income would have been Rs. 900.9 million less than reported in the year ended March 31, 2005 and Rs. 1,229.9 million less than reported in the year ended March 31,2006. See also Management s Discussion and Analysis New Accounting Pronouncements Share-Based Payments and Note 2(q) to our audited financial statements included elsewhere herein.

Risks Relating to Investments in Indian Companies

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

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

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

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

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

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

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

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

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

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

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

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

The RBI introduced a liberalized branch licensing policy in September 2005. We have applied for branches under the said policy. Till date we have not received any approvals for the same. However, RBI has advised us that the same is under review. Any prolonged delay on the receipt of such documents could adversely affect our future financial performance.

Risks Relating to the ADSs and Equity Shares

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

Historically, our ADSs have traded on the New York Stock Exchange at a substantial premium to the trading prices of our underlying equity shares on the Indian stock exchanges. Please see Price Range of Our American Depositary Shares and Equity Shares for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization previously represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for investors to trade dollar-denominated securities. Over time some of the restrictions on issuance of ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. No assurances can be made that the historical premium enjoyed by ADSs compared to equity shares will not be reduced or eliminated.

ADS holder will not be able to vote.

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

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

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

There is a limited market for the ADSs.

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

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

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. The BSE Sensex, which is an index composed of 30 of the largest and most actively traded stocks on the Bombay Stock Exchange has been very volatile for the last few months. The governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Although the price of our stock has not been as volatile as the markets generally, future fluctuations could have a material adverse affect on the price of our equity shares and ADSs.

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

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

ADS holder may be unable to exercise preemptive rights available to other shareholders.

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

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

Fluctuations in the exchange rate between the U.S. dollar and the Indian rupee may affect the value of ADS holder s investment in our ADSs. Specifically, if the relative value of the Indian rupee to the U.S. dollar declines, as it generally has over the past several years, each of the following values will also decline:

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

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

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

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

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

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

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

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

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

PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES

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

Trading Prices of Our ADSs on the New York Stock Exchange

The following table shows:

§ the reported high and low prices for our ADSs in U.S. dollars on the New York Stock Exchange; and

§ the average daily trading volume for our ADSs on the New York Stock Exchange.

	Price per ADS		**Average daily ADS trading volume**
	High	**Low**	**(Number of ADSs)**
Fiscal			
2003	US$ 16.3	US$ 11.9	42,778
2004	34.9	15.4	68,228
2005			
First Quarter	33.1	19.6	103,313
Second Quarter	34.0	25.7	37,966
Third Quarter	45.9	30.5	88,325
Fourth Quarter	50.0	38.8	194,834
2006			
First Quarter	48.5	40.0	127,761
Second Quarter	53.0	45.3	142,473
Third Quarter	54.8	42.0	205,373
Fourth Quarter	59.7	51.2	193,353
Most Recent Six Months			
March 2006	55.8	52.4	170,182
April 2006	62.5	54.9	221,937
May 2006	63.6	51.6	247,445
June 2006	55.8	43.0	368,386
July 2006	55.0	47.3	206,525
August 2006	58.0	52.4	123,052

Trading Prices of Our Equity Shares on the National Stock Exchange

The following table shows:

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

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

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

	Price per equity share		Price per equity share		Average daily equity share trading volume
	High	Low	High	Low	
Fiscal Year					
2002	Rs. 255.0	Rs. 184.1	US$ 5.7	US$ 4.1	85,109
2003	256.0	186.0	5.8	4.2	94,016
2004	406.8	231.0	9.1	5.2	294,090
2005					
First Quarter	400.0	256.2	9.0	5.8	250,044
Second Quarter	416.7	341.1	9.4	7.7	338,098
Third Quarter	530.0	396.2	11.9	8.9	346,242
Fourth Quarter	628.6	475.1	14.1	10.7	366,794
2006					
First Quarter	643.0	448.0	14.5	10.1	262,870
Second Quarter	765.0	537.9	17.2	12.1	438,678
Third Quarter	748.5	603.0	16.8	13.6	465,565
Fourth Quarter	812.0	680.0	18.3	15.3	526,244
Most Recent Six Months					
March	812.0	721.0	18.3	16.2	542,918
April	865.0	740.9	19.4	16.7	555,505
May	895.0	710.0	20.1	16.0	571,663
June	814.8	615.2	18.3	13.8	481,029
July	816.0	680.0	18.3	15.3	388,205
August	870.0	764.1	19.6	17.2	278,540

The closing price for our equity shares on the National Stock Exchange was Rs. 925.4 (US$ 20.8) per share on September 29, 2006.

As of March 31, 2006 there were 184,168 holders of record of our equity shares, excluding ADSs, of which 44 had registered addresses in the United States and held an aggregate of 37,097 of our equity shares.

DESCRIPTION OF EQUITY SHARES

We incorporate by reference the information disclosed under Description of Equity Shares in our registration statement on Form F-3 filed on January 21, 2005 (File No 333-121096).

DIVIDEND POLICY

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

	Dividend per equity share		Total amount of dividends paid(1) (in millions)	
Relating to Fiscal Year				
2002	Rs. 2.50	US$ 0.056	Rs. 703.4	US$ 15.8
2003	3.00	0.067	850.5	19.1
2004	3.50	0.079	1,000.5	22.5
2005	4.50	0.101	1,400.7	31.5
2006	5.50	0.124	1,722.3	38.7

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

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

Currently, we pay a 12.5% direct tax, a 10% surcharge and a 2% of add on tax in respect of dividends paid by us. These are direct taxes paid by us; these taxes are not payable by shareholders and are not withheld or deducted from the dividend payments set forth above. The tax rates imposed on us in respect of dividends paid in prior periods varied, and in fiscal 2003, tax on dividend was payable by shareholders.

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

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

SELECTED FINANCIAL AND OTHER DATA

The following table sets forth our selected financial and operating data. Our selected income statement data for the fiscal years ended March 31, 2004, 2005 and 2006 and the selected balance sheet data as of March 31, 2005 and 2006 are derived from our audited financial statements included in this report together with the report of Deloitte Haskins & Sells, independent registered public accounting firm. Our selected balance sheet data as of March 31, 2002, March 31, 2003, March 31, 2004 and selected income data for the year ended March 31, 2002 and March 31, 2003 are derived from our audited financial statements not included in this report. For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2006 have been translated into U.S. dollars at the rate on such date of Rs. 44.48 per US$ 1.00.

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

	Years ended March 31,					
	2002	**2003**	**2004**	**2005**	**2006**	**2006**
	(In millions, except per equity share data)					
Selected income statement data:						
Interest and dividend revenue	Rs. 16,448.0	Rs. 19,424.8	Rs. 24,591.5	Rs. 29,209.4	Rs. 43,528.0	US$ 978.6
Interest expense	10,762.5	11,779.2	11,983.1	13,223.7	19,621.8	441.1
Net interest revenue	5,685.5	7,645.6	12,608.4	15,985.7	23,906.2	537.5
Allowance for credit losses, net	451.6	741.5	2,343.4	3,048.2	5,032.0	113.1
Net interest revenue after allowance for credit losses	5,233.9	6,904.1	10,265.0	12,937.5	18,874.2	424.4
Non-interest revenue, net	3,215.1	4,397.3	4,697.6	8,211.5	12,147.9	273.0
Net revenue	8,449.0	11,301.4	14,962.6	21,149.0	31,022.1	697.4
Non-interest expense	4,196.0	6,057.9	8,369.3	11,413.9	17,846.8	401.2
Income before income taxes	4,253.0	5,243.5	6,593.3	9,735.1	13,175.3	296.2
Income tax expense	1,294.6	1,729.7	1,838.8	3,125.4	3,965.7	89.2
Net income before minority	Rs. 2,958.4	Rs. 3,513.8	Rs. 4,754.5	Rs. 6,609.7	Rs. 9,209.6	US$ 207.0

interest												
Minority interest										22.5		0.5
Net income	Rs.	2,958.4	Rs.	3,513.8	Rs.	4,754.5	Rs.	6,609.7	Rs.	9,187.1	US$	206.5
Per equity share data:												
Earnings per share, basic	Rs.	11.10	Rs.	12.57	Rs.	16.87	Rs.	22.78	Rs.	29.45	US$	0.66
Earnings per share, diluted		11.04		12.51		16.70		22.60		29.08		0.65
Dividends per share		2.50		3.00		3.50		4.50		5.50		0.12
Book value(1)		79.06		93.36		110.36		159.22		176.49		3.97
Equity share data:												
Equity shares outstanding at end of period		279.0		279.7		282.8		309.9		313.1		313.1
Weighted average equity shares outstanding basic		266.6		279.6		281.9		290.1		311.9		311.9
Weighted average equity shares outstanding diluted		267.9		281.4		284.7		292.5		315.9		315.9

	Years ended March 31, 2002	2003	2004	2005	2006	2006
	(In millions)					
Selected balance sheet data:						
Total assets	Rs. 243,032.2	Rs. 311,840.7	Rs. 426,835.6	Rs. 535,544.2	Rs. 790,969.4	US$ 17,782.6
Cash and cash equivalents	34,590.6	23,944.9	33,010.4	37,575.8	61,194.3	1,375.8
Term placements (2)		7,747.4	3,565.2	8,699.6	10,243.7	230.3
Loans, net of allowance	71,528.9	118,299.9	177,681.1	256,486.9	395,274.3	8,886.5
Of which:						
Non-performing loans, net of specific allowances	536.4	683.3	269.9	591.4	1,578.9	35.5
Investments:						
Investments held for trading	3,837.6	3,976.1	6,233.8	1,278.5	2,945.6	66.2
Investments available for sale	80,320.6	98,929.2	133,274.6	204,292.8	273,457.0	6,147.9
Investments held to maturity(3)	35,429.9	38,426.7	36,368.4			
Total	119,588.1	141,332.0	175,876.8	205,571.3	276,402.6	6,214.1
Of which:						
Credit substitutes(4)	35,126.0	29,752.8	16,557.9	13,880.9	9,751.3	219.2
Total liabilities	220,971.3	285,727.6	395,619.8	486,206.2	735,476.6	16,535.0
Long-term debt	2,157.9	2,116.0	6,086.0	5,028.1	17,028.6	382.8
Short-term borrowings	21,600.3	21,579.6	24,064.2	62,079.1	75,676.7	1,701.4
Total deposits	176,538.1	223,760.0	304,062.0	363,542.5	557,305.4	12,529.3
Minority Interest					225.3	5.0
Shareholders equity	22,060.9	26,113.1	31,215.8	49,338.0	55,267.5	1,242.6

	Years ended March 31, 2002	2003	2004	2005	2006	2006
	(In millions)					
Period average(5)						
Total assets	Rs. 202,013.2	Rs. 257,020.8	Rs. 357,123.8	Rs. 448,029.6	Rs. 621,249.5	US$ 13,966.9
Interest-earning assets	183,488.8	230,451.9	327,523.4	424,620.1	589,311.0	13,248.9
Loans, net of allowance	59,374.9	82,461.2	136,527.4	204,919.0	323,709.9	7,277.7
Total liabilities	185,512.4	232,933.8	328,458.9	407,265.5	572,893.7	12,879.8
Interest-bearing liabilities	137,681.1	175,598.6	236,551.0	298,276.8	419,000.5	9,420.0
Long-term debt	2,159.7	2,280.3	2,605.9	5,371.3	7,345.7	165.1
Short-term borrowings	18,105.9	15,362.9	33,040.7	42,594.6	73,569.3	1,654.0
Total deposits	142,854.5	186,847.7	262,707.7	342,693.5	463,701.8	10,425.0
Of which:						
	117,415.5	157,955.4	200,904.4	250,310.9	338,085.5	7,600.8

Interest-bearing deposits						
Shareholders equity	16,500.8	24,087.0	28,664.9	40,764.1	48,355.80	1,087.1

	As of or for the years ended March 31,				
	2002	**2003**	**2004**	**2005**	**2006**
	(In percentage)				
Profitability:					
Net income (after minority interest) as a percentage of:					
Average total assets	1.5	1.4	1.3	1.5	1.5
Average shareholders equity	17.9	14.6	16.6	16.2	19.0
Dividend payout ratio(6)	23.8	24.2	21.0	21.2	18.7
Spread(7)	2.4	2.7	3.5	3.5	3.8
Net interest margin(8)	3.1	3.3	3.8	3.8	4.1
Cost-to-net revenue ratio(9)	49.7	53.6	55.9	54.0	57.2
Cost-to-average assets ratio(10)	2.1	2.4	2.3	2.5	2.9
Capital:					
Total capital adequacy ratio(11)	13.9	11.1	11.7	12.2	11.4
Tier 1 capital adequacy ratio(11)	10.8	9.5	8.0	9.6	8.5
Tier 2 capital adequacy ratio(11)	3.1	1.6	3.7	2.6	2.9
Average shareholders equity as a percentage of average total assets	8.2	9.4	8.0	9.1	7.8
Asset quality:					
Gross non-performing loans as a percentage of gross loans	2.7	2.0	1.7	1.6	1.2
Gross non-performing customer assets as a percentage of gross customer assets(12)	1.9	1.6	1.6	1.5	1.2
Net non-performing loans as a percentage of net loans	0.7	0.6	0.2	0.2	0.4
Net non-performing customer assets as a percentage of net customer assets(12)	0.5	0.5	0.2	0.2	0.4
Net non-performing loans as a percentage of total assets	0.2	0.2	0.1	0.1	0.2
Specific allowance for credit losses as a percentage of gross non-performing loans	72.6	71.1	91.0	85.5	67.0
Total allowance for credit losses as a percentage of gross non-performing loans	81.9	78.8	116.8	133.2	118.2
Allowance for credit losses as a percentage of gross total loans	2.2	1.6	1.9	2.1	1.4

(1) Represents the difference between total assets and total liabilities,

divided by the number of shares outstanding at the end of each reporting period.

(2) Includes placements with banks and financial institutions with original maturities of greater than three months.

(3) During the year ended March 31, 2005 we transferred certain securities classified as held to maturity to the available for sale category for reasons not permitted under U.S. GAAP. As a result we were required to transfer all remaining securities to the available for sale category and we are prevented from establishing a held to maturity portfolio until after March 31, 2007. See Management s Discussion and Analysis of Financial Condition and Results of

Operations .

(4) Credit substitutes consist of investments in commercial paper, debentures and preference shares issued by our corporate customers. See Business Commercial Banking Products Commercial Loan Products and Credit Substitutes .

(5) Average balances are the average of daily outstanding amounts. Average figures are unaudited.

(6) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends of each year are typically paid in the following fiscal year. See Dividend Policy .

(7) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest bearing liabilities include non-interest bearing current accounts and cash floats from transactional services.

(8) Represents the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average

interest-earning
assets

and average interest bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than spread.

(9) Represents the ratio of non-interest expense to the sum of net interest revenue and non-interest revenue.

(10) Represents the ratio of non-interest expense to average total assets.

(11) Tier 1 and Tier 2 capital adequacy ratios are computed in accordance with the guidelines of the Reserve Bank of India, based on

financial statements prepared in accordance with Indian GAAP. See Supervision and Regulation .

(12) Customer assets consist of loans and credit substitutes.

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SELECTED STATISTICAL INFORMATION

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

Average Balance Sheet

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

	Years ended March 31,							
	2004			2005			2006	
	Average Balance	Interest revenue/ expense	Average yield/ cost	Average Balance	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense
	(in millions, except percentages)							
rning assets:								
valents	Rs. 24,370.4	Rs. 856.8	3.5%	Rs. 30,541.2	Rs. 835.9	2.7%	Rs. 36,720.2	Rs. 860.2
ements	5,104.8	252.8	5.0%	6,132.4	398.6	6.5%	9,471.6	648.8
ts available for sale:								
)	25,286.0	1,475.6	5.8%	19,486.5	926.9	4.8%	10,856.0	598.4
	99,107.3	7,129.2	7.2%	151,689.8	9,678.8	6.4%	205,220.9	12,371.2
ts held to maturity	31,576.2	2,882.5	9.1%	10,001.0	793.4	7.9%		
ts held for trading	5,551.3	289.6	5.2%	1,850.2	144.4	7.8%	3,332.4	195.6
:								
ns	52,903.7	4,829.9	9.1%	94,398.6	8,304.8	8.8%	157,272.2	14,864.4
e loans	83,623.7	6,875.1	8.2%	110,520.4	8,126.6	7.4%	166,437.7	13,989.4
rest-earning assets:	Rs. 327,523.4	Rs. 24,591.5	7.5%	Rs. 424,620.1	Rs. 29,209.4	6.9%	Rs. 589,311.0	Rs. 43,528.0
est-earning assets:								
	1,631.4			2,732.5			5,116.5	
nd equipment	5,424.2			6,251.2			7,416.5	
ts	22,544.8			14,425.8			19,405.5	
-interest earning assets	29,600.4			23,409.5			31,938.5	
ts	Rs. 357,123.8	Rs. 24,591.5	6.9%	Rs. 448,029.6	Rs. 29,209.4	6.5%	Rs. 621,249.5	Rs. 43,528.0
s:								
earing liabilities:								
ccount deposits	Rs. 61,535.8	Rs. 1,633.9	2.7%	Rs. 97,026.4	Rs. 2,539.2	2.6%	Rs. 138,850.4	Rs. 3,731.6
osits	139,368.6	8,645.3	6.2%	153,284.5	8,534.9	5.6%	199,235.1	11,858.5

n borrowings(2)	33,040.7	1,435.9	4.3%	42,594.6	1,759.4	4.1%	73,569.3	3,497.7
n debt	2,605.9	268.0	10.3%	5,371.3	390.2	7.3%	7,345.7	534.0
rest-bearing liabilities	Rs. 236,551.0	11,983.1	5.1%	Rs. 298,276.8	Rs. 13,223.7	4.4%	Rs. 419,000.5	Rs. 19,621.8
est-bearing liabilities:								
est-bearing deposits (3)	61,803.3			92,382.6			125,616.3	
ilities	30,104.6			16,606.1			28,276.9	
-interest-bearing	91,907.9			108,988.7			153,893.3	
ilities	Rs. 328,458.9	Rs. 11,983.1	3.6%	Rs. 407,265.5	Rs. 13,223.7	3.2%	Rs. 572,893.7	Rs. 19,621.8
ers equity	28,664.9			40,764.1			48,355.8	
ilities and shareholders	Rs. 357,123.8	Rs. 11,983.1	3.4%	Rs. 448,029.6	Rs. 13,223.7	3.0%	Rs. 621,249.5	Rs. 19,621.8

(1) Yields on tax free securities are not on a tax equivalent basis.

(2) Includes securities sold under repurchase agreements.

(3) Includes current accounts and cash floats from transactional services.

Analysis of Changes in Interest Revenue and Interest Expense Volume and Rate

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

	Fiscal 2005 vs. Fiscal 2004 Increase (decrease)[1] due to			Fiscal 2006 vs. Fiscal 2005 Increase (decrease)[1] due to		
	Net Change	Change in average volume	Change in Average rate	Net change	Change In Average Volume	Change in Average rate
	(in millions)					
Interest revenue:						
Cash equivalents	Rs. (20.9)	Rs. 216.9	Rs. (237.8)	Rs. 19.6	Rs. 169.1	Rs. (149.5)
Term placements	145.8	50.9	94.9	254.9	217.1	37.8
Investments available for sale:						
Tax free	(548.7)	(338.4)	(210.3)	(328.5)	(410.5)	82.0
Taxable	2,549.6	3,782.5	(1,232.9)	2,692.5	3,415.6	(723.1)
Investments held to maturity	(2,089.1)	(1,969.5)	(119.6)	(793.4)	(793.4)	
Investments held for trading	(145.2)	(193.1)	47.9	51.2	115.7	(64.5)
Loans, net:						
Retail loans	3,474.9	3,788.3	(313.4)	6,559.6	5,531.4	1,028.2
Wholesale loans	1,251.5	2,211.3	(959.8)	5,862.8	4,111.6	1,751.2
Total interest-earning assets	Rs. 4,617.9	Rs. 7,548.9	Rs. (2,931.0)	Rs. 14,318.7	Rs. 12,356.6	Rs. 1962.1
Interest expense:						
Savings account deposits	Rs. 905.3	Rs. 942.3	Rs. (37.0)	Rs. 1,192.4	Rs. 1,094.5	Rs. 97.9
Time deposits	(110.4)	863.2	(973.6)	3,323.6	2,558.5	765.1
Short-term borrowings	323.5	415.2	(91.7)	143.8	143.4	0.4
Long-term debt	122.2	284.4	(162.2)	1,738.3	1,279.4	458.9
Total interest-bearing liabilities	Rs. 1,240.6	Rs. 2,505.1	Rs. (1,264.5)	Rs. 6,398.1	Rs. 5,075.8	Rs. 1,322.3
Net interest revenue	Rs. 3,377.3	Rs. 5,043.8	Rs. (1,666.5)	Rs. 7,920.6	Rs. 7280.8	Rs. 639.8

(1) The changes in net interest revenue

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

Yields, Spreads and Margins

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

	Years ended March 31,		
	2004	2005	2006
	(in millions, except percentages)		
Interest revenue	Rs. 24,591.5	Rs. 29,209.4	Rs. 43,528.0
Average interest-earning assets	327,523.4	424,620.1	589,311.0
Interest expense	11,983.1	13,223.7	19,621.8
Average interest-bearing liabilities	236,551.0	298,276.8	419,000.5
Average total assets	357,123.8	448,029.6	621,249.5
Average interest-earning assets as a percentage of average total assets	91.7%	94.8%	94.9%
Average interest-bearing liabilities as a percentage of average total assets	66.2%	66.6%	67.4%
Average interest-earning assets as a percentage of average interest-bearing liabilities	138.5%	142.4%	140.6%
Yield	7.5%	6.9%	7.4%
Cost of funds (1)	3.6%	3.2%	3.4%
Spread (2)	3.5%	3.5%	3.8%
Net interest margin (3)	3.8%	3.8%	4.1%

(1) Excludes shareholder s equity.

(2) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield

on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts and cash floats from transactional services.

(3) Net interest margin is the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than spread. If average interest-bearing

liabilities exceed average interest-earning assets, net interest margin is less than spread.

Returns on Equity and Assets

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

	Years ended March 31, 2004	2005	2006
	(in millions, except percentages)		
Net income	Rs. 4,754.5	Rs. 6,609.7	Rs. 9,187.1
Average total assets	357,123.8	448,029.6	621,249.5
Average shareholders equity	28,664.9	40,764.1	48,355.8
Net income as a percentage of average total assets	1.3%	1.5%	1.5%
Net income as a percentage of average shareholders equity	16.6%	16.2%	19.0%
Average shareholders equity as a percentage of average total assets	8.0%	9.1%	7.8%
Dividend payout ratio	21.0%	21.2%	18.7%

Investment Portfolio

Available for Sale Investments

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

	At March 31, 2004				2005				2006	
d	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	un
					(in millions)					
.0	Rs. 1,426.9	Rs. 37.4	Rs. 64,924.5	Rs. 111,482.3	Rs. 1,017.4	Rs. 672.2	Rs. 111,827.5	Rs. 189,660.3	Rs. 405.2	Rs.
.7	2,106.7	101.1	32,560.3	39,320.6	1,171.1	181.1	40,310.6	37,862.8	282.4	
.7	3,533.6	138.5	97,484.8	150,802.9	2,188.5	853.3	152,138.1	227,523.1	687.6	
.4	907.4	201.0	35,789.8	51,930.2	506.3	281.8	52,154.7	47,959.8	186.1	
.1	Rs. 4,441.0	Rs. 339.5	Rs. 133,274.6	Rs. 202,733.1	Rs. 2,694.8	Rs. 1,135.1	Rs. 204,292.8	Rs. 275,482.9	Rs. 873.7	Rs.

Held to Maturity Investments

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

At March 31, 2004		2005		2006	
Gross	Gross	Gross	Gross	Gross	Gross

	Fair Value	unrealized gain	unrealized loss	Amortized Cost	Fair Value	unrealized gain	unrealized loss	Amortized Cost	Fair Value	unrealized gain	unrealized loss	Amortized Cost
					(in millions)							
Government securities	Rs. 28,424.2	Rs. 1,180.1	Rs. 1.1	Rs. 27,245.2	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Other debt securities	9,633.4	511.1	0.9	9,123.2								
Total debt securities	38,057.6	1,691.2	2.0	36,368.4								
Non-debt securities												
Total	Rs. 38,057.6	Rs. 1,691.2	Rs. 2.0	Rs. 36,368.4	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

As of March 31, 2005 and March 31, 2006, we had no investments held to maturity.

Held for Trading Investments

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

	At March 31,											
	2004				2005				2006			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fai Val
	(in millions)											
rnment ities	Rs. 4,244.2	Rs. 25.0	Rs.	Rs. 4,269.2	Rs. 1,278.5	Rs.	Rs.	Rs. 1,278.5	Rs. 2,948.1	Rs. 6.1	Rs. 8.6	Rs. 2,9
r debt rities	1,986.6	1.1	23.1	1,964.6								
debt ities	6,230.8	26.1	23.1	6,233.8	1,278.5			1,278.5	2,948.1	Rs. 6.1	Rs. 8.6	Rs. 2,9
debt rities												
	Rs. 6,230.8	Rs. 26.1	Rs. 23.1	Rs. 6,233.8	Rs. 1,278.5	Rs.	Rs.	Rs. 1,278.5	Rs. 2,948.1	Rs. 6.1	Rs. 8.6	Rs. 2,9

Residual Maturity Profile

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

	At March 31, 2006							
	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(in millions, except percentages)							
Government securities	Rs. 31,097.9	5.85%	Rs. 80,546.1	6.83%	Rs. 51,190.5	6.80%	Rs. 25,272.1	6.78%
Other debt securities	2,755.3	7.79%	27,869.1	7.86%	7,025.7	8.07%		
Total debt securities, fair value	33,853.2	6.01%	108,415.2	7.10%	58,216.2	6.96%	25,272.1	6.78%
Total amortized cost	Rs. 33,839.9		Rs. 109,395.8		Rs. 58,688.7		Rs. 25,598.7	

Funding

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 69.2% and 62.3% of total deposits as of March 31, 2005 and March 31, 2006, respectively. Wholesale banking deposits represented 30.8% and 37.7% of total deposits as of March 31, 2005 and March 31, 2006, respectively.

Total Deposits

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of daily balance for the relevant period) of savings deposits was 2.7% in fiscal 2004, 2.6% in fiscal 2005 and 2.7% in fiscal 2006. The average cost of time deposits was 6.2% in fiscal 2004, 5.6% in fiscal 2005 and 6.0% in fiscal 2006. The average deposits for the periods set forth are as follows:

	Years ended March 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
Current deposits[1]	Rs. 61,803.3	23.5%	Rs. 92,382.6	27.0%	Rs. 125,616.3	27.1%
Savings deposits	61,535.8	23.4	97,026.4	28.3	138,850.4	29.9
Time deposits	139,368.6	53.1	153,284.5	44.7	199,235.1	43.0
Total	Rs. 262,707.7	100.0%	Rs. 342,693.5	100.0%	Rs. 463,701.8	100.0%

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

As of March 31, 2006, individual time deposits in excess of Rs. 0.1 million have a balance to maturity profile as follows-

	At March 31, 2006			
	Up to 3 Months	3 to 6 months	6 to 12 Months	More than 1 Year
	(In millions)			
Balance to maturity for deposits exceeding Rs. 0.1 million each	Rs. 73,162.3	Rs. 39,403.8	Rs. 75,861.8	Rs. 38,301.9

Short-term Borrowings

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

	Years ended March 31,		
	2004	2005	2006
	(in millions, except percentages)		
Period end balance	Rs. 24,064.2	Rs. 62,079.1	Rs. 75,676.7
Average balance during the period	Rs. 33,040.7	Rs. 42,594.6	Rs. 73,569.3
Maximum outstanding	Rs. 52,274.3	Rs. 62,079.1	Rs. 100,008.2
Average interest rate during the period (1)	4.3%	4.1%	4.8%
Average interest rate at period end(2)	4.1%	4.3%	6.4%

(1) Represents the ratio of interest expense on short-term

borrowings to the average of daily balances of short-term borrowings.

(2) Represents the weighted average rate of short-term borrowings outstanding as of March 31, 2004, 2005 and 2006.

Subordinated Debt

We also obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier 2 risk-based capital under the RBI s guidelines for assessing capital adequacy. We issued three tranches of subordinated debt securities during calendar years 1998, 1999 and 2001 at coupon rates of 13.00%, 13.75% and 11.00% respectively. The 1998 tranche was repaid at maturity in fiscal 2004. The 1999 and 2001 tranches are repayable in fiscal 2007. During fiscal 2004, we issued subordinated debt securities aggregating Rs. 4.0 billion, of which Rs. 3.95 billion carries a coupon rate of 5.90% and matures in May 2013 and Rs. 50 million carries a coupon rate of 6.0% and matures in May 2016. During the year the Bank raised Rs. 12.02 billion subordinated debt at an annualized coupon between 7.5% to 8.6% and having a maturity ranging from 9 to 10 years. As of March 31, 2006 Rs. 17.0 billion aggregate principal amount of subordinated debt was outstanding, of which Rs. 94.12% qualified as Tier 2 capital.

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Asset Liability Gap and Interest Sensitivity Data

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

				As of March 31, 2006			
0-28 Days	**29-90 days**	**91-180 days**	**6-12 months**	**Total within one year**	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years**
Rs. 30,222.3	Rs. 5,318.6	Rs. 2,824.0	Rs. 3,047.4	Rs. 41,412.3	Rs. 17,073.2	Rs. 2,370.2	Rs. 338.
185.3	518.9	2,104.7	4,041.5	6,850.4	1,229.7	562.7	1,600.
2,945.6				2,945.6			
6,163.8	3,144.0	11,130.0	17,483.5	37,921.3	63,130.0	69,165.4	103,240.
4,200.0				4,200.0			
51,222.8	57,688.4	31,045.8	46,344.2	186,301.2	159,487.8	25,151.9	24,333.
8,662.7				8,662.7			
21,865.1				21,865.1	4,412.1		
Rs. 125,467.5	Rs. 66,669.9	Rs. 47,104.5	Rs. 70,916.6	Rs. 310,158.5	Rs. 245,332.8	Rs. 97,250.2	Rs. 129,513.
52,415.1	41,390.3	37,784.2	58,676.8	190,266.4	326,889.3	37,361.9	2,787.
29,074.6	46,588.9	150.0		75,813.5	525.9	345.4	16,020.
85,465.9				85,465.9			
Rs. 166,955.6	Rs. 87,979.2	Rs. 37,934.2	Rs. 58,676.8	Rs. 351,545.8	Rs. 327,415.2	Rs. 37,707.3	Rs. 18,808.
Rs. (41,488.1)	Rs. (21,309.3)	Rs. 9,170.3	Rs. 12,239.8	Rs. (41,387.4)	Rs. (82,082.5)	Rs. 59,542.9	Rs. 110,704.
Rs. (41,488.1)	Rs. (62,797.4)	Rs. (53,627.1)	Rs. (41,387.4)	Rs. (41,387.4)	Rs. (123,469.8)	Rs. (63,926.9)	Rs. 46,778.
(33.1)%	(94.2)%	(113.8)%	(58.4)%	(13.3)%	(50.3)%	(65.7)%	36.

(1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.

(2) Cash on hand is classified in the 0-28 days category.

(3) Cash and cash equivalents include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances to the applicable maturity categories on a basis proportionate to the classification of related deposits.

(4) Securities in the trading book are classified in the 0-28 days or 29-90 days categories based on the expected time of realization for such

investments.

(5) Securities held towards satisfying the statutory liquidity requirement (SLR) prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.

(6) Shares are classified in the greater than five years category and units of open ended mutual fund are classified in the 0-28 days category.

(7) Includes net non-performing loans which are classified in the greater than five years category.

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(8) Ambiguous maturity overdrafts are classified under various maturity categories based on historical behavioral analyses that we have performed to determine the appropriate maturity categorization of such advances.

(9) Non-maturity deposits are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.

(10) Includes short-term borrowings and long-term debt.

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

Loan Portfolio and Credit Substitutes

As of March 31, 2006, our gross loan portfolio was Rs. 400.9 billion and represented approximately 2.5 million contracts outstanding. As of that date, our gross credit substitutes outstanding were Rs. 9.8 billion and represented approximately 29 credit substitutes outstanding. Almost all of our gross loans and credit substitutes are to borrowers in India and over 90% are denominated in rupees. For a description of our retail and wholesale loan products, see Business Retail Banking Retail Loan Products and Business Wholesale Banking Commercial Banking Products Commercial Loan Products and Credit Substitutes .

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

	At March 31,				
	2002	2003	2004	2005	2006
	(in millions)				
Retail loans	Rs. 14,301.3	Rs. 34,414.2	Rs. 73,251.6	Rs. 112,666.0	Rs. 229,301.4
Wholesale loans	58,833.5	85,752.4	107,923.8	149,259.4	171,626.2
Gross loans	Rs. 73,134.8	Rs. 120,166.6	Rs. 181,175.4	Rs. 261,925.4	Rs. 400,927.6
Credit substitutes (at fair value)	35,329.9	30,255.5	17,041.5	13,880.9	9,751.3
Gross loans plus credit substitutes	Rs. 108,464.7	Rs. 150,422.1	Rs. 198,216.9	Rs. 275,806.3	Rs. 410,678.9

Maturity and Interest Rate Sensitivity of Loans and Credit Substitutes

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

	At March 31, 2006		
	Due in one year or less	Due in one to five years	Due after five years
	(in millions)		
Retail loans	Rs. 88,119.4	Rs. 134,689.4	Rs. 6,492.6
Wholesale loans	98,181.8	52,244.2	21,200.2
Gross loans	Rs. 186,301.2	Rs. 186,933.6	Rs. 27,692.8
Credit Substitutes	1,971.5	4,225.2	3,554.6
Gross Loans plus credit substitutes	Rs. 188,272.7	Rs. 191,158.8	Rs. 31,247.4

	At March 31, 2006		
	Due in one year or less	Due in one to five years	Due after five years
	(in millions)		
Interest rate classification of loans by maturity:			
Variable rates	Rs. 1,556.5	Rs. 7,957.8	Rs. 20,480.4
Fixed rates	184,744.7	178,975.8	7,212.4
Gross loans	Rs. 186,301.2	Rs. 186,933.6	Rs. 27,692.8

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	At March 31, 2006		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
Interest rate classification of credit substitutes by maturity:			
Variable rates	Rs.	Rs.	Rs.
Fixed rates	1,971.5	4,225.2	3,554.6
Gross credit substitutes	Rs. 1,971.5	Rs. 4,225.2	Rs. 3,554.6
Interest rate classification of loans and credit substitutes by maturity:			
Variable rates	Rs. 1,556.5	Rs. 7,957.8	Rs. 20,480.4
Fixed rates	186,716.2	183,201.0	10,767.0
Gross loans and credit substitutes	Rs. 188,272.7	Rs. 191,158.8	Rs. 31,247.4

Concentration of Loans and Credit Substitutes

Pursuant to the guidelines of the RBI, our exposure to individual borrowers is limited to 15% of our capital funds (as defined by RBI and calculated under Indian GAAP), and to 40% of our capital funds to a group of companies under the same management. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and up to10 % in respect of group borrowers. We may, in exceptional circumstances, with the approval of our board of directors, consider enhancement of exposure to a borrower by a further 5% of capital funds. See Supervision and Regulation Credit Exposure Limits . During the fiscal 2006, the Bank s credit exposures to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India except in case of National Bank for Agricultural and Rural Development (NABARD), where the single borrower limits were exceeded. The Board of Directors of the Bank approved the excess over the prudential limits subject to a ceiling of 20% of capital funds. As at March 31, 2006, the book value of outstanding exposure to NABARD was within the Board approved limit of 20% of capital funds as on that date.

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

	At March 31, (in millions, except percentages)								
	2002		2003		2004		2005		2006
ve rers	Rs. 9,999.2	9.2%	Rs. 13,393.2	8.9%	Rs. 19,370.2	9.8%	Rs. 26,100.0	9.5%	Rs. 41,008.3
port	1,298.5	1.2	5,202.9	3.5	15,396.2	7.8	29,860.5	10.8	36,841.6
ders	316.5	0.3	2,734.8	1.8	4,379.2	2.2	6,857.0	2.5	14,396.9
allied to e	115.1	0.1	216.5	0.1	2,778.4	1.4	4,501.9	1.6	11,559.7

gineering	3,903.4	3.6	3,846.1	2.6	6,631.0	3.3	4,862.3	1.8	10,963.5
vestment s	9,649.1	8.9	13,227.5	8.8	11,359.7	5.7	14,051.1	5.1	10,777.1
unications	2,490.1	2.3	921.0	0.6	4,054.0	2.0	9,586.9	3.5	8,888.4
cluding d retail)	80,692.8	74.4	110,880.1	73.7	134,248.20	67.8	179,986.60	65.2	276,243.40
	Rs. 108,464.7	100.0%	Rs. 150,422.1	100.0%	Rs. 198,216.9	100.0%	Rs. 275,806.3	100.0%	Rs. 410,678.9

As of March 31, 2006, our ten largest exposures totaled approximately Rs. 53.4 billion and represented approximately 77.7% of our capital funds as per Indian GAAP. The largest group of companies under the same management control accounted for approximately 21% of our capital funds as on March 31, 2006 as per Indian GAAP.

Directed Lending

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

We are required to comply with the priority sector lending requirements as of the last reporting Friday of each fiscal year, a date specified by the RBI for reporting. Apart from our loans to the sectors outlined above, we may invest in bonds of specified institutions and mortgage-backed securitized paper to meet our mandated lending requirements. Any shortfall in the amount required to be lent to the priority sectors may be required to be deposited with Indian development banks like the National Bank for Agriculture and Rural Development and the Small Industries Development Bank of India. These deposits have a maturity of up to seven years and carry interest rates lower than market rates. With a view to rationalizing the Banks investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers/other priority sector borrowers, the RBI has stipulated that the investments by banks in specified institutions shall not be eligible for classification under priority sector lending. However this would be implemented in a phased manner effective April 1, 2005.

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

	At March 31,				
	2002	**2003**	**2004**	**2005**	**2006**
			(in millions)		
Directed lending:					
Agriculture	Rs. 1,493.4	Rs. 8,858.8	Rs. 13,220.2	Rs. 20,641.5	Rs. 42,747.0
Small scale industries	2,730.5	2,949.6	4,370.6	4,013.2	6,968.9
Other	3,509.2	2,372.6	7,633.3	32,519.8	59,468.8
Total directed lending	Rs. 7,733.1	Rs. 14,181.0	Rs. 25,224.1	Rs. 57,174.5	Rs. 109,184.7

Non-Performing Loans

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

The Indian economy has expanded steadily during the past three years with GDP growth of 8.1% in fiscal 2004, 6.9% in fiscal 2005 and 8.4% in fiscal 2006. Since 1991, the government of India has pursued a policy of gradual liberalization and deregulation. Indian corporations have had to respond to these pressures through a process of restructuring and repositioning. This restructuring process is taking place in several industries, primarily in sectors where many small, unprofitable manufacturing facilities have existed, such as the iron and steel and textiles industries. This led to a decline in the operating performance of some Indian corporations and the impairment of related loan assets in the financial system, including some of our assets. The decline in certain sectors of the Indian economy has been offset by growth in segments such as financial services and information technology.

As of March 31, 2006, our gross non-performing loans as a percentage of gross loan assets was 1.2% and our gross non-performing loans net of specific valuation allowances as a percentage of net loan assets was 0.4%. We have made total specific valuation allowances for 66.99% of gross non-performing loans. These allowances are based on the expected realization of cash flows from these assets and from the underlying collateral. All of our non-performing loans are rupee-denominated. Non-performing loans to the directed lending sector were 0.3% of gross loans.

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

	As of March 31,				
	2002	2003	2004	2005	2006
Non-performing loans:					
Retail loans	Rs. 140.7	Rs. 74.9	Rs. 403.5	Rs. 1,663.3	Rs. 3,193.5
Wholesale loans	1,819.2	2,292.7	2,589.1	2,420.9	1,590.0
Gross non-performing loans	Rs. 1,959.9	Rs. 2,367.6	Rs. 2,992.6	Rs. 4,084.2	Rs. 4,783.5
Specific valuation allowances	Rs. 1,423.5	Rs. 1,684.3	Rs. 2,722.7	Rs. 3,492.8	Rs. 3,204.6
Unallocated valuation allowances	182.4	182.4	771.6	1,945.7	2,448.7
Non-performing loans net of specific valuation allowance	536.4	683.3	269.9	591.4	1,578.9
Gross loan assets	73,134.8	120,166.6	181,175.4	261,925.4	400,927.6
Net loan assets	Rs. 71,528.9	Rs. 118,229.9	Rs. 177,681.1	Rs. 256,486.9	Rs. 395,274.3
Gross non-performing loans as a percentage of gross loans	2.68%	1.97%	1.65%	1.56%	1.19%
Non-performing loans net of specific valuation allowance as a percentage of net loan assets	0.74%	0.58%	0.15%	0.23%	0.40%
Specific valuation allowance as a percentage of gross non-performing loans	72.63%	71.14%	90.98%	85.52%	66.99%
Total valuation allowance as a percentage of gross non-performing loans	81.94%	78.84%	116.76%	133.16%	118.18%

Recognition of Non-Performing Loans

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

We consider a loan to be performing when no principal or interest payment is one quarter or more past due and where we expect to recover all amounts due to us. Prior to April 1, 2003, we considered a loan to be performing when no principal or interest was two or more quarters past due and where we expected to recover all amounts due to us. We have not restated figures from periods prior to April 1, 2003 to reflect the change.

We have analyzed our gross loans into their performance status as follows:

	At March 31,				
	2002	**2003**	**2004**	**2005**	**2006**
			(in millions)		
Performing	Rs. 71,174.9	Rs. 117,799.0	Rs. 178,182.8	Rs. 257,841.2	Rs. 396,144.1
Non-performing or impaired:					
On accrual status	61.6	51.9			
On non-accrual status	1,898.3	2,315.7	2,992.6	4,084.2	4,783.5
Total non-performing or impaired	1,959.9	2,367.6	2,992.6	4,084.2	4,783.5
Total	Rs. 73,134.8	Rs. 120,166.6	Rs. 181,175.4	Rs. 261,925.4	Rs. 400,927.6

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

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

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

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

Retail Loans

The Bank establishes a specific allowance on the retail loan portfolio based factors such as the nature of the product, delinquency levels or the number of days the loan is past due, the nature of the security available and loan to value ratios. The loans are charged off against allowances at defined delinquency levels.

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

Wholesale Loans

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

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

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

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Beginning April 1, 2003, we also established an unallocated allowance for performing loans, based on the overall portfolio quality, asset growth, economic conditions and other risk factors

Analysis of Non-Performing Loans by Industry Sector

The following table sets forth, for the periods indicated, our non-performing loans by borrowers industry or economic activity and as a percentage of our loans in the respective industry or economic activity sector. These figures do not include credit substitutes, which we include for purposes of calculating our industry concentration for RBI reporting. See Risk Factors We have high concentrations of customer exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected .

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	As of March 31											
	2002			2003			2004			2005		
oss ans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans	% of loans in industry	Gross Loans
	(Rupees in millions, except percentages)											
960.8	Rs. 23.5	2.5	Rs. 1,754.6	Rs. 207.8	11.9	Rs. 2,261.1	Rs. 639.1	28.3	Rs. 3,452.7	Rs. 679.4	19.7	Rs. 2,199.4
029.4	131.5	12.8	1,343.4	130.9	9.8	1,473.8	129.1	8.8	1,401.7	129.1	9.2	2,559.4
457.3	396.0	86.6	698.5	372.0	53.3	1,327.6	356.2	26.8	3,483.9	303.4	8.7	6,291.4