HDFC BANK LTD
Form 20-F
September 29, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2003

OR

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

Sandoz House
Dr. Annie Besant Road
Worli, Mumbai 400 018
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
(Title of Class)

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

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.

279,718,938 Equity Shares

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.

[X] Yes [ ] No

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

[ ] Item 17 [X] Item 18

September 26, 2003

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EXCHANGE RATES

Fluctuations in the exchange rate between the Indian rupee and the US dollar will affect the US 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 the ADSs in the United States. These fluctuations will also affect the conversion into US dollars by the depositary of any cash dividends paid in Indian rupees on the equity shares represented by ADSs.

Until fiscal 2002,the rupee consistently declined against the dollar since 1980. However, the Indian rupee appreciated in 2003 as against 2002. The rupee s appreciation has been due to remittances from exporters, non- resident Indians and foreign direct investment, alongwith weakening of dollar against major currencies.

The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and US 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
1998	39.53	37.37	40.40	35.71
1999	42.50	42.27	43.60	39.41
2000	43.65	43.46	43.75	42.50
2001	46.85	45.88	47.47	46.63
2002	48.83	47.70	48.91	46.58
2003	47.53	48.43	49.07	46.85

(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 on the last day of each month during the period.

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

Month	Period End	Average	High	Low
December 2002	48.00	48.15	48.32	47.96
January 2003	47.83	47.96	48.10	47.83
February 2003	47.66	47.75	47.92	47.65
March 2003	47.53	47.67	47.85	47.53
April 2003	47.37	47.39	47.46	47.34
May 2003	47.05	47.12	47.35	46.85
June 2003	46.40	46.70	47.15	46.40
July 2003	46.15	46.21	46.49	46.06
August 2003	45.88	45.96	46.18	45.80

Although we have translated selected Indian rupee amounts in this report into US dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted into US dollars at any particular rate, the rates stated below, or at all. All translations from Indian rupees to US 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. 47.53 on March 31, 2003. 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 05 September 2003, was Rs. 45.88 per US$1.00.

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FORWARD LOOKING STATEMENTS

We have included statements in this report which contain words or phrases such as will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, objective, goal, project, should, will pursue ar 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 successfully implement our strategy, the market acceptance of and demand for various banking services, future levels of 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 actually occur in the future. As a result, actual future gains, losses or impact on net interest 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 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 domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in India, and regional or general changes in asset valuations. For further discussion on the factors that could cause actual results to differ, see Risk Factors.

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BUSINESS

Overview

We are a leading private sector bank and financial services company in India. Our goal is to be the preferred provider of financial services to leading corporations and middle and upper-income individuals in India. Since commencing operations in January 1995, we have grown rapidly while maintaining strong asset quality and a low-cost funding structure. Our strategy is to provide a comprehensive range of financial products and services for our customers through multiple distribution channels, with high quality service and superior execution. We have three principal business activities: wholesale banking, retail banking and treasury operations. We are regulated as banking company by the Reserve Bank of India (or RBI) in accordance with rules and regulation by the RBI from time to time.

While our business has expanded rapidly over the past nine years, we have maintained a disciplined growth strategy and a strong balance sheet. At March 31, 2003, our total customer assets (which consist of loans and credit substitutes) represented 67.2% of our deposits. At March 31, 2003, customer deposits represented 78.3% of our total liabilities. On average, checking accounts and low-interest savings accounts represented 35.0% of these deposits in fiscal 2003. These low-cost deposits, which include the cash float associated with our transactional services, led to a cost of funds for fiscal 2003 of 5.1%. At March 31, 2003, our net non-performing loans and impaired credit substitutes constituted 0.5% of our net customer assets.

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

We were incorporated in August 1994 as a public limited company under the laws of India. On February 26, 2000 we merged with Times Bank Limited. The merger was a stock-for-stock transaction where we issued one share for every 5.75 shares of Times Bank Limited resulting in the issue of 23,478,261 our shares being issued. Our legal name is HDFC Bank Limited, though we are also known commercially as HDFC Bank. Our principal corporate and registered office is located at Sandoz House, Dr. Annie Besant Road, Worli, Mumbai 400 018, India, our telephone is 91-22-2495 1616, and our website is www.hdfcbank.com. Our registered agent in the United States is Depositary Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022 .

We are part of the HDFC group of companies founded by our parent, Housing Development Finance Corporation Limited (HDFC Limited), a public limited company under the laws of India. HDFC Limited and its 100% owned subsidiary, HDFC Investments Limited, own approximately 24.4% of our outstanding equity shares. For more information, please see Principal Shareholders .

Our Business Strategy

Our goal is to be the leading private sector bank to leading corporations and middle and upper-income individuals in India by providing a comprehensive range of products and services as well as superior customer service at competitive prices. Our business strategy emphasizes the following elements:

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

India s banking and financial services industry is undergoing a period of change and expansion. We believe this process will be further hastened by the growth of the Indian economy, expansion of the middle and upper-income classes as well as increasing globalization. In addition to benefiting from this growth, we believe we can increase our market share by following a disciplined, targeted strategy. We believe we can distinguish ourselves from many of our competitors by

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continuing to emphasize high quality service, efficient and reliable execution, multiple distribution channels and comprehensive product offerings at a good value to our customers.

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

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

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

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. Under US GAAP, our ratio of gross non-performing assets to customer assets (which includes gross loans and credit substitutes) was 1.6% at March 31, 2003, and our net non-performing assets were 0.5% of net customer assets. For our own management and Indian reporting purposes, we choose to follow non-performing loan and general loan provisioning policies that generally result in greater provisioning and are more conservative than those required under US GAAP. We believe we can continue to maintain our conservative asset policies while still achieving growth.

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

We concentrate on developing and delivering products and services that address the evolving needs of our targeted customers and the inefficiencies in the Indian financial sector. For example, through our cash management services, we provide payment and collection mechanisms that are more efficient and cost effective than the traditional Indian systems. We have leveraged our experience in transactional services by becoming the first private sector bank to be appointed to collect direct taxes. We are one of the few private sector banks to have recently got a mandate to collect indirect taxes like excise duty and service tax. In retail banking, we were the first or one of the first banks to offer international debit cards, real-time internet banking and banking services by mobile telephone. We plan to continue to capitalize on opportunities to be the first mover in products and services that utilize our technological and delivery strengths without requiring significant capital commitment.

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

We believe we have one of the lowest overall cost of funds in the Indian banking industry. For fiscal 2003, our average cost of funds was 5.1%. We believe we can maintain and enlarge this low-cost funding base by increasing our base of retail deposits as well as the free float generated by our cash management, stock exchange clearing and other services. In the retail sector, we believe we can increase our deposit base by offering a superior range of products and high quality service and by expanding our geographic reach to targeted locations. We believe we can increase our transactional services through a variety of measures, including aggressive cross-selling to our corporate and institutional client base and expanding our services to cover dividend distribution and tax collection.

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Focus on high earnings growth with low volatility.

Our earnings have grown rapidly, both on an aggregate basis and a per share basis. Our aggregate earnings have grown at a compound average rate of 36.2% per year during the three-year period ending March 31, 2003. This was driven in part by a growth in retail assets portfolio and an increase in branch expansion to provide a stable and a low cost retail fund base. Our basic earnings per share grew from Rs. 11.10 for fiscal 2002 to Rs. 12.57 for fiscal 2003. We intend to maintain our focus on earnings growth with low volatility through conservative risk management techniques and maintaining our focus on low cost funding. In addition, we intend not to rely heavily on revenue derived from trading so as to limit volatility.

Our Principal Business Activities

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

	Years ended March 31,				
	2001	2002	2003	2003	2003
	(in millions, except percentages)				
Wholesale banking	Rs. 2,942.3	Rs. 2,803.1	Rs. 3,165.8	US$ 66.6	28.0%
Retail banking	2,874.8	3,883.3	5,988.4	126.0	53.0%
Treasury operations	551.1	1,762.6	2,147.2	45.1	19.0%
Net revenues	Rs. 6,368.2	Rs. 8,449.0	Rs. 11,301.4	US$ 237.7	100.0%

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 and credit substitutes such as bills discounting, commercial paper and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

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. We were the first private sector bank to be appointed by the government of India to collect direct taxes. Our capital markets transactional services include custodial services and stock exchange clearing bank services. We provide custodial services primarily to Indian mutual funds. We are a clearing bank for seven major Indian stock exchanges, including the National Stock Exchange and The Stock Exchange, Mumbai. In addition, we provide correspondent banking services, including cash management services and funds transfers, to approximately 20 foreign banks and more than 900 cooperative banks.

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. We also target suppliers and distributors of top end corporations as a part of the supply chain initiative for both our commercial banking products and transactional services. We provide transactional services to a wide range of corporations, as well as financial institutions and government entities. We aim to provide our corporate customers with high quality customized service. We have relationship managers

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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.

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

Our principal financing products are working capital facilities consisting of short or medium-term loans, cash credit facilities and bill discounting. Cash credit facilities are revolving credits provided to our customers, which 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. We also purchase commercial paper, non-convertible debentures and redeemable preference shares and selectively extend longer-term loans. More than 90% of our loans are denominated in rupees with the balance being denominated in various foreign currencies, principally the US dollar. All our loans have been made to customers in India. More than one-half of our loans have original maturities of less than one year. If a borrower wishes to renew or rollover 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, and we rely on such review in connection with a rollover or renewal. 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 bills discounting as loans, and classify commercial paper, debentures and preference shares as credit substitutes.

	At March 31,				
	2001	2002	2003	2003	2003
	(in millions)				
Gross commercial loans:					
Term loans	Rs. 23,678.5	Rs. 32,181.8	Rs. 43,005.0	US$ 904.8	36.4%
Cash credit facilities	8,267.1	10,010.9	18,769.5	394.9	15.9
Bills discounting	11,844.8	16,640.8	26,760.7	563.0	22.6
Total commercial loans	Rs. 43,790.4	Rs. 58,833.5	Rs. 88,535.2	US$ 1,862.7	74.8
Credit substitutes:					
Commercial paper	8,679.7	12,028.9	6,009.7	126.4	5.1
Non-convertible debentures	12,105.0	21,874.3	22,898.7	481.8	19.4
Preference shares	1,614.3	1,222.8	844.4	17.8	0.7
Total credit substitutes	Rs. 22,399.0	Rs. 35,126.0	Rs. 29,752.8	US$ 626.0	25.2
Customer assets	Rs. 66,189.4	Rs. 93,959.5	Rs. 118,288.0	US$ 2,488.7	100.0%

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. Our secured demand and short-term loans are generally secured against receivables and inventory. Our medium and long-term loans are generally secured by fixed assets. We may also require corporate parent or personal guarantees or other collateral. We generally do not make purely collateral-based loans, project loans or loans to property developers.   See   Risk Management   Credit Risk   Corporate Credit Risk.

In addition to our loan products, we provide cash credit facilities, which are revolving overdraft lines of credit for meeting working capital needs. These facilities are generally secured in the same manner as our short-term loans. We typically extend cash credit facilities for one year, subject to annual review. We provide bills discounting through negotiable instruments. These instruments can then be re-discounted with other banks or financial institutions, which provides us liquidity.

We provide financing to corporations through a variety of credit substitutes. We apply the same credit evaluation process to these investments and arrangements as we do to our loans. We purchase a variety of debt securities including commercial paper generally for 90-day periods, non-convertible debentures generally for periods ranging from 30 days to five years and preference shares which are usually redeemable in one to five years.

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We price our loans based on a combination of our own cost of funds, market rates and our rating of the customer. Currently we have prime lending rates that vary by the term of the loans. An individual loan is priced on a fixed or floating rate basis based on one of these rates with a margin that depends on the credit assessment of the borrower.

The RBI has recently advocated for banks a benchmark Prime Lending Rates (PLR) taking into account their actual cost of funds, operating expenses, a minimum margin to cover regulatory requirement of provisioning, capital charge and the profit margin. Since all other lending rates can be determined with reference to the benchmark PLR, the system of tenor-linked PLR has been proposed to be discontinued.

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

Bills Collection, Documentary Credits and Guarantees

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

	Years ended March 31,				
	2001	**2002**	**2003**	**2003**	**2003**
	(in millions, except percentages)				
Bills collection	Rs. 76,751	Rs. 109,909	Rs. 117,809	US$ 2,478.6	76.9%
Documentary credits	26,340	22,981	25,721	541.2	16.8
Bank guarantees	8,738	13,539	9,696	204.0	6.3
Total	Rs. 111,829	Rs. 146,429	Rs. 153,226	US$ 3,223.8	100.0%

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

Documentary credits. We issue documentary credit facilities on behalf of our customers for trade financing, sourcing of raw materials and capital equipment purchases. The term is typically less than one year.

Bank guarantees. We provide bank guarantees on behalf of our customers to guarantee their payment or performance obligations. The term of our guarantees is generally less than 24 months but can have tenors up to five years. A large part of our guarantee portfolio consists of margin guarantees to brokers issued in favor of stock exchanges. These are typically one year guarantees generally secured by cash and share margins of 25-40%.

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 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. We provide these products to our corporate clients through the joint efforts of our wholesale banking and treasury groups. See Treasury Foreign Exchange and Derivatives. We have recently been allowed in India to offer to customers rupee options and exchange traded interest rate futures by RBI.

Trading in Gold

The abolition of the Gold Control Act in the mid Nineties made the import of gold into India more lucrative and potentially rewarding. After the Act was abolished, the Government of India authorized about 10 institutions

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comprising banks and non banking entities to enter the business of importing bullion into India for sale to end user clients. Since 1997, more entities have entered this line of business and at last count, the number of such institutions has crossed 18. HDFC Bank entered this segment last year to leverage its distribution and servicing strengths and cater primarily to the domestic bullion trader segment. We import gold on a consignment basis typically on concluding an arrangement to sell.

Wholesale Deposit Products

At March 31, 2003, we had wholesale deposits totaling Rs. 68.2 billion which represented 30.5% of our total deposits and 23.9% of our total liabilities. We offer both non-interest-bearing current accounts and time deposits. We accept time deposits from our corporate customers with terms ranging from seven days to five years. Under RBI regulations, we cannot pay interest for periods less than seven days. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (deposits greater than Rs. 1.5 million) so long as the rates are the same for all customers of that deposit size on that day for that maturity. See Selected Statistical Information for further information about our total deposits.

Transactional Services

Cash Management Services

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

Our primary cash management service is check collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payments 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 interbank clearing practices, check collections can be slow and unpredictable, which can mean uncertainty and inefficiencies in cash management. We believe we have a strong position in this area relative to most other participants in this market. Although the public sector banks have extensive branch networks, most of their branches typically are still not electronically linked. In practice, the foreign banks are restricted in their branching ability.

At March 31, 2003, approximately 1,500 clients used our cash management services. These clients include leading private sector companies, public sector undertakings and multinational companies. We also provide these services to most Indian insurance companies, many mutual funds, brokers, financial institutions and various government entities.

We have 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.

HDFC Bank today has over 400 commercial clients directly using the Bank s corporate internet banking solutions, e-net. The number of beneficiaries, which is the respective vendors and distributors is over 16,000. The Bank currently processes transactions valued around Rs 52,000 million every month through e-net.

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Clearing Bank and Stock Exchange Services

We serve as a cash-clearing bank for seven major stock exchanges in India, including the National Stock Exchange and The Stock Exchange, Mumbai. Prior to 1997, each Indian stock exchange typically used just one clearing bank. We introduced the concept of multiple clearing banks by seeking to participate in the clearing business of the National Stock Exchange. Today, most Indian stock exchanges use several banks for these services. In fiscal 2003, we estimate that we handled approximately 60% of the cash clearing volumes on the National Stock Exchange and more than 40% on The Stock Exchange, Mumbai.

As a clearing bank, we provide the stock exchanges or their clearing corporations with a means for collecting cash payments due to them from their members or custodians and to make payments to these institutions. We make payments once the funds are deposited by the broker or custodian with us. In addition to benefitting from cash float, which enables us to reduce our cost of funds, in certain cases we earn a commission on such services.

We believe our clearing bank services are at the core of our range of stock market and broker-related services, which also include working capital funding and margin guarantees to brokers, depositary accounts for retail customers and loans against securities. For further information about our stock exchange-related services, see Retail Banking Other Services and Products Individual Depositary Accounts and Retail Banking Retail Loan Products Loans Against Securities.

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 more than 900 cooperative banks and approximately 20 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 bank cannot provide. Because of our technology platforms, geographical reach and electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers. By contrast, although the public sector banks have extensive branch networks and also provide correspondent banking services, their branches typically operate independently of one another and do not constitute an electronically connected nationwide network.

Tax Collections

Effective April 1, 2001, we were appointed by the government of India to collect direct taxes. We were the first new private sector bank to be appointed to provide this service. In the fiscal year 2003 we collected more than Rs. 91 billion of direct taxes for the government of India. We earn a fee from each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

We are one of the few private sector banks to have recently received a mandate from RBI to collect indirect taxes on behalf of the Central Board of Excise and Customs (CBEC). We are awaiting allotment of specific circles for CBEC collections prior to commencing this activity.

Marketing and Customers

We are committed to providing high quality, customized service to our corporate and institutional clients. We have dedicated relationship managers each responsible for a set of accounts. Our relationship managers work with other staff who specialize in particular products and services such as cash management services, foreign exchange services and other fee-based services in order to cross-sell products and to expand our relationship with the customer. For example, our treasury advisory group works with our wholesale banking group to provide foreign exchange and derivative products to our corporate clients. Our retail group representatives work with our wholesale banking group to offer Corporate Salary Account packages to employees of our corporate clients. In these ways, we emphasize not only high quality service in the delivery of traditional banking products, but also working with our customers to develop services and products that meet almost their entire financial needs.

Our primary target market for our commercial banking products is the top end of the corporate market in India. This includes private sector companies affiliated with the best known Indian business houses, large public sector companies and leading multinational companies. We focus in particular on large manufacturing companies. At March 31, 2003, we had more than 650 customers in our primary target area of which we defined approximately 350 as core relationships.

We have extended our commercial banking products and transactional services to suppliers and customers of our corporate clients. For enterprises that have dealings with large corporate customers of the Bank we extend credit facilities for transactions. This helps our corporate customers complete their supply chain management (SCM) and help their business associates to optimize their borrowing.

Over the past 2 years, we have acquired the supply chain business of over 40 large corporate customers thereby developing relationships with around 700 dealers and around 3,800 vendors. We have a range of products for SCM clients including bills discounting, invoice discounting, purchase order discounting, current account with various product features, overdrafts, cash credit, loans, cash management services, and internet banking to name some.

We provide our transactional services to a wide range of corporations, financial institutions and government entities. For example, we provide employee trust customers and insurance companies with custody services, security settlement services and nationwide payments. For our mutual fund clients, we market our services as a one-stop shop, providing custodial services, cash management collection, redemption services and mutual fund sales.

As a leading provider of cash clearing services to stock exchanges, we deal with a large number of domestic and foreign brokers to whom we extend various transactional services and in some cases working capital facilities. We also extend to this segment margin guarantees including on a product program basis for mid-sized brokers.

Retail Banking

Overview

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

We market our services aggressively through our branches, personal bankers and direct sales associates, as well as through our relationships with stockbrokers and corporate clients and through franchise arrangements

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with cooperative banks. We seek to develop a relationship with a retail customer and then expand it by offering more products and expanding our distribution channels so as to make it easier for the customer to do business with us. We believe this strategy, together with the general growth of the Indian economy and the Indian middle and upper classes, affords us significant opportunities for growth.

At March 31, 2003, we had 231 branches, including 20 extension counters, and 732 ATMs. We expect to add approximately 60 branches and 200 ATMs by March 2004, subject to regulatory approvals. We plan to continue to expand our other distribution channels, such as our telephone banking, internet banking and mobile banking. A second avenue for growth will be to target our marketing efforts to particular segments of the retail market. We seek to acquire customers who are high net worth individuals through our priority and preferred banking services, in which we offer an extensive range of products and dedicated customer service representatives. We work with our corporate banking group to target corporations where we can offer our Corporate Salary Account product package to hundreds or thousands of employees at a time. We also plan to put greater emphasis on targeting the affluent non-resident Indian population through specialized deposit products, non-resident tax services and our internet banking channel. A third avenue for growth will be to expand our products. We offer credit cards and have recently commenced distributing a range of insurance products underwritten by other companies in the near future.

Retail Loan Products

We offer a wide range of retail loans, including loans against securities, auto loans, personal loans and two-wheeler loans. Price, speed of commitment and quality of service are the key competitive factors. Our retail loans were 26.3% of our gross loans at March 31, 2003. Apart from our branches, we use our ATM screens and website to promote our loan products, and we employ additional sales methods depending on the type of product. Because there is no credit bureau in India, we perform our own credit analyses of the borrowers or the value of the collateral. See Risk Management Credit Risk Retail Credit Risk.

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

	At March 31, 2003			
	Number of loans	**Value in millions**		**% of total value**
Loans against securities	21,000	Rs. 5,583.4	US$ 117.5	17.7%
Auto loans	69,000	16,361.9	344.2	51.7
Personal loans	54,000	5,352.7	112.6	16.9
Two wheeler loans	54,000	1,142.7	24.0	3.6
Credit cards	181,000	811.7	17.1	2.6
Other retail loans	6,000	2,379.0	50.1	7.5
Total	385,000	Rs. 31,631.4	US$ 665.5	100.0%

Loans Against Securities

We offer loans against equity securities, mutual fund units and against bonds issued by RBI that are on our approved list. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first priority security interests. The minimum margin for lending against shares is 40%. We also limit our loans 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 currently mark collateral subject to price variations to market at least every week or more often if conditions require and demand additional collateral as necessary.

Auto Loans

We offer auto loans at fixed interest rates for financing new automobile and used car purchases. In addition to the pledge of the vehicle, we generally obtain post-dated checks covering all payments at the time the loan is made. It is a criminal offense in India to issue a bad check. These loans typically range in value from Rs. 100,000 to Rs. 3.0 million, with a repayment period ranging from 12 to 60 months. We also offer a corporate employee

car loan program and a preferred customer car loan program for existing deposit account holders. Subject to subsequent credit verification, we offer pre-approved auto loans for certain of our Corporate Salary Account customers and select branch customers and high networth individuals. 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 50 cities across India.

Personal Loans

We offer unsecured personal loans at fixed rates, in amounts ranging from Rs. 25,000 to Rs. 1,000,000, repayable in equal monthly installments over a period of 12 to 60 months. We obtain post-dated checks to cover all payments at the time the loan is made. Our personal loan products include loans for salaried individuals, corporate employee loan programs, personal loans to self-employed professionals (such as doctors and chartered accountants), personal loans to self-employed businessmen and educational loans.

Two Wheeler Loans

We offer loans at fixed rates in amounts ranging from Rs. 7,000 to Rs. 200,000, repayable in monthly installments typically over a period up to 36 months for financing the purchase of new scooters or motor cycles. We obtain post-dated checks to cover all payments at the time the loan is made. Subject to subsequent credit verification, we offer fast approval processes, including fax and internet approvals. The bank considers the two wheeler loan segment as an opportunity to be a significant player. The bank expects to increase its geographical presence significantly for this product in fiscal 2004.

The Bank has discontinued marketing consumer durable loans from a risk and profitability perspective.

Business Loans

We offer business loans to address the borrowing needs of the trading community typically around the bank branches by offering them various facilities like 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. The sizes of advances typically vary between Rs. 100,000 to Rs. 100 million and tenor varies between a year to 5 years for term loans with repayments through equated monthly installments. The lending is normally secured with current assets hypothecated to us with additional collateral of immovable property and fixed assets in some cases.

Credit Card Receivables

We offer silver and gold credit cards with the average receivable per active card ranging between Rs. 5,000 to Rs. 6,000. Customers are billed every month, and are expected to repay a minimum percentage of the billed value, and can revolve the balance at their option, or repay the full amount. Approximately 70% of the billed amount typically is revolved between one month and the next.

Commercial Vehicles

We cater to the needs of the transport industry by financing commercial vehicles. We also selectively provide working capital, bank guarantees and trade advances to customers who are transport operators. The average size of the disbursement for commercial vehicles is around Rs. 400,000 with repayment spread over three to four years in the form of equated monthly instalments, secured by the vehicle.

Construction Equipment Finance

We serve the infrastructure sector of the country by financing construction equipment used for highways, ports, mining and other construction related activities. Our loans range from Rs. 500,000 to Rs. 20 million for a tenor upto five years. In addition to the funding of domestic assets, we also finance imported assets for which

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we open foreign letters of credit and offer treasury services like forward exchange cover. We co-ordinate with almost 25 manufacturers and jointly promote our financing options to their clients.

Housing Loans

We have recently commenced the housing loan business through an arrangement with HDFC Ltd., whereby we will sell the HDFC Home Loan product. HDFC Ltd. will approve and disburse these loans which would be booked in the books of HDFC Ltd. For such loans, we will be paid a sourcing fee which is currently approximately 0.7% of the approved loan. HDFC Ltd. will provide credit, legal and technical appraisal for these loans. HDFC Ltd. is obligated to sell to us upto 70% of the fully disbursed home loans sold by us through the issue of mortgage backed pass through certificates (PTCs) and the balance would be retained by HDFC Ltd. The mortgage backed PTCs will be invested in by us at the underlying home loan yields less a fee paid to HDFC Ltd. for administration and servicing of the loans. This fee is currently at 1.5% per annum.

The arrangement seeks to leverage the strengths of the two organizations in terms of HDFC Ltd s product acceptance, operational efficiencies and credit expertise on one hand and our sales origination and distribution on the other.

Other Retail Loans

These primarily constitute overdraft facilities against time deposits placed with us. We typically lend up to 75%-90% of the amount of the time deposit with us.

Retail Deposit Products

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

	At March 31, 2003				
	Value (in millions)		% of total	Number of accounts (in thousands)	% of total
Savings	Rs. 42,857.1	US$ 901.7	27.5%	2,097	68.8%
Current	18,273.6	384.5	11.8	167	5.5
Time	94,470.7	1987.6	60.7	786	25.7
Total	Rs. 155,601.4	US$ 3,273.8	100.0%	3,050	100.0%

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

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

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

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

Special value-added accounts which offer our customers added value and convenience. These include a fixed deposit account that allows for automatic transfers from the fixed deposit to savings, as well as a fixed deposit account with an automatic overdraft facility of up to 75% to 90% of the balance in the account. We also offer Corporate Salary Accounts, which allow the employer to make salary payments to a group of employees with one transfer, which we disburse directly into individual employees accounts held with us. The employees receive preferred customer services, such as preferred rates on loans and in some cases lower minimum balance requirements. See Retail Banking Customers and Marketing Corporate Salary Account.

E-Broking accounts are offered as checking accounts to customers of stock brokers where all transactions are routed electronically between the broker and beneficiaries.

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Other Services and Products

International Debit Cards

Our international debit card allows our customers to purchase goods and make ATM transactions in India and abroad. Our debit cards may be used with more than 51,000 merchants in India and more than 10 million merchants worldwide, and at more than 3,500 ATMs in India and more than 800,000 ATMs worldwide. In addition to an annual fee charged to most debit card holders, we receive a portion of the fee charged to the merchant (or to the customer of another bank in the case of ATM transactions) for each transaction. We believe we are one of the largest debit card issuers in India, with approximately 1.4 million current holders. We were the first bank in India to issue international Visa Electron debit cards on a nationwide basis, and currently issue both Visa Electron and MasterCard Maestro cards.

Bill Payment Services

We offer our customers utility bill payment services for more than 45 leading utility companies including insurance, 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. We had approximately 100,000 registered users of this service at March 31, 2003. We currently offer this service free to our customers and charge the utility a fee. We have now outsourced the bill pay operations and will also be charging a nominal fee to our customers with effect from October, 2003.

Individual Depositary Accounts

We provide depositary accounts to individual retail customers in connection with the holding of debt and equity securities. Securities traded on the Indian exchanges are generally not held through a broker's account or in street name. Instead, an individual will have his own account with a depositary participant for the particular exchange. Depositary participants, including us, provide services through the major depositories 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. For retail customers, we only provide depositary services for securities in scripless or dematerialized form and provide dematerialization and rematerialization services. We earn fixed fees based on the opening and maintenance of the account as well as variable revenue based on the value of transactions processed.

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. We also target select customer segments such as institutional buyers and high net worth retail customers. We offer our in-house research to add value to the customer s investment decisions.

Investment Advice

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

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Internet Brokerage

In October 2000, we acquired a minority equity stake in an affiliate company, HDFC Securities Private Limited, which provides stock brokerage services through the internet and other channels.

Credit Cards

Our credit card business has been in operation since December 2001, when we soft launched our credit card in Chennai. The business was operational in fifteen cities for the fiscal 2003 and we had a credit card base of approximately 181,000 card at March 31, 2003. We offer silver and gold credit cards with standard limits ranging from Rs.15,000 to Rs. 300,000. In addition to this, there are value-added co-branded product offerings like the eSeva card, and the Health Plus Card which offer features like ease of payment options for Government utilities, Medical Insurance, etc. This product, being only in the second full year of operation, is yet to break even.

Electronic Data Capture (EDC) Terminals

We deploy Electronic Data Capture (EDC) Terminals at merchant locations to improve acceptability of our credit and debit cards issued and to earn fees as a acquirer of card transactions. We earn a fee for all transactions acquired by the Bank and the float on the banking account maintained by the merchant. At the end of fiscal 2003 we had more than 21,000 EDC terminals installed at various merchant locations across the country.

Insurance

We have tied up with HDFC Standard Life Insurance Company, a related party as a corporate agent for distribution of life insurance products to our customers. We offer life insurance solutions to our retail customers. We earn upfront commission on new premiums collected as well as trail income in the subsequent years while the policy continues in force.

Retail Distribution Channels

In order to provide anytime, anywhere, anyhow retail banking products and service, we have multiple distribution channels, including a branch network with 231 branches, including 20 extension counters, in 123 cities across India staffed with dedicated service specialists, 732 ATMs, 24-hour telephone banking, mobile telephone banking and internet banking. For further information about our distribution channels, see Distribution Channels.

Customers and Marketing

Our target market for our retail services comprises middle and upper income persons and high net worth individuals. We also target small businesses, trusts and non-profit corporations. At March 31, 2003, 1.0% of our retail customers contributed approximately 30% of our retail deposits. We have a marketing strategy that focuses on key market segments primarily in the nine Indian cities. We also obtain new customers through joint marketing efforts with our wholesale banking department, in which we feature our Corporate Salary Account package. We also cross-sell our retail products to customers we obtain through our capital markets transactional services to stock brokers, such as our depositary account customers. In addition, we market our products through our branches, telephone sales calls, dedicated sales staff for niche market segments and foreign marketing activities targeting non-resident Indians. Finally, we market our auto loan and consumer durable loan products through joint efforts with relevant manufacturers.

We use third-party agents or direct sales associates to identify prospective new customers. In the case of deposit accounts these are then contacted by our own staff. An affiliated company, HBL Global Limited, employs some of the direct sales staff. See Related Party Transactions HBL Global Limited.

We have programs that target particular segments of the retail market, such as the following:

Private and Preferred Banking. 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 market. Top revenue generating customers of our preferred banking program are channeled into our private banking program.

Corporate Salary Accounts. We market our Corporate Salary Accounts package to corporations and their employees. With just one transfer, the employer can make salary payments to a group of employees, as we debit the employer s account and credit each of the employees individual accounts. Employees receive individual deposit accounts, generally with no or lower minimum balance requirements, preferred rates on loans, free ATM and debit cards, telephone banking, an overdraft facility of up to 50% of net take-home salary and our utility bill payment service. At March 31, 2003, we had more than 10,500 companies disbursing their payrolls through us, with more than 850,000 salary accounts. These constitute approximately 41% of our total savings accounts by number and approximately 27% of our retail savings deposits by value.

Non-Resident Indian Services. Non-resident Indians are an important target market segment for us given their relative affluence and strong links to family members in India. Our non-resident deposits were Rs. 3.3 billion at March 31, 2000. Since that time we have expanded our marketing efforts and our non-resident deposits have grown by more than 500% to Rs. 19.3 billion at March 31, 2003. We offer products such as convertible, non-repatriable and repatriable rupee accounts, along with our international debit card.

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. We have technologically sophisticated trading operations located in Mumbai with the latest voice systems and electronic terminals with access to real-time market information feeds.

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Our client-based activities consist primarily of advising corporate and institutional customers and transacting spot and forward foreign exchange contracts, rupee-based derivatives and cross-currency derivatives. We have been recently allowed by RBI to offer Indian rupee options and exchange traded futures to our clients. Our primary customers are multinational corporations, large and medium-sized domestic corporations, financial institutions and public sector undertakings. We also advise and transact with some small companies and non-resident Indians. We believe we have become a significant participant in these markets by virtue of the strength of our client service and our structuring and execution capabilities. We are also a competitive Indian option for public sector undertakings and similar institutions who have traditionally used foreign banks for structured foreign exchange and derivative products because most Indian banks did not have the necessary expertise.

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 one year with our customers. To support our clients activities, we are an active participant in the Indian interbank foreign exchange market. We also trade to a more limited extent for our own account. We believe we are a market maker in the dollar-rupee segment. Although spreads are very narrow, our total volume of trading is significant with US$ 31.6 billion in foreign exchange traded in fiscal 2003.

The major participants in the foreign exchange market are the State Bank of India and other large public sector banks as well as the large foreign banks. We believe we are one of the few private sector banks that is a significant participant.

The RBI imposes limits on our ability to borrow or lend in foreign currencies and on our capital account transactions. In addition, the RBI limits our overnight exposure. We also impose additional limits on intraday and overnight exposure. We aim to have a near square position at the end of each day. As a contractual matter, trades between participants are generally not netted, although the practice of bilateral netting is developing. In addition, mechanisms for broader electronic trading are being developed, and a clearing corporation has been established that would clear foreign exchange as well as money market trades among bank participants. See also Risk Management Market Risk Price Risk.

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 interest rate 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.

The Indian derivatives market is relatively young and is still developing, largely due to regulatory restrictions on the use and trading of derivatives. The RBI prohibits banks from having unmatched positions in G7 derivatives at any time, prohibits interest rate rupee options, and limits the ability of corporations to use derivatives. Banks have recently been allowed by the RBI to trade in rupee currency options. The RBI has also allowed banks to use interest rate futures to cover the interest rate risk in Government Securities. Consistent with RBI regulations, we generally maintain a matched book with respect to our positions at all times (other than rupee-based interest rate swaps and now rupee currency options).

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 Information About India Supervision and Regulation Legal Reserve Requirements. Our local currency desk primarily trades Indian government securities for our own account. We also participate in the interbank call deposit market and engage in limited trading of other debt instruments.

Equities Market

We trade a very limited amount of equities of Indian companies for our own account. At March 31, 2003, we had a Board approved limit of Rs. 100 million (currently Rs. 200 millions) for such equity investments for proprietary trading, although our exposure at March 31, 2003 was small, at approximately Rs. 22.8 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 traditional bank branches, ATMs, telephone and mobile telephone banking and the internet.

Branch Network

At March 31, 2003, we had an aggregate of 231 branches, including 20 extension counters. Our branch network covers 123 cities in India, with 72 branches concentrated in the four largest cities, Mumbai, Delhi, Chennai and Kolkata (Calcutta). We centralize our processing of transactions and back office operations in the same four cities. This structure enables the branch staff to focus on customer service and selling our products. All of our branches are electronically-linked so that our customers can access their accounts from any branch regardless of where they have their account.

Approximately 90% of our branches focus exclusively on providing retail services and products. The range of products and services available at other branches depends in part on its size and location. Our extension counters are small offices primarily within office buildings, that provide specific commercial and retail banking services. Except for seven locations, each branch and extension counter has at least one ATM.

As part of its branch licensing conditions, the RBI requires that at least 25% of our branches (not including extension counters) be located in semi-urban or rural areas. A semi-urban area is defined as a center with a population of greater than 10,000 but less than 100,000 people. A rural area is defined as a center with a population of less than 10,000 people. The population figures relate to the census prevailing at the time the branch is opened. As a result, 53 of our branches are in semi-urban or rural areas.

Subject to receiving the necessary licenses from the RBI, we plan to add an aggregate of approximately 60 branches or extension counters by March 31, 2004.

Automated Teller Machines

At March 31, 2003, we had a total of 732 ATMs, of which 268 are located at our branches or extension counters and 464 are located off-site, including at large residential developments, or on major roads in metropolitan areas. All our ATMs are available 24 hours per day. By March 2004, we intend to expand our ATM network to approximately 925 ATMs.

Customers can use our ATMs for a variety of functions including withdrawing cash, monitoring bank balances and, at most of our ATMs, making deposits, ordering demand drafts and paying utility bills. Customers can access their accounts from any of our ATMs, regardless of where they originally opened their account. Our ATM cards cannot be used in non-HDFC Bank ATM machines, although our debit cards can be used. ATM cards issued by banks in the Plus, Cirrus and Amex networks can be used in our ATMs and we receive a fee for each transaction. These fee-generating transactions account for approximately 3.8% of our total ATM transactions in fiscal 2003.

Telephone Banking Call Centers

We provide telephone banking services to our customers in 80 cities. This service covers approximately 60% of our customer base. 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 Delhi and Mumbai, customers can also engage in financial transactions (such as cash transfers, opening deposits and ordering demand drafts). In nine cities we also have staff available 9 hours each day (four hours on weekends and holidays) to assist customers who want to speak directly to one of our telephone bankers. Our telephone banking service receives more than 1,200,000 customer calls every month.

Internet Banking

In September 1999, we launched NetBanking, a real-time internet banking service. Through our website, customers can access account information, track transactions, transfer funds between accounts and to third parties who maintain accounts with the bank, make fixed deposits, pay bills, request stop payments and make demand draft requests. We encourage use of our internet banking service by offering some key services free or at a lower cost. We use 128-bit encryption technology to ensure all transactions are secure. More than 900,000 of our customers have registered for internet banking services, with approximately 13% of that number using NetBanking at least once a quarter. NetBanking is also an important channel for serving our non-resident Indian customers.

Mobile Telephone Banking

We launched mobile telephone banking services in January 2000, making us the first bank to do so in India. Currently our customers in more than 72 cities are eligible to sign up for mobile telephone banking which allows them to access their account on their mobile telephone screens and to conduct a variety of banking transactions including balance inquiries, stop payment orders and utility bill payments. We use short messaging services, or SMS, as the main platform for this service. Approximately 189,000 of our customers have registered to use the mobile telephone banking services. Approximately 132,000 mobile telephone banking transactions take place every month.

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

Credit Risk

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

Corporate Credit Risk

We primarily target large manufacturing corporations in our corporate lending activities. Although we have some middle market borrowers, our corporate 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 corporate clients, we have a detailed risk grading system that is applied to each counterparty on an annual basis. We also have limits for funded exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. 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 similar to that used by rating agencies and 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 instrument being considered.

We are subject to RBI policies that limit our exposure to particular counterparties and with respect to particular instruments. The RBI provides that without prior approval not more than 15% of our capital funds (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. Effective April 1, 2003 in reckoning the credit exposure for single and group borrower the weightage for non fund based exposures which hitherto was 50% is now 100%. We had six exposures to companies that were above the general limit at March 31, 2003 for which we had approvals of the RBI. During fiscal 2003, the bank carried approvals from RBI to extend credit exposures over the prescribed norms for seventeen corporates and three groups of companies under the same management. At that date, our largest exposure to a single borrower was 30.0% of our capital funds, and our largest group exposure was 46.3% of our capital funds; all these borrowers are performing according to the terms of the contracts.

The RBI prohibits loans to companies with which we have any directors in common. We obtained approval for an exception to this policy that allows us to hold until maturity a loan to HDFC, made by Times Bank, which loan we acquired as part of the merger with Times Bank. The RBI also requires that a portion of our lending activities be directed to specific priority sections. See Information About India Supervision and Regulation.

We follow a policy of portfolio diversification by industry. At March 31, 2003, our customer assets in any single industry did not exceed 10% of our total outstanding customer assets. All working capital loans are subject to review at annual or shorter intervals.

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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 other letters of support from the corporate parent. We generally do not make project loans or loans to property developers, although we may take a charge over real property as part of the security for a loan to a corporate borrower. Although we take collateral, we may not always be able to realize its value in a default situation. See Risk Factors 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 exposing us to a potential loss.

Our credit approval process for corporate loans requires three different officers to approve the credit. Although the particular level of approval varies depending on the size of the loan and the borrower risk grading, no corporate loan can be made without all three approvals.

Once a loan is made, we undertake ongoing credit analysis and monitoring at several levels. Our policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee of our board of directors, together with our senior credit officers, monitors overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis. Our senior credit officers also work with our relationship managers to monitor individual counterparty performance and condition as well as industry wide market trends. We update our grading of all counterparties on an annual basis. A variety of other reports and analyses are prepared periodically. Remedial strategies are developed once a loan is identified as a problem loan. Exposures that slip below targeted market norms or risk standards are placed on a phase-out list, and an exit process for each exposure is put into operation.

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 US 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 delivery of post-dated checks to cover all payments. In India bouncing of checks is a criminal offence. In the case of most automobile loans as well as unsecured personal loans, we require that the borrower provide post-dated checks for all payments on the loan at the time the loan is made. Loans against shares, automobile loans and consumer loans are all secured loans. We will generally lend up to 60% of the market value of shares in the case of a loan against 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 corporate lending risk. We apply our risk assessment grading system to our 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,

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including securities foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments.

Our board of directors reviews and approves the policies for the management of market risks and dealing authorities and limits. The Risk Management Committee of the board monitors market risk policies and procedures and reviews market risk limits. The board of directors has delegated the responsibility for ongoing general market risk management to the Asset Liability Committee. This committee, which is chaired by the managing director and includes the heads of our business groups, meets every alternate week and more often when conditions require. The Asset Liability Committee reviews our product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view of the bank and decides on future business strategy with respect to interest rates. It reviews and sets funding policy. It also reviews developments in the markets and the economy and their impact on our balance sheet and business. Finally, it ensures adherence to market risk limits and decides on the bank s inter segment transfer pricing policy.

The 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.

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 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 interbank market. We use the majority of our funds to make loans or purchase securities. Most of our liabilities and assets are short-term.

We maintain a substantial portfolio of liquid high-quality Indian government securities. While generally this market provides an adequate amount of liquidity, the interest rates at which funds are available can sometimes be volatile. We prepare regular maturity gap analyses to review our liquidity position, and must submit a monthly analysis to the RBI.

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

Our Asset Liability Committee addresses two principal aspects of our asset liability management program.

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.

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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 to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring local markets for the adequacy of funding liquidity.

Price Risk

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

We monitor and manage our exchange rate risk through a variety of limits on our foreign exchange activities. The RBI also limits the extent to which we can deviate from a near square position at the end of the day (where sales and purchases of each currency are matched). Our own policies set limits on maximum open positions in any currency during the course of the day as well as overnight position limits. We also have gap limits that address the matching of forward positions in various maturities and for different currencies. In addition, the RBI approves the aggregate gap limit for us. This limit is applied to all currencies. We also have stop-loss limits that require our traders to 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 our outstanding foreign exchange instruments. Our Value at Risk model statistically estimates the potential loss in earnings that would arise if we held our foreign exchange gap positions for three days. We currently use three days for our estimate, as this is the period within which we are 99% confident that we could theoretically close out all our foreign exchange gap positions and incur a loss that is less than our estimated Value at Risk. Our Value at Risk model is applied to our holdings on a portfolio basis, and takes into account reductions in risk that may arise from diversification amongst the different currencies that we are exposed to. Our Value at Risk model uses historical data for foreign exchange provided by Reuters. As at March 31, 2003 the Value at Risk relating to all foreign exchange instruments we held was estimated at Rs. 91.7 million.

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 and transactional banking.

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

Operational Risk

Operational risks are risks arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational 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 pro-actively recommend 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 departments report directly to the chairman of the board of directors and the Audit and Compliance Committee of the board as well as indirectly to the managing director. The Audit and Compliance Committee meets every two months to review all procedures, the effectiveness of the controls and compliance with RBI regulations. In addition, the committee conducts a half-yearly review of the performance of the department itself.

Pursuant to RBI guidelines, some activities are required to be audited continuously. More than half of our business, measured by transaction volume, is subject to concurrent auditing, including foreign exchange, derivatives, equities, securities transactions, 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.

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.

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, transactional and foreign exchange services, while the large public sector banks have extensive branch networks and large local currency funding capabilities.

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Retail Banking

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

Treasury

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

Employees

We had 4,791 employees, 3,742 employees, and 2,800 employees at March 31, 2003, 2002 and 2001, respectively. At March 31, 2003 approximately 10.3% of our employees were managers or senior managers, and 4.0% were assistant vice presidents, vice presidents or group heads. By geographical location, approximately 49.9%, 24.2%, 19.4% and 6.5% of our employees are located in the western, northern, southern and eastern regions of India respectively. More than 95% 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 we at present are required to pay to employees a minimum 9.5% annual return. If the return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the funds. We have also set up a superannuation fund to which we contribute defined amounts. In addition, we contribute specified amounts to a gratuity fund set up pursuant to 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 undergo a 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 a need-based basis, with training program modules varying from two to four days in length.

Properties

Our registered office and corporate headquarters are located at Sandoz House, Dr. Annie Besant Road, Worli, Mumbai 400 018, India.

We lease our headquarters property as well as our 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. At March 31, 2003, we had a network consisting of 231 branches, including 20 extension counters, and 732 ATMs including 464 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 at March 31, 2003 was Rs. 1,416.4 million. We are also in the process of constructing our own corporate office at Lower Parel, Mumbai which should be commissioned during the third quarter of fiscal 2004.

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Legal and Regulatory Proceedings

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

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RISK FACTORS

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

Risks Relating to Our Business

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

Our asset growth rate has been significantly higher than the Indian GDP growth rate and the Indian banking industry growth rate over the last five fiscal years. For example, our total assets in the three-year period ended March 31, 2003 grew at a compound annual growth rate of 37.5%. Our rapid growth has placed, and if it continues will place, significant demands on our operational, credit, financial and other internal risk controls. An inability to manage our growth effectively could have a material adverse effect on our business, our future financial performance and the price of our equity shares and our ADSs.

Our business is vulnerable to volatility in interest rates.

Our results of operations depend to a great extent on our net interest income. In fiscal 2003, net interest revenue before allowances for credit losses represented 62.5% of our net revenue before such allowances. Changes in market interest rates could affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. Interest rates are highly sensitive to many factors beyond our control, including the RBI s monetary policies, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business, our future financial performance and the price of our equity shares and ADSs. Over the period from March 31, 2002, to March 31, 2003, year-end yields on the Indian government s ten-year bonds moved from 7.36% to 6.16%, with a high of 8.20% and low of 5.83% in fiscal 2002-03.

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 1.6% of our gross customer assets at March 31, 2003, 1.9% at March 31, 2002, 2.1% at March 31, 2001 and 3.2% at March 31, 2000. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.5% of our net customer assets portfolio at March 31, 2003, 0.6% at March 31, 2002, 0.7% at March 31, 2001 and 1.7% at March 31, 2000. After acquiring Times Bank in February 2000, our gross non-performing loans increased by 150.4%, while our total loan portfolio increased by 54.7%. At March 31, 2003, we had provided for 71.1% of our total non-performing loans. We cannot assure you that our provisions will be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a young bank and we have not experienced a significant, prolonged downturn in the economy.

A number of factors which are not in our control could affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, movements in global commodity markets, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to directed lending. In addition, the expansion of our business and our entry into the credit card business may cause our non-performing loans to increase and the overall quality of our loan portfolio to further deteriorate. If our non-performing loans increase, we may be unable to execute our business plan as expected and that could adversely affect 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 against securities and initial public offering finance for retail customers, stock exchange clearing services and depositary accounts. At March 31, 2003, loans to Indian and foreign institutional share brokers were Rs. 424.9 million, retail loans secured against shares were Rs. 3,218.9 million and margin guarantees were Rs.3,192.7 million. Loans to share brokers represented 0.28% and retail loans secured against shares represented 2.14% of our total gross loans and credit substitute portfolio at March 31, 2003. As a result of these transactions, we have significant exposure to this industry.

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 could cause the price of our equity shares and ADSs to go down.

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

One of our principal activities is providing financing to our clients, 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 and difficulties that many of our borrowers face in adapting to instability in world markets and rapid technological advances taking place across the world. Higher credit risk may expose us to 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 and financial assets, such as marketable securities.

As a part of the financial sector reforms, the government of India recently passed a new law called Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. The Act provides banks and other lenders increased with powers which we believe could lead to better and faster realization of the collateral underlying against the non performing assets. We cannot guarantee that we will be able to realize the full value on 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.

RBI has put in place a CDR framework for restructuring of debt of viable corporates facing problems. The framework, which is expected to come in force during the current fiscal year, envisages that for debt amounts of Rs. 200 million and above referred by lenders/borrowers to the CDR cell, lenders holding greater than 75% of the referred debt can decide to restructure the referred debt and such decision a would be binding on the remaining 25% or less of the lenders even if they do not agree to the restructuring. This could force us 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, hitherto.

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 deposit bases, more capital and larger customer bases than we do. We also compete directly with foreign banks, some of which are a part of the largest multinational financial companies in the world.

Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services at reasonable returns, which may impact our business and our future financial performance.

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

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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 which could have a material adverse effect on our business.

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

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

We intend to enter new product lines in which we may not be successful.

We intend to continue to explore new business opportunities in both retail and corporate banking. For example, we launched a credit card business in the fiscal 2002. We do not expect our credit card operations to be profitable in the initial years of operation, and we cannot assure you that we have accurately estimated how long it will take us to become profitable or the risks and costs of this business. Our inability to succeed in this or any other new product launch could adversely affect our future financial performance and the price of our equity shares and our ADSs.

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

At March 31, 2003, our ten largest exposures, which include the aggregate of all outstanding balances of loans and investments, totaled approximately Rs. 38.1 billion. This represented approximately 14.7% of our net loans and investments and 145.9% of our shareholders equity. Our largest single funded exposure, based on outstanding balances at that date, was Rs. 6,242.2 million. This represented approximately 2.4% of our net loans and investments and approximately 23.9% of our shareholders equity. At March 31, 2003, none of our ten largest funded exposures based on outstanding balances was classified as non-performing. Our largest non-performing loan was our 35th largest funded exposure based on outstanding principal balance. However, if any of our ten largest exposures were to become non-performing, the quality of our asset portfolio and the price of our equity shares and ADSs could be adversely affected.

At March 31, 2003, as a percentage of gross loans and credit substitutes, approximately 21.1% were individual or retail advances, 8.9% were to automotive manufacturers and 5.5% were to companies in the heavy chemicals industry. At that date, Rs. 1,660.0 million or 70.1% of our gross non-performing loan portfolio was concentrated in four industries: automotive, iron and steel, textiles and electronics. Recently, there has been some upturn in the automotive and iron and steel industries, while the position in textile and electronic industries has not shown any significant variation. Some of these sectors could be affected in future by change in trade regulations, commodity prices or slowdown in industrial growth. Industry specific difficulties in these and other sectors could increase our level of non-performing loans and adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

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

HDFC Limited and its subsidiaries owned 24.4% of our equity at March 31, 2003. So long as HDFC Limited and its subsidiaries hold at least a 20.0% equity stake in us, HDFC Limited is entitled to nominate directors who are not required to retire by rotation to our board including the chairman and 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.

We have no agreements with HDFC Limited or any other HDFC group companies, which restrict us from offering products and services that are offered by them. Our relationship with these companies may however cause us to arrive at mutually beneficial arrangements which could limit the extent to which we may compete with HDFC Limited and HDFC group companies. 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.

We have recently entered into an arrangement with HDFC relating to our housing loans business. See Business Retail Loan Products-Housing Loans .

Material changes in Indian banking regulations and infrastructure could harm our business.

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending and reserve requirements. 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, as well as changes in other governmental policies, income tax laws and accounting principles. The RBI has issued guidelines on banks exposure to the capital markets. The guidelines place a ceiling on bank financing of equities and investments in shares equal to 5% of a bank s total outstanding advances at the end of the prior year. Certain funded and non-funded exposures are subject to the ceiling. For more information on the new guidelines on exposure to the capital markets, see Supervision and Regulation Regulation Relating to Capital Markets Exposure. We cannot assure you that laws and regulations governing the banking sector will not change in the future or that any changes will not adversely affect our business, our future financial performance and the price of our equity shares and our ADSs.

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 interbank clearing practices , check collections can be slow and unpredictable. Through our electronically linked branch network, correspondant bank arrangements and centralized processing, we effectively provide nationwide collection and disbursement system for our corporate clients. We enjoy cash float and earn fees from these services.

The RBI is currently working on a new inter-bank settlement system called the Real Time Gross Settlement (RTGS). Once implemented the system would facilitate real time settlements between banks, initially in select locations. This could have an adverse impact on the cash float enjoyed so far from some of our cash management services and hence our future financial performance and the price of our equity shares and our ADS.

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

We seek to protect our computer systems and network infrastructure from physical break-ins as well as fraud and systems failures. Computer break-ins and power 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 break-ins, damage and failures, there can be no assurance that these security measures will be successful. A significant failure of security measures 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, there is the possibility that both systems could be simultaneously damaged or destroyed. In addition, we have established a remote disaster recovery site at Chennai which replicates our network and certain applications which are currently based in Mumbai. We believe that we will be able to retrieve critical applications within an optimal time frame.

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 Indian economy could adversely effect our business, including our ability to grow our asset portfolio, the quality of our assets, and our ability to implement our strategy.

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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.

Indian law limits our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from operating our business or entering into a transaction that is in the best interests of our shareholders.

Indian law constrains our ability to raise capital outside India through the issuance of equity or convertible debt securities and we may not be able to raise sufficient funds within India to support our growth. Generally, any foreign investment in, or an acquisition of, an Indian company requires approval from relevant government authorities in India including the RBI. As a result, our ability to seek and obtain additional equity investment by foreign investors is constrained. In addition, these restrictions may prevent us from entering into a transaction, such as an acquisition by a non-Indian company, which would otherwise be beneficial for us and the holders of our equity shares and ADSs.

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 four times since 1996. The current coalition-led central government, which came to power in October 1999, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous central governments. We cannot assure you that these 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. A significant change in India s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

If regional hostilities increase, our business could suffer and the price of our equity shares and ADSs could go down.

India has from time to time experienced social and civil unrest and hostilities with neighbouring countries. In recent years there have been military confrontations between India and Pakistan in the Kashmir region. These hostilities and tensions could lead to political or economic instability in India and a possible adverse effect on Indian stock exchanges, our business, our future financial performance and the price of our equity shares and ADSs.

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. 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.

Risks Relating to the ADSs and Equity Shares

You will not be able to vote your ADSs.

Investors in ADSs will have no voting rights unlike holders of the equity shares who have voting rights. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the equity shares underlying the ADSs and seek to vote the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays and you may not be able to redeposit the equity shares as described below. For a discussion of the legal restrictions triggered by a

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withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see Information About India Restrictions on Foreign Ownership of Indian Securities.

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

India s restrictions on foreign ownership of Indian companies limit the number of equity shares that may be owned by foreign investors. Foreign investors generally require government approval. Investors who withdraw equity shares from the depositary facility will be subject to Indian regulatory restrictions on foreign ownership upon withdrawal. It is possible that this withdrawal process may be subject to delays. An ADS holder who surrenders an ADS and withdraws shares may be able to redeposit those shares in the depositary facility in exchange for ADSs. In addition, an investor who has purchased shares in the Indian market may be able to deposit them in the ADS program. However, in either case, the deposit or redeposit of equity shares may be limited by securities law restrictions and will be restricted so that the cumulative aggregate number of shares that can be deposited or redeposited as of any time cannot exceed the cumulative aggregate number represented by ADSs converted into underlying shares as of such time. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see Information About India Restrictions on Foreign Ownership of Indian Securities.

Your ability to sell in India any equity shares withdrawn from the depositary facility may be subject to delays if specific government approval is required.

Investors seeking to sell in India any equity shares withdrawn upon surrender of an ADS will require RBI approval for each transaction unless the sale of those equity shares is made on an Indian stock exchange or in connection with an offer made under the Indian regulations regarding takeovers. Further, since currency exchange controls exist in India, the RBI will approve the foreign currency equivalent of the price at which your equity shares are transferred based on a specified form, and a higher price per share may not be permitted. Additionally, except in limited circumstances, if you seek to convert the rupee proceeds from your sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, you will have to obtain an additional RBI approval for each transaction. If approval is required, we cannot guarantee that any approval will be obtained in a timely manner or at all. Because of possible delays in obtaining requisite approvals, investors in equity shares may be prevented from realizing gains during periods of price increases or limiting losses during periods of price declines.

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.

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

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

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75% of the company s shareholders present and voting at a shareholders general meeting. US 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

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associated with any registration statement as well as the perceived benefits of enabling US investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We do not commit that we would file a registration statement under these circumstances. If we issue any securities in the future, these securities may be issued to the depositary, which may sell these securities in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurance as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

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

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

- the US dollar equivalent of the Indian rupee trading price of our equity shares in India and indirectly the US dollar trading price of our ADSs in the United States may also decline;

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

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

Investors that seek to convert the rupee proceeds of a sale of equity shares withdrawn upon surrender of ADSs into foreign currency and export the foreign currency will need to obtain the approval of the RBI for each such transaction. In addition, investors that seek to sell equity shares withdrawn from the depository facility will have to obtain approval from the RBI, unless the sale is made on a stock exchange or in connection with an offer made under the regulations regarding takeovers. Holders of rupees in India may also generally not purchase foreign currency without general or special approval from the RBI.

We have unsecured subordinated debt that, in case of payment default, could result in an issuance of a significant number of equity shares.

Certain of our subordinated debt agreements with various government-owned Indian financial institutions contain provisions (which are commonly found in loan agreements of this nature in India) that entitle the primary lenders to exercise the right to convert at their option in most cases, up to 20% of outstanding principal and interest into fully-paid shares (at a conversion price equal to the par value, Rs. 10, of the equity shares) where the borrower is in default under the loan agreement. Although we have never missed a payment on this or any other debt, in the event we were to default on all such debt, the number of shares that could be so issued could represent a significant proportion of our equity share capital and could dilute the effective ownership of other shareholders, including holders of our equity shares and the ADSs. See Description of Equity Shares Issuance of Equity Shares under Subordinated Debt.

The future sales of securities by our company or existing shareholders may depress the market price of our ADSs.

The market price of our ADSs could decline as a result of sales of a large number of our equity securities on an Indian stock exchange or elsewhere, or the perception that sales could occur. These sales might also make it more difficult for us to sell equity securities in the future at a time and at a price we deem appropriate.

You may be subject to Indian taxes arising out of capital gains if you exchange your ADSs for equity shares and sell the equity shares.

Generally, capital gains, whether short-term or long-term, arising on the sale of the underlying equity shares in India are subject to Indian capital gains tax. For purposes of computing the amount of capital gains subject to tax, Indian law specifies that the cost of acquisition of the equity shares will be deemed to be the share price prevailing on The Stock Exchange, Mumbai or the National Stock Exchange on the date the depositary advises

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the custodian to redeem receipts in exchange for underlying equity shares. The period of holding of such equity shares for determining whether the gain is long-term or short-term commences on the date of the giving of such notice by the depositary to the custodian. Investors are advised to consult their own tax advisers and to consider carefully the potential tax consequences of an investment in our ADSs.

You may be subject to Indian taxes on dividend payable on your ADSs

In view of changes in the Indian Income Tax law, effective financial year 2003-04 a Company paying the dividend is subject to dividend distribution tax @ 12.5%, plus surcharge of 2.5% on the total amount it distributes as dividend to its shareholders in addition to the normal corporate tax on its income See Taxation Indian Tax

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

We are a limited liability company incorporated under the laws of India. All but one of our directors and executive officers and some of the experts named in this document are residents of India and almost all of our assets and the assets of these persons are located in India.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. We have been advised by our Indian legal advisors that recognition and enforcement of foreign judgments is provided for under Section 13 of The Code of Civil Procedure, 1908 of India on a statutory basis and that foreign judgments shall be conclusive regarding any matter directly adjudicated upon except:

- where the judgment has not been pronounced by a court of competent jurisdiction;
- where the judgment has not been given on the merits of the case;
- where it appears on the face of the proceedings that the judgment is founded on an incorrect view of international law or a refusal to recognize the law of India in cases in which Indian law is applicable;
- where the proceedings in which the judgment was obtained were opposed to natural justice;
- where the judgment has been obtained by fraud; or
- where the judgment sustains a claim founded on a breach of any law in force 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 prospectus that are residents of India or to enforce judgments obtained against us or these persons in foreign courts predicated upon the liability provisions of foreign countries, including the civil liability provisions of the federal securities laws of the United States. Moreover, it is unlikely that a court in India would award damages on the same basis as a foreign court if an action were brought in India. Furthermore, it is unlikely 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 in Indian securities markets than securities markets in developed countries.

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

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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 of India under the symbol HDFCBANK, The Stock Exchange, Mumbai under the code 500180 and The Stock Exchange, Ahmedabad under the Stock Code 00500. The majority of trading in our equity shares is carried out on the National Stock Exchange and The Stock Exchange, Mumbai.

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
	High	Low	volume
2002			
Third Quarter	US$ 15.20	US$ 12.71	40,370
October	14.25	12.70	27,013
November	13.51	12.16	54,195
December	13.98	11.85	42,125
2003			
January	15.24	13.26	37,414
February	16.25	15.22	87,211
March	15.87	14.86	71,078
April	17.50	15.43	45,922
May	17.17	16.01	44,128
June	19.25	16.98	41,090
July	23.40	18.75	85,559
August	23.84	21.45	50,105
September(through September 23)	22.50	20.25	54,363

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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 US dollars based on a rate of Indian Rs. 47.53 per US dollar; 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
	High	Low	High	Low	Equity share trading volume
1998	Rs. 86.1	48.0	US$1.8	1.0	139,901
1999	191.6	49.2	4.0	1.0	178,159
2000	295.0	157.0	6.2	3.3	153,552
2001					
First Quarter	279.0	210.6	5.9	4.4	193,332
Second Quarter	250.0	197.1	5.3	4.1	91,066
Third Quarter	229.0	199.6	4.8	4.2	100,367
Fourth Quarter	238.0	195.0	5.0	4.1	94,126
2002					
First Quarter	255.0	228.6	5.4	4.8	73,986
Second Quarter	241.5	199.8	5.1	4.2	80,868
Third Quarter	226.0	200.0	4.8	4.2	57,928
October	217.0	186.0	4.6	3.9	106,893
November	200.1	188.0	4.2	4.0	106,691
December	223.0	187.3	4.7	3.9	159,129
2003					
January	243.5	209.9	5.1	4.4	118,242
February	256.0	222.0	5.4	4.7	137,045
March	252.3	205.0	5.3	4.3	80,765
April	250.0	231.0	5.3	4.9	138,101
May	257.0	239.1	5.4	5.0	102,269
June	267.2	239.0	5.6	5.0	200,851
July	303.5	252.6	6.4	5.3	300,959
August	291.6	235.1	6.1	4.9	71,066

At March 31, 2003, there were 254,978 holders of record of our equity shares, excluding ADS, of which 28 had registered addresses in the United States and held an aggregate of 4,095 of our equity shares.

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DESCRIPTION OF EQUITY SHARES

We incorporate by reference the information disclosed under Description of Equity Shares in our registration statement on Form F-1, dated July 20, 2001 (File No. 333-13718).

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DIVIDEND POLICY

The Bank s dividend policy is based on the need to balance the twin objectives of appropriately rewarding shareholders with cash dividends and of retaining capital to meet the Bank s investment needs and to maintain a healthy capital adequacy ratio to support future growth.

Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not increase the dividend amount recommended by the board of directors. Dividends may be paid out of company profits for the fiscal year in which the dividend is declared. We have paid dividends every year since fiscal 1997.

Consistent with our dividend policy we have had a track record of moderate but steady increases in dividend declarations and the dividend payout ratio[(1)] in the last few years has been in the range of 22% to 35%.

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. For convenience of the reader, we have provided US dollar equivalent amounts, which have been computed on the basis of the March 31, 2003, noon buying rate of Rs. 47.53 per US dollar.

	Dividend per equity share		Total amount of dividends paid	
			(in millions)	
Relating to Fiscal Year				
1999	Rs. 1.30	US$ 0.027	Rs. 260.0	US$ 5.5
2000	1.60	0.033	323.9	6.8
2001	2.00	0.041	487.2	10.3
2002	2.50	0.051	703.4	14.8
2003	3.00	0.063	849.5	17.9

Our dividends are generally declared and paid in the fiscal year following the year to which they relate. The dividend relating to fiscal year 2003 was paid in June 2003. This was subject to a dividend distribution tax of 12.5% plus a surcharge of 2.5% which was paid by the Bank. The shareholders of the Bank were not subjected to any withholding tax. The above tax actions were a result of changes in tax laws effective for dividends paid in fiscal 2004 onwards. For dividend paid in fiscal 2003, there was no distribution tax liability on the Bank but the dividend was taxable in the hands of the shareholders.

Future dividends will depend on our revenues, cash flow, 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. The equity shares represented by ADSs will rank equally with our existing equity shares in respect of dividends.

Before paying any dividend on our equity shares, we are required under the Indian Banking Regulation Act to write off all expenses capitalized under Indian GAAP. Before declaring dividends, we are required to transfer at least 25% of the balance of profits of each year determined in accordance with Indian GAAP to a reserve fund. The government of India may, however, on recommendation of the RBI, exempt us from this requirement. We require prior approval from the RBI to pay a dividend of more than 25% of the par value of our shares. We also require prior approval from the RBI to pay an interim dividend.

For a description of the tax consequences of dividends paid to our shareholders, see Taxation Indian Tax Taxation of Distributions.

(1) Dividend payout ratio is dividend paid (before dividend distribution tax) upon net income for the year.

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SELECTED FINANCIAL AND OPERATING DATA

The following table sets forth our selected financial and operating data. The financial data have been derived from our financial statements prepared in accordance with US GAAP. The summary income statement data for the fiscal years ended March 31, 2001, 2002 and 2003 and the summary balance sheet data as of March 31, 2002 and 2003 are derived from our audited financial statements included in this annual report, together with the report of Deloitte Haskins and Sells, independent auditors. Our summary balance sheet data as of March 31, 1999, March 31, 2000 and March 31, 2001 and our summary income statement data for the fiscal years ended March 31, 1999 and March 31, 2000 are derived from our audited financial statements not included in this report. For the convenience of the reader, the summary financial data as of and for the year ended March 31, 2003 have been translated into US dollars at a rate of US$1.00 = Rs. 47.53.

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.

	Year ended March 31,					
	1999	2000	2001	2002	2003	2003
	(in millions, except per equity share data)					
Selected income statement data:						
Interest revenue	Rs. 3,779.9	Rs. 6,812.5	Rs. 12,561.5	Rs. 16,448.0	Rs. 19,424.8	US$ 408.6
Interest expense	2,305.1	3,765.1	7,573.4	10,762.5	11,902.0	250.5
Net interest revenue	1,474.8	3,047.4	4,988.1	5,685.5	7,522.8	158.1
Allowance for credit losses, net	15.3	455.9	247.0	451.6	741.5	15.6
Net interest revenue after allowance for credit losses	1,459.5	2,591.5	4,741.1	5,233.9	6,781.3	142.5
Non-interest revenue, net	645.7	1,082.0	1,627.1	3,215.1	4,520.1	95.2
Net revenue	2,105.2	3,673.5	6,368.2	8,449.0	11,301.4	237.7
Non-interest expense	961.7	1,640.4	3,162.5	4,196.0	6,057.9	127.5
Income before income taxes	1,143.5	2,033.1	3,205.7	4,253.0	5,243.5	110.2
Income tax expense	403.1	642.3	1,065.1	1,294.6	1,729.7	36.4
Net income	Rs. 740.4	Rs. 1,390.8	Rs. 2,140.6	Rs. 2,958.4	Rs. 3,513.8	US$ 73.8
Per equity share data:						
Earnings per share, basic	Rs. 3.83	Rs. 7.05	Rs. 8.97	Rs. 11.10	Rs. 12.57	US$ 0.26
Earnings per share, diluted	3.83	7.03	8.87	11.04	12.51	0.26
Dividends	1.30	1.60	2.00	2.50	3.00	0.06
Book value(1)	18.33	36.72	44.88	79.06	93.36	1.96
Equity shares outstanding at end of period (in millions of equity shares)	194.6	238.1	239.7	279.0	279.7	279.7
Weighted average equity shares outstanding- basic (in millions of equity shares)	193.1	197.2	238.6	266.6	279.5	279.5
Weighted average equity shares outstanding- diluted (in millions of equity shares)	193.1	197.7	241.2	267.9	281.3	281.3
Selected balance sheet data:						

Total assets	Rs. 47,406.6	Rs. 119,967.7	Rs. 161,128.5	Rs. 243,032.2	Rs. 311,840.7	US$ 6,560.9
Cash and cash equivalents	5,415.2	16,181.9	26,121.1	34,590.6	23,944.9	503.8
Term placements					7,747.4	163.0
Loans, net of allowance	15,323.6	36,058.5	51,083.2	71,528.9	118,299.9	2,488.9
Investments held for trading				3,837.6	3,976.1	83.7
Investments available for sale	21,825.1	58,700.5	69,928.9	80,320.6	98,929.2	2,081.4
Investments held to maturity				35,429.9	38,426.7	808.5
Non-performing loans, net	254.8	844.6	485.5	536.4	683.3	14.4
Total liabilities	43,838.1	111,224.4	150,368.7	220,971.3	285,727.6	6,011.6
Long-term debt	1,460.0	1,720.0	2,220.6	2,157.9	2,116.0	44.5
Short-term borrowings	5,478.8	15,734.7	16,671.2	21,600.3	21,579.6	454.0
Total deposits	29,151.2	84,277.2	116,581.1	176,538.1	223,760.0	4,707.7
Shareholders equity	3,568.4	8,743.3	10,759.8	22,060.9	26,113.1	549.3

(1) Represents the difference between total assets and total liabilities, divided by the number of shares outstanding at the end of each reporting period.

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	At March 31,					
	1999	2000	2001	2002	2003	2003
	(in millions)					
Period average:[(2)]						
Total assets	Rs. 35,261.1	Rs. 65,223.3	Rs. 130,056.0	Rs. 202,013.2	Rs. 257,020.8	US$5,407.5
Interest-earning assets	32,215.1	59,837.7	119,714.5	183,488.8	230,452.0	4,848.6
Loans, net of allowance	10,120.9	19,210.1	39,004.4	59,374.9	82,461.2	1,734.9
Total liabilities	31,980.1	59,023.2	120,216.2	185,512.4	232,933.8	4,900.8
Interest-bearing liabilities	24,079.2	41,920.6	86,738.9	137,681.1	175,598.6	3,694.4
Long-term debt	1,113.4	1,598.0	1,718.2	2,159.7	2,280.3	48.0
Short-term borrowings	4,527.0	7,338.0	10,472.9	18,105.9	15,362.9	323.2
Total deposits	24,226.6	45,752.6	97,110.9	142,854.5	186,847.7	3,931.2
Of which:						
Interest-bearing deposits	18,438.8	32,984.6	74,547.8	117,415.5	157,955.4	3,323.3
Shareholders equity	3,281.0	6,200.1	9,839.8	16,500.8	24,087.0	506.8

(2) Average balances are the average of daily outstanding amounts.

	At or for the year ended March 31,				
	1999	2000	2001	2002	2003
	(in percentages)				
Profitability:					
Net income as a percentage of:					
Average total assets	2.1	2.1	1.6	1.5	1.4
Average shareholders equity	22.6	22.4	21.8	17.9	14.6
Dividend payout ratio[(3)]	35.1	23.3	22.8	23.8	24.2
Spread[(4)]	4.0	4.5	3.6	2.4	2.6
Net interest margin[(5)]	4.6	5.1	4.2	3.1	3.3
Cost-to-net revenue ratio[(6)]	45.7	44.7	49.7	49.7	53.6
Cost-to-average assets ratio[(7)]	2.7	2.5	2.4	2.1	2.4
Capital:					
Total capital adequacy ratio[(8)]	11.9	12.2	11.1	13.9	11.1
Tier 1 capital adequacy ratio[(8)]	8.3	9.6	8.7	10.8	9.5
Tier 2 capital adequacy ratio[(8)]	3.6	2.6	2.4	3.1	1.6
Average shareholders equity as a percentage of average total assets	9.3	9.5	7.6	8.2	9.4
Asset quality:					
Gross non-performing loans as a percentage of gross loans	2.3	4.4	2.9	2.7	2.0
Gross non-performing loans and credit substitutes to gross customer assets[(9)]	1.6	3.2	2.1	1.9	1.6
Net non-performing loans as a percentage of net loans	1.7	2.3	1.0	0.7	0.6
Net non-performing loans and credit substitutes to net customer assets[(9)]	1.2	1.7	0.7	0.6	0.5
Net non-performing loans as a percentage of total assets	0.5	0.7	0.3	0.2	0.2
Specific allowance for credit losses as a percentage of gross non-performing loans	29.3	47.5	67.6	72.6	71.1
Total allowance for credit losses as a percentage of gross non-performing loans	29.3	56.4	77.1	81.9	78.8
Allowance for credit losses as a percentage of gross total loans	0.7	2.5	2.2	2.2	1.6

(3) 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.

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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 US GAAP.

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,		
	2001		
	Average Balance	Interest revenue/ expense	Average yield/ cost
	(in millions, except percentages)		
Assets:			
Interest-earning assets:			
Cash equivalents and term placements	Rs. 20,901.0	Rs. 1,307.5	6.3%
Investments available for sale:			
Tax free[1]	7,870.4	632.4	8.0%
Taxable	51,938.7	5,723.5	11.0%
Investments held to maturity			
Investments held for trading			
Loans, net	39,004.4	4,898.1	12.6%
Total interest-earning assets	Rs. 119,714.5	Rs. 12,561.5	10.5%
Non-interest-earning assets:			
Cash	Rs. 391.5		
Property and equipment	2,462.4		
Other assets	7,487.6		
Total non-interest earning assets	10,341.5		
Total assets	Rs. 130,056.0	Rs. 12,561.5	9.7%
Liabilities:			
Interest-bearing liabilities:			
Savings account deposits	Rs. 14,024.5	Rs. 434.5	3.1%
Time deposits	60,523.3	5,956.3	9.8%
Short-term borrowings	10,472.9	947.1	9.0%
Long-term debt	1,718.2	235.5	13.7%
Total interest-bearing liabilities	Rs. 86,738.9	Rs. 7,573.4	8.7%

Non-interest-bearing liabilities:			
Non-interest-bearing deposits(2)	Rs. 22,563.1		
Other liabilities	10,914.2		
Total non-interest-bearing liabilities	33,477.3		
Total liabilities	Rs. 120,216.2	Rs. 7,573.4	6.3%
Shareholders equity	9,839.8		
Total liabilities and shareholders equity	Rs. 130,056.0	Rs. 7,573.4	5.8%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Years ended March 31,		
	2002		
	Average Balance	Interest revenue/ expense	Average yield/ cost
	(in millions, except percentages)		
Assets:			
Interest-earning assets:			
Cash equivalents and term placements	Rs. 35,324.8	Rs. 2,150.9	6.1%
Investments available for sale:			
Tax free(1)	13,859.8	1,080.9	7.8%
Taxable	48,395.9	4,586.5	9.5%
Investments held to maturity	24,130.9	2,280.3	9.5%
Investments held for trading	2,402.5	218.7	9.1%
Loans, net	59,374.9	6,130.7	10.3%
Total interest-earning assets	Rs. 183,488.8	Rs. 16,448.0	9.0%
Non-interest-earning assets:			
Cash	712.4		
Property and equipment	3,799.0		
Other assets	14,013.0		
Total non-interest earning assets	18,524.4		
Total assets	Rs. 202,013.2	Rs. 16,448.0	8.1%
Liabilities:			
Interest-bearing liabilities:			
Savings account deposits	Rs. 23,005.5	Rs. 700.0	3.0%
Time deposits	94,410.0	8,458.5	9.0%
Short-term borrowings	18,105.9	1,328.1	7.3%
Long-term debt	2,159.7	275.9	12.8%
Total interest-bearing liabilities	Rs. 137,681.1	Rs. 10,762.5	7.8%

Non-interest-bearing liabilities:			
Non-interest-bearing deposits[2]	25,439.0		
Other liabilities	22,392.3		
Total non-interest-bearing liabilities	47,831.3		
Total liabilities	Rs. 185,512.4	Rs. 10,762.5	5.8%
Shareholders equity	16,500.8		
Total liabilities and shareholders equity	Rs. 202,013.2	Rs. 10,762.5	5.3%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Years ended March 31,		
	2003		
	Average balance	Interest revenue/ expense	Average yield/ cost
	(in millions, except percentages)		
Assets:			
Interest-earning assets:			
Cash equivalents and term placements	Rs. 21,622.7	Rs. 1,233.4	5.7%
Investments available for sale:			
Tax free[1]	7,779.1	494.5	6.4%
Taxable	75,867.8	5,649.5	7.5%
Investments held to maturity	36,775.4	3,763.2	10.2%
Investments held for trading	5,945.8	478.9	8.1%
Loans, net	82,461.2	7,805.3	9.5%
Total interest-earning assets	Rs. 230,452.0	Rs. 19,424.8	8.4%
Non-interest-earning assets:			
Cash	848.3		
Property and equipment	5,924.5		
Other assets	19,796.0		
Total non-interest earning assets	26,568.8		
Total assets	Rs. 257,020.8	Rs. 19,424.8	7.6%
Liabilities:			
Interest-bearing liabilities:			
Savings account deposits	36,419.7	1,125.1	3.1%
Time deposits	121,535.7	9,506.2	7.8%
Short-term borrowings	15,362.9	973.1	6.3%
Long-term debt	2,280.3	297.6	13.1%
Total interest-bearing liabilities	Rs. 175,598.6	Rs. 11,902.0	6.8%

Non-interest-bearing liabilities:			
Non-interest-bearing deposits[(2)]	28,892.3		
Other liabilities	28,442.9		
Total non-interest-bearing liabilities	57,335.3		
Total liabilities	Rs. 232,933.8	Rs. 11,902.0	5.1%
Shareholders equity	24,087.0		
Total liabilities and shareholders equity	Rs. 257,020.8	Rs. 11,902.0	4.6%

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

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

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

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 2002 vs. Fiscal 2001 Increase (decrease)[1] due to			Fiscal 2003 vs. Fiscal 2002 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 and cash equivalents	Rs. 843.4	Rs. 902.3	Rs. (58.9)	Rs. (917.4)	Rs. (834.3)	Rs. (83.1)
Investments available for sale:						
Tax free	448.4	481.2	(32.8)	(586.4)	(474.2)	(112.2)
Taxable	(1,136.9)	(390.4)	(746.5)	1,063.0	2,603.5	(1,540.5)
Investments held to maturity	2,280.3	2,280.3		1,482.8	1,194.9	287.9
Investments held for trading	218.7	218.7		260.2	322.5	(62.3)
Loans, net	1,232.6	2,558.1	(1,325.5)	1,674.7	2,383.8	(709.1)
Total interest-earning assets	Rs. 3,886.5	Rs. 6,050.2	Rs. (2,163.7)	Rs. 2,976.9	Rs. 5,196.2	Rs. (2,219.3)
Interest expense:						
Savings account deposits	Rs. 265.5	Rs. 278.2	Rs. (12.7)	Rs. 425.2	Rs. 408.2	Rs. 17.0
Time deposits	2,502.2	3,334.9	(832.7)	1,047.7	2,430.3	(1,382.6)
Short-term borrowings	381.0	690.2	(309.2)	(355.1)	(201.2)	(153.9)
Long-term debt	40.4	60.5	(20.1)	21.8	15.4	6.4
Total interest-bearing liabilities	Rs. 3,189.1	Rs. 4,363.8	Rs. (1,174.7)	1,139.6	2,652.7	(1,513.1)
Net interest revenue	Rs. 697.4	Rs. 1,686.4	Rs. (989.0)	Rs. 1,837.3	Rs. 2,543.6	Rs. (706.2)

(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,		
	2001	2002	2003
	(in millions, except percentages)		
Interest revenue	Rs. 12,561.5	Rs. 16,448.0	Rs. 19,424.8
Average interest-earning assets	119,714.5	183,488.8	230,452.0
Interest expense	7,573.4	10,762.5	11,902.0
Average interest-bearing liabilities[1]	86,738.9	137,681.1	175,598.5

Average total assets	130,056.0	202,013.2	257,020.8
Average interest-earning assets as a percentage of average total assets	92.0%	90.8%	89.7%
Average interest-bearing liabilities as a percentage of average total assets	66.7%	68.2%	68.3%
Average interest-earning assets as a percentage of average interest-bearing liabilities	138.0%	133.3%	131.2%
Yield	10.5%	9.0%	8.4%
Cost of funds[(2)]	6.9%	5.8%	5.1%
Spread[(3)]	3.6%	2.4%	2.6%
Net interest margin[(4)]	4.2%	3.1%	3.3%

(1) For purposes of this table average interest-bearing liabilities include current accounts.

(2) Excludes equity.

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(3) Spread is the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield is the ratio of interest revenue to average interest-earning assets. Cost of funds is the ratio of interest expense to average interest-bearing liabilities (including checking account balances which currently carry a zero interest rate).

(4) 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 the spread. If average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than the spread.

Returns on Equity and Assets

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

	Years ended March 31,		
	2001	2002	2003
	(in millions, except percentages)		
Net income	Rs. 2,140.6	Rs. 2,958.4	Rs. 3,513.8
Average total assets	130,056.0	202,013.2	257,020.8
Average shareholders equity	9,839.8	16,500.8	24,087.0
Net income as a percentage of average total assets	1.6%	1.5%	1.4%
Net income as a percentage of average shareholders equity	21.8%	17.9%	14.6%
Average shareholders equity as a percentage of average total assets	7.6%	8.2%	9.4%

The following table sets forth, for the periods indicated, information related to our investments available for sale.

	At March 31,							
	2001				2002			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in millions)							
Government securities	Rs. 32,502.1	Rs. 196.8	Rs. 68.2	Rs. 32,630.7	Rs. 34,322.1	Rs. 752.8	Rs. 4.7	Rs. 35,070.2
Other debt securities	36,358.3	332.0	479.2	36,211.1	33,752.7	505.9	141.7	34,116.9
Total debt securities	68,860.4	528.8	547.4	68,841.8	68,074.8	1,258.7	146.4	69,187.1
Non-debt securities	1,179.4		92.3	1,087.1	11,051.4	151.3	69.2	11,133.5
Total	Rs. 70,039.8	Rs. 528.8	Rs. 639.7	Rs. 69,928.9	Rs. 79,126.2	Rs. 1,410.0	Rs. 215.6	Rs. 80,320.6

[Additional columns below]

[Continued from above table, first column(s) repeated]

	At March 31,			
	2003			
	Amortized cost	Gross unrealized gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Government securities	Rs. 45,149.6	Rs. 784.8	Rs. 19.1	Rs. 45,915.3
Other debt securities	29,357.8	1,802.3	186.7	30,973.4
Total debt securities	74,507.4	2,587.1	205.8	76,888.7
Non-debt securities	21,649.8	493.0	102.3	22,040.5
Total	Rs. 96,157.2	Rs. 3,080.1	Rs. 308.1	Rs. 98,929.2

The following table sets forth, for the periods indicated, information related to our investments held to maturity.

	At March 31,							
	2001				2002			
	Fair value	Gross unrealized gain	Gross unrealized loss	Amortized cost	Fair value	Gross unrealized gain	Gross unrealized loss	Amortized cost
	(in millions)							
Government securities	Rs.	Rs.	Rs.	Rs.	Rs. 14,597.3	Rs. 1,209.8	Rs.	Rs. 13,387.5
Other debt securities	–	–	–	–	22,292.0	460.1	210.5	22,042.4
Total debt securities					36,889.3	1,669.9	210.5	35,429.9
Non-debt securities								
Total	Rs. –	Rs. –	Rs. –	Rs. –	Rs. 36,889.3	Rs. 1,669.9	Rs. 210.5	Rs. 35,429.9

[Additional columns below]

[Continued from above table, first column(s) repeated]

	At March 31,			
	2003			
	Fair Value	Gross unrealized gain	Gross Unrealized Loss	Amortized Cost

	(in millions)			
Government securities	Rs. 20,392.6	Rs. 1,145.5	Rs. 7.3	19,254.4
Other debt securities	19,715.7	580.9	37.5	19,172.3
Total debt securities	40,108.3	1,726.4	44.8	38,426.7
Non-debt securities				
Total	Rs. 40,108.3	Rs. 1,726.4	Rs. 44.8	Rs. 38,426.7

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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 yields.

	At March 31, 2003							
	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. 11,861.1	8.09%	Rs. 15,734.5	9.43%	Rs. 17,234.2	7.50%	Rs. 1,085.6	6.42%
Other debt securities	11,822.0	8.39%	11,149.4	8.33%	7,630.5	8.03%	421.6	14.91%
Total debt securities	23,683.1	8.24%	26,883.9	8.98%	24,864.7	7.66%	1,507.2	8.80%
Total amortized cost	23,431.0		25,932.0		23,650.6		1,493.9	
Total market value	Rs. 23,683.1		Rs. 26,883.9		Rs. 24,864.7		Rs. 1,507.2	

Funding

Our funding operations are designed to ensure both stability and cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 69.5% of total deposits at March 31, 2003. Wholesale banking deposits represented 30.5% of total deposits at March 31, 2003.

Total Deposits

The following table sets forth, for the periods indicated, our outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by average of daily balances) of savings deposits was 3.1% in fiscal 2001, 3.0% in fiscal 2002 and 3.1% in fiscal 2003. The average costs of time deposits was 9.8% in fiscal 2001, 9.0% in fiscal 2002 and 7.8% in fiscal 2003.

	Years ended March 31,					
	2001		2002		2003	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
Non-interest-bearing demand deposits	Rs. 28,559.8	24.5%	Rs. 42,201.8	23.9%	Rs. 49,509.6	22.1%
Savings deposits	19,030.0	16.3	29,574.5	16.8	46,631.4	20.8%
Time deposits	68,991.3	59.2	104,761.8	59.3	127,619.0	57.1%
Total	Rs. 116,581.1	100.0%	Rs. 176,538.1	100.0%	Rs. 223,760.0	100.0%

As of March 31, 2003, time deposits in excess of Rs. 4.5 million (approximately US$100,000) have a balance to maturity profile as follows:

At March 31, 2003

	Up to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 1 Year
			(In millions)		
Balance to maturity for deposits exceeding Rs. 4.5 million each	Rs. 28,338.5	Rs. 8,244.4	Rs. 4,109.6	Rs. 4,465.8	Rs. 6,918.8

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, excluding deposits.

	Year ended March 31,		
	2001	2002	2003
	(in millions, except percentages)		
Period end balance	Rs. 16,671.2	Rs. 21,600.3	Rs. 21,579.6
Average balance during the period[1]	10,472.9	18,105.9	15,362.9
Maximum month-end balance	21,593.2	29,857.9	32,221.7
Average interest rate during the period[2]	9.0%	7.4%	6.3%
Average interest at period end[3]	12.1%	6.5%	6.9%

(1) Average of daily balances outstanding.

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

(3) Represents the weighted average rate of short-term borrowings outstanding at March 31, 2001, 2002 and 2003.

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. This subordinated debt was privately placed in three tranches. The debt is repayable on various dates between July 2004 and September 2006 with coupon rates ranging from 11.0% to 13.75%. Prepayment is not allowed. See Note 16 to our financial statements. For a discussion of our capital adequacy ratios, see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital.

Asset Liability Gap and Price Sensitivity Data

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

	At March 31, 2003(1),(2)				
	0-28 days	**29-90 days**	**91-180 days**	**6-12 months**	**Total within one year**
			(in millions)		
Cash and cash equivalents(3)	Rs. 15,957.7	Rs. 862.7	Rs. 324.4	Rs. 987.1	Rs. 18,131.9
Term placements		2,274.7	2,257.0	308.9	4,840.6
Investments held for trading		3,976.1			3,976.1
Investments available for sale	102.9	473.9	4,872.0	18,234.3	23,683.1
Investments held to maturity	3,581.9	4,912.5	1,421.6	15,352.5	25,268.5
Loans, net(4)	35,368.1	33,799.5	10,964.2	8,471.6	88,603.4
Accrued interest Receivable	6,283.8				6,283.8
Other assets	8,864.3				8,864.3
Total financial Assets	70,158.7	46,299.4	19,839.2	43,354.4	179,651.7
Deposits(5),(6)	31,323.8	11,281.2	11,686.4	34,922.4	89,213.8
Securities sold under repurchase agreements	4,600.0				4,600.0
Debt(7)	7,859.9	4,975.0	8,626.9	55.2	21,517.0
Other liabilities	18,063.3	8,711.4			26,774.7
Total financial Liabilities	61,847.0	24,967.6	20,313.3	34,977.6	142,105.5
Asset/liability gap	8,311.7	21,331.8	(474.1)	8,376.8	37,546.2
Cumulative gap	8,311.7	29,643.5	29,169.4	37,546.2	37,546.2
Cumulative gap as a percentage of total assets	11.8%	64.0%	147.0%	86.6%	20.9%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	At March 31, 2003(1),(2)	
	Greater than one	**Greater than**

	year and up to three years	three years and up to five years	Greater than five years	Total
	(in millions)			
Cash and cash equivalents[3]	Rs. 5,703.3	Rs. 109.7		Rs. 23,944.9
Term placements	2,486.0	176.6	44.2	7,747.4
Investments held for trading				3,976.1
Investments available for sale	12,700.7	14,183.2	48,362.2	98,929.2
Investments held to maturity	2,912.6	7,480.8	2,764.9	38,426.7
Loans, net[4]	22,964.9	3,392.0	3,339.6	118,299.9
Accrued interest Receivable				
Other assets			90.9	8,955.2
Total financial Assets	46,767.5	25,342.3	54,601.8	306,363.3
Deposits[5],[6]	132,171.3	2,374.9		223,760.0
Securities sold under repurchase agreements				4,600.0
Debt[7]	1,043.9	1,000.0	134.7	23,695.6
Other liabilities				26,774.7
Total financial Liabilities	133,215.2	3,374.9	134.7	278,830.3
Asset/liability gap	(86,447.7)	21,967.4	54,467.1	27,533.0
Cumulative gap	(48,901.5)	(26,934.1)	27,533.0	27,533.0
Cumulative gap as a percentage of total assets	(104.6%)	(106.3%)	50.4%	9.0%

(1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity or re-pricing date, whichever is earlier.

(2) Items that neither mature nor re-price are included in the greater than five years 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) Non-performing loans are classified in the greater than five years category.

(5) Based on management estimates, 85% of non-interest-bearing non-maturity deposit accounts have been classified as greater than one year and up to five years category and 15% in the 0-28 days category.

(6) Based on management estimates, 90% of interest-bearing non-maturity deposit accounts have been classified as greater than one year and up to five years category and 10% in the 0-28 days category.

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

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

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Loan Portfolio and Credit Substitutes

At March 31, 2003, our gross loan portfolio was Rs. 120.2 billion and represented approximately 435,000 loan contracts outstanding. At March 31, 2003, our gross credit substitutes outstanding were Rs. 29.8 billion and represented 183 credit substitutes outstanding. All our gross loans and credit substitutes are to Indian borrowers and 94.4% are denominated in rupees. For a description of our wholesale and retail loan products, see Business Wholesale Banking Commercial Banking Products Commercial Loan Products and Credit Substitutes and Retail Banking Retail Loan Products.

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

	At March 31,				
	1999	2000	2001	2002	2003
	(in millions)				
Working capital	Rs. 8,132.1	Rs. 14,638.6	Rs. 19,974.7	Rs. 28,200.8	Rs. 45,521.9
Term loans	4,951.9	15,804.2	23,678.5	30,579.8	43,005.0
Investment in finance leases	275.7	218.0	137.2	52.9	8.3
Retail loans	2,069.7	6,305.0	8,447.1	14,301.3	31,631.4
Gross loans	Rs. 15,429.4	Rs. 36,965.8	Rs. 52,237.5	Rs. 73,134.8	Rs. 120,166.6
Credit substitutes	6,762.8	13,056.2	22,344.2	35,329.9	30,255.4
Gross loans plus credit substitutes	Rs. 22,192.2	Rs. 50,022.0	Rs. 74,581.7	Rs. 108,464.7	Rs. 150,422.0

Maturity and Interest Rate Sensitivity of Loans

The following table sets forth, for the periods indicated, the maturity and interest rate sensitivity of our loans.

	At March 31, 2003		
	Due in one year or less	Due in one to five years	Due after five years
	(in millions)		
Retail	Rs. 15,753.8	Rs. 14,732.8	Rs. 1,144.8
Wholesale	Rs. 77,401.8	Rs. 10,380.2	Rs. 753.2
Gross loans	Rs. 93,155.6	Rs. 25,113.0	Rs. 1,898.0

	At March 31, 2003		
	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.		