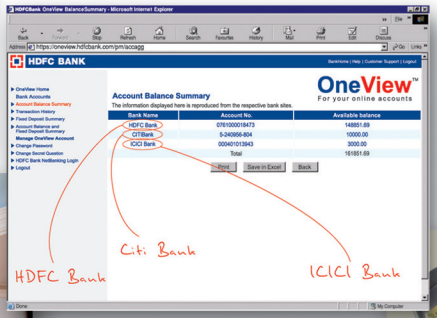
# ANNUAL REPORT 2002-2003

Credit Card



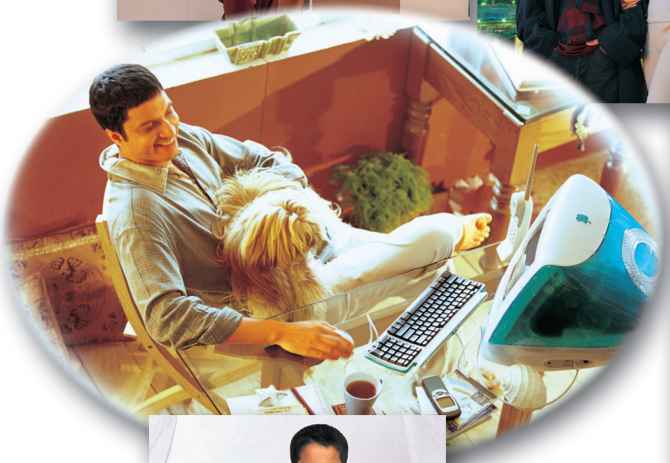

One View

Savings Account

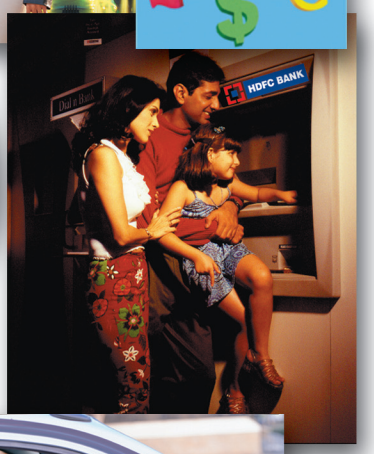
NRI Services

Mobile Banking

Resident Foreign Currency (Domestic) Account



NetBanking




ATM

Kid's Advantage Account

Car Loans

HDFC BANK

HDFC BANK

EUROMONEY
Euromoney Awards for Excellence 2002
This is to certify that
HDFC Bank
has won the award for
Best Bank in India
Signed
Peter Lee, Editor
FinanceAsia
COUNTRY AWARDS
FOR ACHIEVEMENT
2002
HDFC Bank
BEST LOCAL BANK
IN INDIA
CRISIL Governance and Value Creation Ratings
HDFC Bank Limited
CRISIL GVC
LEVEL 1
This rating indicates that the firm's capability with respect to wealth creation for all its stakeholders while adopting sound corporate governance practices is the highest.
This CRISIL GVC rating is valid upto January 17, 2004
R. Ravimohan
Managing Director & CEO

## Highlights

- Profit after tax up by 30.5% to Rs. 387.6 crores
- Earnings per share increases from Rs. 11.01 per share to Rs. 13.75 per share
- Dividend per share increases from Rs. 2.50 per share to Rs. 3.00 per share (proposed)
- Branch Network up from 171 to 231 outlets
- ATM network up from 479 to 732
- PhoneBanking coverage in 80 cities
- Point-of-Sale (POS) Terminals at merchant outlets up from 6480 to 21804
- Geographic reach expanded from 77 cities to 123 cities
- Balance Sheet size up from Rs. 23,787 crores to Rs. 30,424 crores
- Assigned highest rating 'CRISIL GVC Level 1' on corporate governance and value creation by The Credit Rating Information Services Of India Limited (CRISIL)

# financial highlights

*Rs. in lacs*

| | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 | 2002-2003 |
|---|---|---|---|---|---|
| Interest Income | 37,608 | 67,987 | 125,946 | 170,299 | **202,297** |
| Interest Expense | 22,918 | 37,428 | 75,375 | 107,374 | **119,196** |
| **Net Interest Income** | 14,690 | 30,559 | 50,571 | 62,925 | **83,101** |
| Other Income | 6,807 | 12,535 | 18,553 | 33,325 | **47,310** |
| **Net Revenues** | 21,497 | 43,094 | 69,124 | 96,250 | **130,411** |
| Operating costs | 8,879 | 17,139 | 30,959 | 41,795 | **59,183** |
| **Operating Result** | 12,618 | 25,955 | 38,165 | 54,455 | **71,228** |
| Loan Loss Provisions | 758 | 5,360 | 5,296 | 8,577 | **8,839** |
| Depreciation and amortisation on investments | 94 | 581 | 1,338 | 1,916 | **5,257** |
| Others | 81 | 529 | 25 | 1,424 | **47** |
| **Profit before tax** | 11,685 | 19,485 | 31,506 | 42,538 | **57,085** |
| Provision for taxation | 3,445 | 7,481 | 10,494 | 12,834 | **18,325** |
| **Profit after tax** | 8,240 | 12,004 | 21,012 | 29,704 | **38,760** |
| **Funds :** | | | | | |
| Deposits | 291,511 | 842,772 | 1,165,811 | 1,765,381 | **2,237,607** |
| Subordinated debt | 13,500 | 15,000 | 20,000 | 20,000 | **20,000** |
| Stockholders' Equity | 33,893 | 75,152 | 91,309 | 194,228 | **224,483** |
| Working Funds | 434,996 | 1,173,103 | 1,561,733 | 2,378,738 | **3,042,408** |
| Loans | 140,056 | 346,234 | 463,666 | 681,372 | **1,175,486** |
| Investments | 190,380 | 574,828 | 714,514 | 1,200,402 | **1,338,808** |
| **Key Ratios :** | | | | | |
| Earnings per share (Rs) | 4.12 | 5.93 | 8.64 | 11.01 | **13.75** |
| Return on Average Networth | 26.41% | 29.00% | 24.53% | 18.30% | **18.10%** |
| Tier 1 Capital Ratio | 8.34% | 9.56% | 8.69% | 10.81% | **9.49%** |
| Total Capital Ratio | 11.86% | 12.19% | 11.09% | 13.93% | **11.12%** |
| Dividend per share (Rs) | 1.30 | 1.60 | 2.00 | 2.50 | **3.00**** |
| Dividend payout ratio | 34.71% | 29.96% | 25.55% | 23.68% | **24.72%** |
| Book value per share as at March 31 (Rs) | 16.90 | 30.90 | 37.50 | 69.00 | **79.60** |
| Market price per share as at March 31 (Rs)* | 69.15 | 257.20 | 228.35 | 236.60 | **234.55** |
| Price to Earnings Ratio | 16.78 | 43.37 | 26.43 | 21.50 | **17.06** |

Rs. 10 Lac = Rs. 1 Million  Rs. 1 Crore = Rs. 10 Million  **Proposed  *Sources : NSE

## 9th ANNUAL GENERAL MEETING

| | |
|---|---|
| Date | : 2 June, 2003 |
| Day | : Monday |
| Time | : 3.30 p.m. |
| Place | : Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020 |
| Book Closure Dates | : 3 May, 2003 to 29 May, 2003 (both days inclusive) |

## CONTENTS


| | Page No. |
|---|---|
| Directors' Report | 4 - 16 |
| Auditors' Report | 17 |
| Balance Sheet | 18 |
| Profit & Loss Account | 19 |
| Schedules to the Accounts | 20 - 40 |
| Cash Flow Statements | 41 - 42 |
| Summarised US GAAP Financial Statements | 43 - 50 |
| Corporate Governance | 51 - 64 |


## BOARD OF DIRECTORS

**Mr. Jagdish Capoor,** *Chairman*

**Mr. Keki M. Mistry** (upto 12 August, 2002 and re-appointed w.e.f. 27 March, 2003)

**Mrs. Renu Karnad** (w.e.f. 17 July, 2002)

**Mr. Anil Ahuja**

**Mr. Vineet Jain**

**Dr. (Mrs.) Amla Samanta**

**Dr. Venkat Rao Gadwal**

**Mr. Arvind Pande** (w.e.f. 15 January, 2003)

**Mr. Deepak M. Satwalekar** (upto 2 July, 2002)

**Mr. Jagdish S. Baijal** (upto 12 August, 2002)

**Mr. Arnold Chavkin** (upto 13 August, 2002)

**Mr. Aditya Puri,** *Managing Director*

## VICE PRESIDENT (LEGAL) & COMPANY SECRETARY

**Mr. Sanjay Dongre**

## AUDITORS

**P. C. Hansotia & Co.**
*Chartered Accountants*

## REGISTRARS & TRANSFER AGENTS

**MCS LIMITED**
Sri Venkatesh Bhavan,
Plot No. 27, Road No. 11,
MIDC Area, Andheri (East),
Mumbai 400 093
Tel. No. 2821 5235 / 6 / 7
Fax No. 2835 0456
E-mail : mcsmum@vsnl.com

## REGISTERED OFFICE

Sandoz House,
Dr. Annie Besant Road,
Worli, Mumbai 400 018
Tel. No. 2495 1616
Fax No. 2495 1771
Website : www.hdfcbank.com

# Directors' Report

**To the Members,**

Your Directors have great pleasure in presenting the Ninth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended 31 March, 2003.

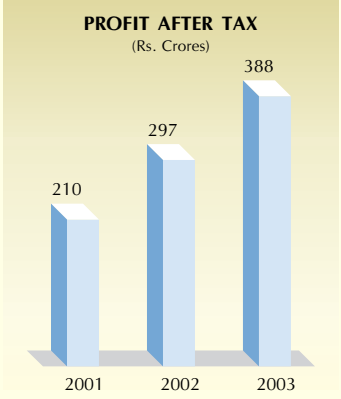
## FINANCIAL PERFORMANCE

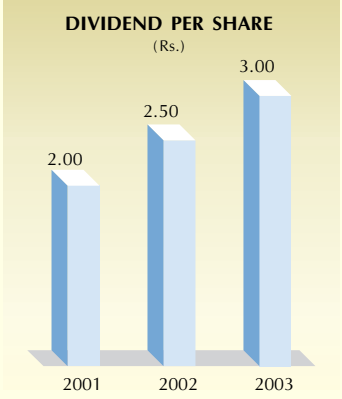
| | (Rs. in crores) For the year ended | |
|---|---|---|
| | **31 March, 2003** | 31 March, 2002 |
| Deposits and other borrowings | **24460.7** | 19476.8 |
| Advances | **11754.8** | 6813.7 |
| Total income | **2496.1** | 2036.2 |
| Profit before depreciation and tax | **677.9** | 494.4 |
| Net profit | **387.6** | 297.0 |
| **Appropriations :** | | |
| Transfer to statutory reserve | **96.9** | 74.3 |
| Transfer to general reserve | **38.8** | 29.7 |
| Transfer to debenture redemption reserve | **–** | 9.5 |
| Transfer to investment fluctuation reserve | **–** | 97.2 |
| Proposed dividend | **84.9** | 70.3 |
| Tax on dividend | **10.9** | – |
| Dividend paid | **0.1** | – |
| Balance carried over to Balance Sheet | **156.0** | 16.0 |

The Bank posted total income and net profit of Rs. 2496.1 crores and Rs. 387.6 crores, respectively for the financial year 2002-03 as against Rs. 2036.2 crores and Rs. 297.0 crores, respectively in the previous year. Appropriations from the net profit have been effected as per the table given above.

## DIVIDEND :

Your 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. Consistent with this policy, your Bank has had a track record of moderate but steady increases in dividend declarations and the dividend payout ratio in the last few years has been in the range of 25% to 30%. In line with this policy and in recognition of the healthy financial performance during 2002-03 and the positive outlook for the future, your Directors are pleased to recommend a dividend of 30% for the year ended 31 March, 2003, as against 25% for the year ended 31 March, 2002. The dividend for FY 2002-03 shall be subject to tax on dividend to be paid by the Bank but will be tax- free in the hands of the members, unlike in 2001-02, when there was no dividend tax liability on the Bank but the dividends were taxable in the hands of the members. In line with the regulatory requirements, the dividend declared is subject to approval by the Reserve Bank of India (RBI).



# Directors' Report – *(Contd.)*

## AWARDS :

Your Bank continued to receive awards and gain recognition from various leading domestic and international publications during 2002-03. It was selected as "Best Bank in India 2002" by Euromoney, "Best Local Bank in India – 2002" by Finance Asia, both awards being received by the Bank for the fourth year in succession. The Bank was also rated as the "Best Domestic Commercial Bank 2002" by Asiamoney. For its use of information technology, the Bank was selected from amongst over 400 nominations from 24 countries, to be a recipient of the Computerworld Honors 2002 award in the finance, insurance and real estate category.

## ADDITIONAL CAPITAL :

During the year under review 6.7 lacs shares were allotted to the employees of the Bank pursuant to the exercise of options under the Employees Stock Option Scheme of the Bank.

## PROPOSED STOCK OPTION SCHEME :

Employees since inception of the Bank are one of the major contributors to the success and growth of your Bank. Your Directors look forward to such continued contribution in future from employees at all levels. It is proposed to seek approval of shareholders for grant of 10,000,000 options which will enable the Bank to attract, motivate and retain best talent. These options will be granted to all the employees from the grade of the junior executive to the Managing Director and the Directors of the Bank. The options will be granted on the basis of performance, grade, future potential contribution etc. Options will be granted at the closing market price of the immediately preceding working day of the date of grant of options by the Compensation Committee of the Bank.

## New Options granted :

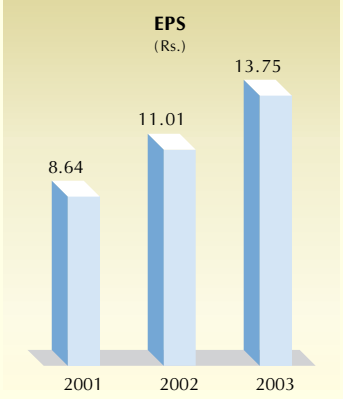
No new options were granted in the financial year 2002-03.

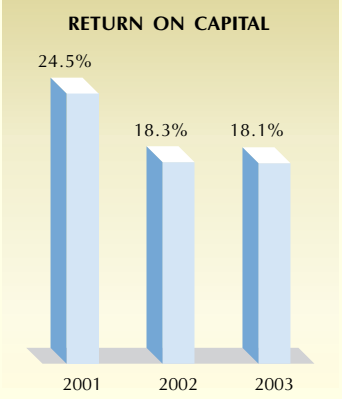
## Options Vested :

Out of the options granted under the Employees Stock Option Scheme in January, 2000 (ESOS 1), January, 2001 (ESOS 2) and February, 2002 (ESOS 3), 18.3 lacs, 5.1 lacs and 4.2 lacs options, respectively, have been vested in the employees.

## Options exercised and allotted :

During the year under review, 6.7 lacs options were exercised by the employees and the Bank allotted 6.7 lacs new equity shares resulting in an increase in the paid-up capital of Rs. 67 lacs and share premium account by Rs. 1020 lacs. The allotment of 11.1 lacs shares in respect of options exercised in the last quarter has been made on 7 April, 2003. The new shares issued under ESOS would rank pari-passu with the existing shares in all respects.



# Directors' Report – *(Contd.)*

### Options lapsed :

5.1 lacs options lapsed during the year under review on account of staff resignations.

### Outstanding options :

After considering the exercised and lapsed options, 66.0 lacs options are still outstanding as at 31 March, 2003.

The earning per share (EPS) for the year under review after considering all options outstanding under ESOS, works out to Rs 12.79.

### CAPITAL ADEQUACY RATIO :

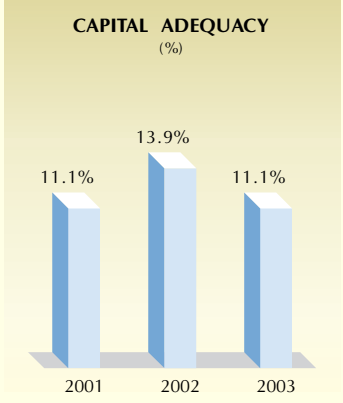
The Bank's total capital adequacy ratio (CAR) stood at a healthy 11.12%, well above the regulatory minimum of 9%. Of this, Tier 1 CAR was 9.49%. The Reserve Bank of India in its master circular on prudential norms relating to capital adequacy has now capped general loan loss provisions and investment fluctuation reserve at 1.25% of the total risk weighted assets and contingents for inclusion as Tier 2 capital. This is the first time the investment fluctuation reserve has been included in this limit. The Bank holds higher levels of general provisions and investment fluctuation reserves which are now therefore, excluded from the Tier 2 capital calculation. But for this ceiling, the total CAR would have been higher by about 0.5%.

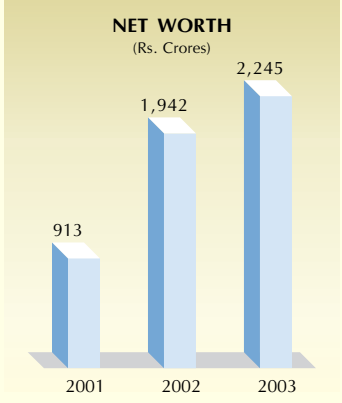
### CREDIT RATING :

The Bank had its deposit programmes rated by two rating agencies – Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited. The Bank's Fixed Deposit programme was rated 'CARE AAA (FD)' [Triple A] by CARE, which represents instruments considered to be "of the best quality, carrying negligible investment risk". CARE also rated the Bank's Certificate of Deposit programme 'PR 1+, which represents "superior capacity for repayment of short term promissory obligations". Fitch Ratings India Pvt. Ltd. (100% subsidiary of Fitch Inc.) assigned the 'tAAA (ind)' rating to the Bank's deposit programme, with the outlook on the rating as "stable". This rating indicates "highest credit quality" where "protection factors are very high". In each case referred to above, the ratings awarded were the highest, assigned by the rating agency for those instruments.

### CORPORATE GOVERNANCE RATING :

The Bank was one of the first four companies which subjected itself to a Corporate Governance and Value Creation (GVC) rating by the rating agency, The Credit Rating Information Services of India Limited (CRISIL). The rating provides an independent assessment of an entity's current performance and an expectation on its "balanced value creation and corporate governance practices" in future. The Bank has been assigned a 'CRISIL GVC Level 1' rating which indicates that the Bank's capability with respect to wealth creation for all its stakeholders, while adopting sound corporate governance practices, is the highest.



# Directors' Report – *(Contd.)*

## MANAGEMENT'S DISCUSSIONS AND ANALYSIS :

### Macro-economic and Industry Developments :

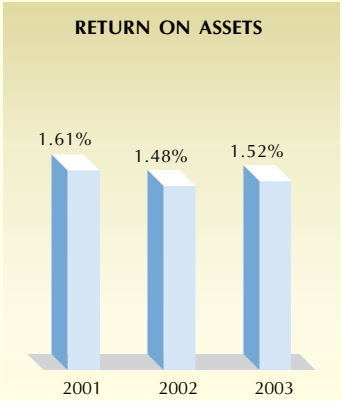
The Indian economy in the year 2002-03 was adversely affected by the poor agricultural output due to monsoon failure, global economic slowdown and geo-political tensions on account of the Iraq crisis. The Gross Domestic Product (GDP) of the Indian economy is expected to show a growth of around 4.4% for the year 2002-03. This is mainly on account of the poor performance of the agriculture sector which is expected to show a negative growth of 3.1%. While the services sector continued its strong growth (7.1%), what was heartening was the performance of the industrial sector that is estimated to have shown a growth of 6.1%. The main contributor to this industrial growth has been the infrastructure segment, especially the road construction activity.

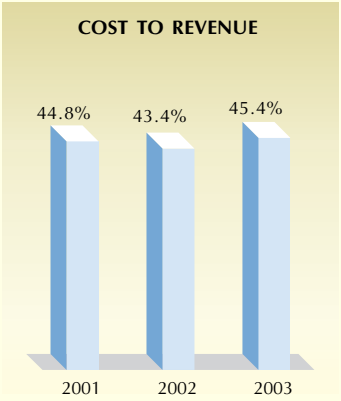
Apart from the low GDP growth, other macro-economic factors have been very favourable. Inflation as measured by Wholesale Price Index (WPI) has been benign and is estimated to average around 3.3% for the year 2002-03. Only towards the end of the year 2002-03, WPI inflation did touch a rate of 6% mainly on account of higher fuel prices caused by the war in Iraq. The Balance of Payments (BoP) was also very good with the foreign exchange reserves growing by around USD 18 billion during the year. As per the last obtained figure, India's foreign exchange reserves stood at around USD 75 billion. This also resulted in Indian Rupee appreciating by 2.9% against the US Dollar during the year 2002-03.

The benign inflation and the increase in FX reserves enabled the central bank to pursue a policy of soft interest rates. During the year 2002-03, the Reserve Bank of India (RBI) reduced the Bank Rate by 25 basis points to 6.25% and the Cash Reserve Ratio (CRR) from 5.50% to 4.75% in two phases. This resulted in a softening of interest rates. The deposit rates of banks fell by over 200 basis points. The fall in lending rates of banks has been sharper especially for consumer advances. The yield on the 10-year Government of India (GOI) security fell by around 125 basis points inspite of the large GOI borrowing program of Rs.1358 billion during the year 2002-03. The soft interest rate policy is set to continue with the GOI cutting administered rates on small savings by 100 basis points and that on the savings bank accounts by 50 basis points.

In addition to the economic slowdown, the other concern for the Indian economy remains the fiscal deficit of the government. The fiscal deficit of the central government is estimated to be 5.9% of GDP for the year 2002-03. This figure is projected to be 5.6% of the GDP for the year 2003-04. Such a high fiscal deficit could exert an upward pressure on interest rates in case the other macroeconomic factors turn adverse.

The banking sector showed a good growth during 2002-03. Aggregate deposits grew by 16.1% against a growth of 14.6% for the previous year 2001-02. The credit growth was 23% in the year 2002-03 against



# Directors' Report – *(Contd.)*

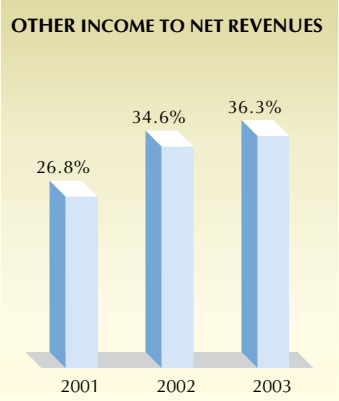
a growth of 15.3% in the previous financial year. However, these growth figures have to be considered in the light of the merger of a term lending institution and a private sector bank. Consumer advances have mainly driven the large credit growth.

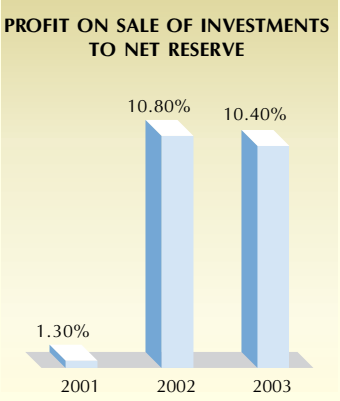
Capital markets continued to be subdued. This weakness in the secondary market led to a small volume of issuance on the primary market.

The regulatory environment for the Indian banking sector continued to be positive. Some of the developments included:

- The equity market has absorbed a new market design, with rolling settlement and equity derivatives trading which brought back liquidity in the system.
- Risk management functions performed by the Clearing Corporation of India Limited (CCIL) for bonds and foreign exchange transacted by telephone, has imparted a new level of safety with regard to settlement risk. This is a welcome move away from bilateral negotiation towards anonymous screen-based order matching. In January, 2003, government bonds started trading on stock exchanges, ushering in a new level of transparency and market access for the government bond market.
- Recent legislative amendments to the SEBI Act have put SEBI on a better footing in terms of enforcement of proper market conduct. This should help reduce the extent of market malpractice and improve market efficiency.
- The winter session of Parliament saw the passage of several important Bills, including Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Bill, 2002, the Securities and Exchange Board of India (Amendment) Bill, 2002, the Unit Trust of India (Transfer of Undertaking and Repeal) Bill, 2002, Prevention of Money Laundering Bill, 2002, the Companies (Amendment) Bill, 2002, the Companies (Second Amendment) Bill, 2002 and the Competition Bill, 2001.
- Foreign Direct Investment (FDI) in the Banking companies in India is presently capped at 49% from all sources under the automatic route. For facilitating the setting up of subsidiaries by foreign banks, as well as for inviting investment in private banks, there is a proposal to raise the limit to 74%.
- The voting rights of any person holding shares of a banking company are restricted to 10% irrespective of his/her/its shareholding. There is a proposal to amend the Banking Regulation Act, 1949 to remove this limitation.
- There is a proposal to extend the benefit of Section 72A of the Income Tax Act, 1961 to nationalized banks whereby any banking company can now merge with a nationalized bank with consequential tax benefit.

***(Source of statistics: Economic Survey of India, Ministry of Finance)***



# Directors' Report – *(Contd.)*

## Mission and Business Strategy :

Our mission has been to be "a world class Indian bank"– benchmarking ourselves against international standards and best practices in terms of product offerings, technology, service levels, risk management and audit & compliance. The objective is to build sound customer franchises across distinct business so as to be a preferred provider of banking services for target retail and wholesale customer segments and to achieve a healthy growth in profitability, consistent with the Bank's risk appetite. We are committed to do this while ensuring the highest levels of ethical standards, professional integrity and regulatory compliance.

Our business strategy emphasizes the following :

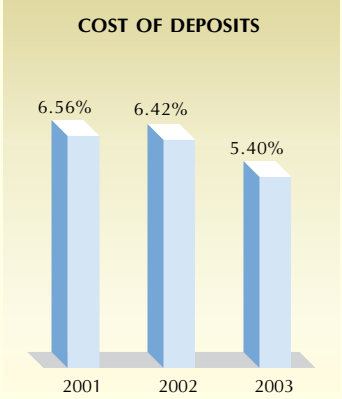
- Increase our market share in India's expanding banking and financial services industry by following a disciplined growth strategy and delivering high quality customer service;
- Leverage our technology platform and open, scaleable systems to deliver more products to more customers and to control operating costs;
- Maintain our current high standards for asset quality through disciplined credit risk management;
- Develop innovative products and services that attract our targeted customers and address inefficiencies in the Indian financial sector;
- Continue to develop products and services that reduce our cost of funds; and
- Focus on high earnings growth with low volatility.

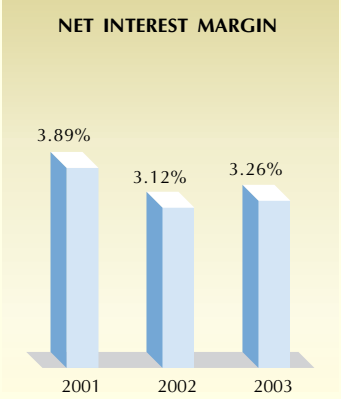
## Financial Performance :

The overall performance during the financial year 2002-03 remained healthy with total net revenues (net interest income plus other income) increasing by 35.5% from Rs. 962.5 crores to Rs. 1304.1 crores. The revenue growth was a result of a 32.1% increase in net interest income and a 42% increase in other income.

Net interest income growth was a result of an increase in total interest income of 18.8% to Rs. 2023 crores, offset in part by an increase in total interest expense of 11% to Rs. 1192 crores. The balance sheet size increased by 28% while net interest margin increased by 14 basis points from 3.12% in FY 2001-02 to 3.26% in FY 2002-03. Average yields on earning assets dropped by 55 basis points given the general decline in interest rates and intense competition in both the wholesale and retail asset businesses. This was more than offset by a reduction of about 100 basis points in the average costs of deposits, a function of the decline in the costs of term deposits and a marginal increase in the proportion of average current and savings accounts balances to average total deposits.

The other income (non-interest revenue) had three components, each of which experienced healthy growth during 2002-03. Commission income increased by 47% to Rs. 242 crores with commission from the retail banking businesses (including fees from debit/credit cards & point-of-sale (POS) terminals, transactional charges/fees on



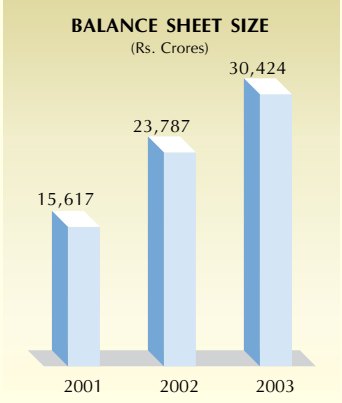
# Directors' Report – *(Contd.)*

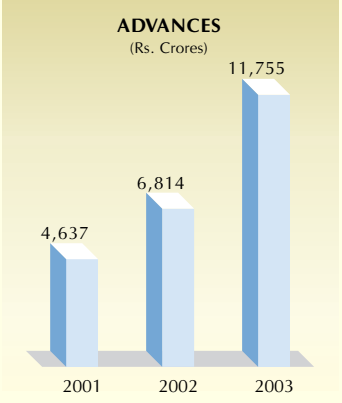
deposit accounts and commission from third party distribution) and cash management services growing at a healthy pace, partly offset by lower commissions in the trade and documentary services business. Profits on sale of investments increased by 27.6% to Rs. 132.5 crores during 2002-03. This represents trading profits in government securities as yields dropped by about 110 – 120 basis points and profit from the distribution business, primarily in respect of corporate bonds. Foreign exchange and derivatives revenues increased by 48.8% to Rs. 95 crores in 2002-03 driven primarily by customer trade volumes and increase in the interest rate swaps business.

Operating (non interest) expense increased by 41.6% to Rs. 591.8 crores in 2002-03. As a result of a significant increase in infrastructural investments, geographical expansion and new product roll-outs, operating expenses as a proportion of total revenue, increased from 43.4% in 2001-02 to 45.4% in 2002-03. A major portion of the increase in expenditure related to expansion of the retail asset, credit card and merchant acquiring businesses and an increase in the number of branches and ATMs by 35% and 52% respectively. Staff expenses accounted for 25.6% of non interest expenses in 2002-03 as against 26.1% in the previous year, despite an increase in staff strength from 3742 to 4791. Loan loss provisions increased by 3.1% to Rs. 88 crores in 2002-03, primarily driven by an increase in general loan loss provisions for retail product programs partly off-set by lower specific loan losses. Provisions for depreciation and amortization of investments were Rs. 52.6 crores representing primarily the amortization of premium for SLR investments in the "held to maturity" category.

Net profit increased by 30.5% from Rs. 297 crores in 2001-02 to Rs. 387.6 crores in 2002-03. Return on average networth was 18.1%, marginally lower than the previous year figure of 18.3% primarily due to the full year impact of ADS shares which were issued in July, 2001. The Bank's basic earning per share increased from Rs.11.01 to Rs. 13.75 per equity share. The diluted earnings were Rs. 12.79 per equity share in 2002-03.

Balance Sheet growth during 2002-03 was also strong. Total Deposits increased by 27% from Rs. 17654 crores to Rs. 22376 crores. Savings account deposits which reflect the strength of the retail liability franchise and an important source of low cost, stable funds, increased by 58% from Rs. 2957 crores to Rs. 4663 crores. Total Advances grew by 73% to Rs. 11755 crores, driven by a growth of 140% in retail advances (including commercial vehicle loans) to Rs. 3441 crores and an increase of 54% in wholesale advances to Rs. 8314 crores. The mix of the Bank's total advances as of 31 March, 2003 is therefore, 71% wholesale and 29% retail. The Bank's core customer assets (advances and credit substitutes like commercial paper, corporate debentures, preference shares, etc.) increased from Rs. 10452 crores in March, 2002 to Rs. 14450 crores in March, 2003. In addition, the Bank held Rs. 2160 crores of investments in securitised paper where the



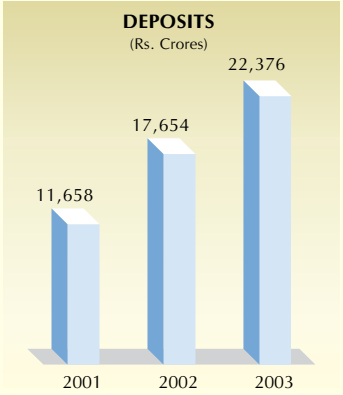
# Directors' Report – *(Contd.)*

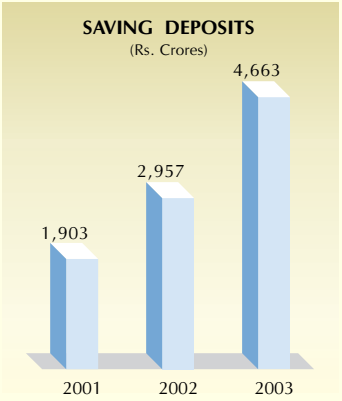
underlying assets were commercial vehicles, car loan and mortgage receivables and collateralised loan obligations. Total customer assets (including securitisation) were therefore Rs. 16610 crores as of 31 March, 2003. Total balance sheet size grew by 28% from Rs. 23787 crores to Rs. 30424 crores.

### Business Segment Update :

Despite the challenging and volatile environment in 2002-03, the Bank has been able to achieve healthy growth across multiple parameters, including customer acquisition, geographical spread, business volumes and revenues. This performance reflects the strength and diversity of the Bank's three primary business franchises – Wholesale Banking, Treasury and Retail Banking, as well as a disciplined approach to risk – reward management.

In the Wholesale Banking business, the Bank leverages its high quality service and relationship management to provide its corporate and institutional clients a wide range of commercial and transactional banking products. The Bank's commercial banking business is focussed primarily towards the top end of the corporate sector covering mainly short and medium tenor working capital related products. In the transactional banking services business, the Bank provides cash management, trade, custody and correspondent banking services to corporates, banks, mutual funds and other entities. During FY 2002-03, the Wholesale Banking business grew through a combination of adding new customers, cross selling more products and increasing market share for existing products. The focus was not merely on balance sheet growth but on optimising yields and increasing product penetration. The Bank's electronic banking, cash management and vendor & distributor finance products which are structured to improve supply chain management for its corporate customers received an excellent response. New initiatives in agri-lending areas bore fruit with total direct and indirect finance (other than bond investments) to the agriculture sector touching Rs. 883 crores as of 31 March, 2003. In the core cash management business (covering the outstation collection and disbursement products), the Bank continued to see a healthy growth in volumes from Rs. 145,000 crores in the FY 2001-02 to Rs. 208,000 crores in FY 2002-03. Total cash management volumes (including 'at-par' & bulk payment products and electronic funds transfers for customers across the Bank's locations) crossed Rs. 250,000 crores consolidating the Bank's position as one of the leading players in this business in India. The Bank also maintained its market leadership in providing cash settlement services for major stock exchanges in the country, although overall floats from this business continued to decline during most of the year given lower settlement volumes in the stock markets. The Bank's exposure to the capital markets segment (both funded and non-funded as defined in line with regulatory guidelines) was within the 5% of advances limit prescribed by the Reserve Bank of India (RBI). For the seventh year in succession, in 2002-03, the Bank met the overall priority sector lending requirement of 40% of net bank credit.

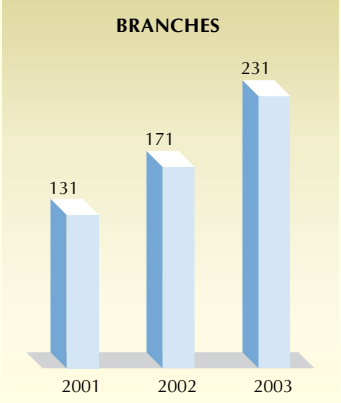


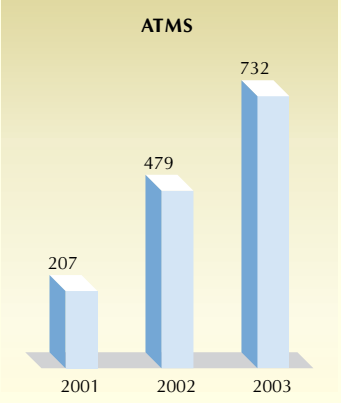



# Directors' Report – *(Contd.)*

On the Treasury front, the Bank has a presence in the foreign exchange, derivatives and local currency debt securities & money markets. The treasury group manages the Bank's balance sheet and is responsible for compliance with reserve requirements and management of market and liquidity risk. On the foreign exchange front, the revenues are driven primarily by spreads on foreign exchange and derivative transactions, based on trade flows and hedging needs of corporate customers. In addition, the treasury group seeks to optimise profits from proprietary trading within established limits. During FY 2002-03 the foreign exchange and derivative revenues grew by 48% from Rs. 64.1 crores (FY 2001-02) to Rs. 95.4 crores. With a continued decline in interest rates through most of the year, the local currency debt securities trading and distribution businesses had another strong year with revenues growing 27.6% to Rs. 132.5 crores. Given the regulatory requirement of holding government securities to meet the statutory liquidity ratio (SLR) requirement, the Bank has necessarily to maintain a large government securities portfolio. While this has enabled the Bank to realise gains in a declining interest rate environment, it exposes the Bank to losses or depreciation in value of investments if yields were to rise. To reduce this volatility to an extent and to balance the yield and market risk trade-off, the Bank has a policy of maintaining a relatively low duration of around 2 to 2.5 years in its government securities (SLR) portfolio as against an average estimated duration of over 4 years for the Indian banking system as a whole.

In the Retail Banking business, the Bank has positioned itself as a one-stop-shop financial services provider focussed primarily on the middle class, mass affluent and high networth segments. To its target customer base, the Bank provides a wide range of financial products and services including various deposit products, loans, credit cards, debit cards, bill payment services, investment advice and various transactional services. The Bank also leverages its customer base and distribution network to sell third party financial products like mutual funds and from January, 2003 onwards, life insurance products. The Bank strives to provide its customers greater convenience and high quality services at a "value for money" price point, backed by appropriate investments in technology and other infrastructure. The Bank services its customers through multiple channels – branches, ATMs, Phone Banking, Internet Banking and Mobile Banking. The success of the Bank's multi channel strategy is evidenced in the fact that almost 70% of customer initiated transactions are serviced through the non-branch channels, providing flexibility and convenience to the customer and reducing servicing costs for the Bank. The Bank has also implemented a data warehouse and the first phase of its Customer Relationship Management (CRM) solution to improve the effectiveness of cross-selling at the branches and to facilitate relationship pricing. During 2002-03, the Bank's retail banking franchise experienced significant growth. Even after weeding out over 100,000 unprofitable accounts, the total number of retail accounts increased from 2.2 million in March, 2002 to over 3.1 million in March, 2003, a



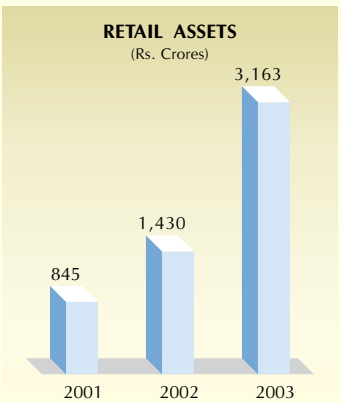



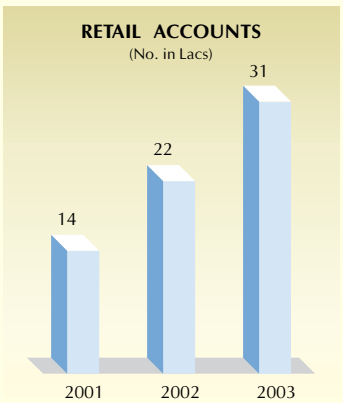
# Directors' Report – *(Contd.)*

growth of almost 50%, for the second year in succession. These customers can conveniently deal with the Bank through the growing branch network in 123 cities as well as through alternative direct banking channels like ATMs, Phone Banking (in 80 cities), Net Banking and Mobile Banking. From March, 2002 to March, 2003, the number of branches (including extension counters) increased from 171 to 231 and the size of the Bank's ATM network expanded from 479 to 732. With a significant expansion in the geographical coverage of retail loan products like car loans and personal loans, as well as the launch of new products like two wheeler loans, the retail loan portfolio increased from Rs.1430 crores as of 31 March, 2002 to Rs. 3163 crores as of 31 March, 2003, an increase of 121%. Including the commercial vehicle loan portfolio, which is a mix of retail and transport operator finance, total retail loans touched Rs. 3441 crores as of 31 March, 2003. The Bank's credit card business which is just over a year old now, has a presence in 18 cities with total number of cards issued at 181,000. The Bank also significantly expanded its presence in the "merchant acquiring" business with 21,804 point-of-sale (POS) terminals installed as of 31 March, 2003 up from 6480 as at the end of the previous year. The Bank's success in its third party distribution business is best evidenced in the mutual fund sales which crossed Rs. 8400 crores, an increase of 69% over the previous year. The Bank also maintained its position as one of the leading Depository Participants in terms of number of retail investor accounts, providing high quality retail custody services in electronic form.

## Risk Management & Portfolio Quality :

Risk is integral to almost every aspect of the Banking business and it is well accepted that revenues the banks earn, relate to a large extent, to the risks they accept. Business and revenue growth therefore, have to be weighed in the context of the risks implicit in the Bank's business strategy. While the Bank is exposed to various types of risk, the most important amongst them are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The identification, measurement, monitoring and management of risks remains a key focus area for the Bank. For credit risk, distinct policies and processes are in place for the wholesale and retail asset businesses. For wholesale credit exposures, management of credit risk is done through target market definition, appropriate credit approval processes, ongoing post-disbursement monitoring and remedial management procedures. Portfolio diversification remains key, particularly given the volatility in the business environment . In the retail asset business, the credit cycle is managed through appropriate front-end credit, operational and collection processes. For each product, programs defining customer segments, underwriting standards, security structures, etc. are specified to ensure consistency of credit buying patterns. Given the granularity of individual exposures, retail credit risk is managed largely on a portfolio basis, across various products and customer segments. The Risk Monitoring Committee of the Board monitors the Bank's risk management policies and procedures, vets treasury



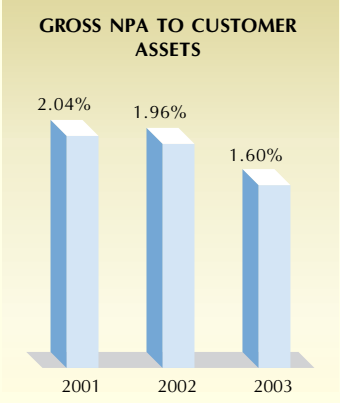
# Directors' Report – *(Contd.)*

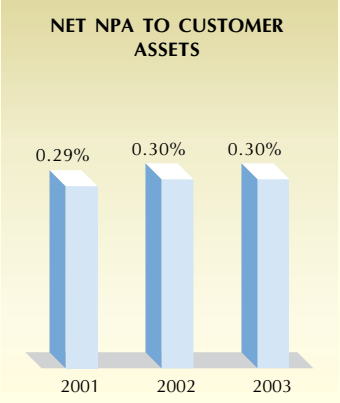
risk limits before they are considered by the Board and reviews portfolio composition and impaired credits. As of 31 March, 2003 the retail portfolio (consisting four main retail loan products – car loans, personal loans secured by marketable securities, clean personal loans and loans against deposits) constitutes 20.1% of total customer assets (including advances, corporate debt investments, etc.). The only other concentration at 10.1% of customer assets is in exposures to "State sponsored institutions" which largely comprise government and semi-government financial institutions and corporations which issue bonds which qualify for meeting regulatory requirements on priority sector lending. Other larger industry exposures include automotive (cars, two-wheelers and commercial vehicles) at 6.9%, heavy industrial/organic chemicals at 4.4%, land transport at 3.9% and petroleum at 3.7% of customer assets. The well diversified nature of the portfolio is evidenced in the fact that 26 industries account for 1% or more of the Bank's customer assets portfolio.

As of 31 March, 2003, the Bank's ratio of gross non-performing assets to total customer assets was 1.60% against 1.96% as of 31 March, 2002. Increases in non-performing assets during the year were related to deterioration in credit quality relating to certain working capital and guarantee exposures in the corporate banking business, including some relating to exposures acquired by the Bank as part of the Times Bank merger. Net non-performing assets (gross non-performing assets less specific loan loss provisions, interest in suspense and ECGC claims received) were 0.4% of net advances and 0.3% of customer assets as of 31 March, 2003 as against 0.5% and 0.3%, respectively as of 31 March, 2002. The specific loan loss provisions the Bank made for its non-performing assets continue to be more conservative than the regulatory requirement. The Bank continues to have a policy of holding general provisions of between 1% to 3% for its retail and middle market product programs as well as around 0.4% for corporate standard assets. As on 31 March, 2003, total general loan loss provisions were about 1% of standard advances as against the regulatory requirement of 0.25%. The general provisions amounted to 0.7% of standard customer assets.

## Internal Audit & Compliance :

The Bank has an Internal Audit & Compliance department which is focussed on independently evaluating the adequacy of all internal controls, ensuring adherence to operating guidelines, regulatory and legal requirements and pro-actively recommending improvements in operational processes and service quality. To ensure independence, the audit & compliance function reports directly to the Chairman of the Board of Directors and the Audit & Compliance Committee of the Board and only indirectly to the Managing Director. To mitigate operational risks, the Bank has put in place extensive internal controls including restricted access to the Bank's computer systems, appropriate segregation of front and back office operations and strong audit trails. The Audit & Compliance Committee of the Board also reviews



# Directors' Report – *(Contd.)*

the performance of the audit and compliance department and reviews the effectiveness of controls and compliance with regulatory guidelines.

### Human Resources :

Given the Bank's significant expansion in terms of geography as well as in terms of products and business volumes, the Bank's staffing increased substantially during the year, in particular in the retail banking business. The Bank continues to focus on training its employees on a continuing basis, both on the job and through training programs conducted by internal and external faculty. The Bank has consistently believed that broader employee ownership of its shares has a positive impact on its performance and employee motivation. The Bank's Employee Stock Option Scheme therefore, extends to all levels and has covered over 85% employees so far.

### STATUTORY DISCLOSURES :

The information required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, are given in the annexure appended hereto and forms part of this report. In terms of Section 219(1)(iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 4791 employees as on 31 March, 2003. 32 employees employed throughout the year were in receipt of remuneration of Rs. 24 lacs or more per annum.

The provisions of Section 217(1)(e) of the Act relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used information technology extensively in its operations.

### RESPONSIBILITY STATEMENT :

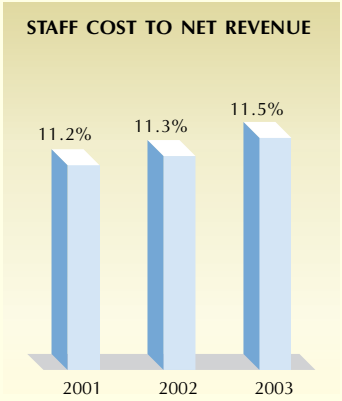
The Board of Directors hereby state that:

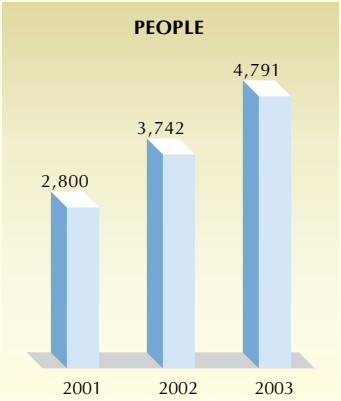
i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii) we have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on 31 March, 2003 and of the profit of the Bank for the year ended on that date;

iii) we have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting the frauds and other irregularities;

iv) we have prepared the annual accounts on a going concern basis.



# Directors' Report – *(Contd.)*

## DIRECTORS :

Mr. Anil Ahuja and Mr. Vineet Jain will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

During the year Mr. Deepak Satwalekar, Mr. Jagdish Baijal and Mr. Keki Mistry resigned on completing eight years as directors of the Bank. The Banking Regulation Act, 1949 stipulates that a director can serve on the Board of a Bank continously for a period not greater than eight years. Mr Arnold Chavkin also resigned as director of the Bank. Your Board of Directors wish to place on record its appreciation for the valuable services rendered by them during their tenure as directors of the Bank. Mrs. Renu Karnad, Mr. Arvind Pande and Mr. Keki Mistry were appointed as additional directors of the Bank on 17 July, 2002, 15 January, 2003 and 27 March, 2003 respectively and shall hold office upto the ensuing Annual General Meeting. Your Bank has received notices from members pursuant to Section 257 of the Companies Act, 1956 signifying their intentions to propose the candidature of Mrs. Renu Karnad, Mr. Arvind Pande and Mr. Keki Mistry for the office of Director. The brief resume/ details relating to directors who are to be appointed/re-appointed are furnished in the Explanatory Statement to the Notice of the ensuing Annual General Meeting and the report on Corporate Governance.

## AUDITORS :

The Auditors M/s. P. C. Hansotia & Co., Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment, subject to the approval of Reserve Bank of India. Members are requested to consider their re-appointment on a remuneration to be decided by the Audit and Compliance Committee of Board for financial year ending 31 March, 2004.

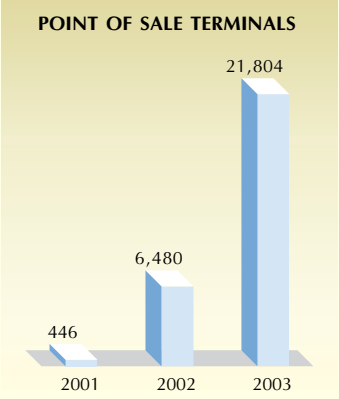
## ACKNOWLEDGEMENT :

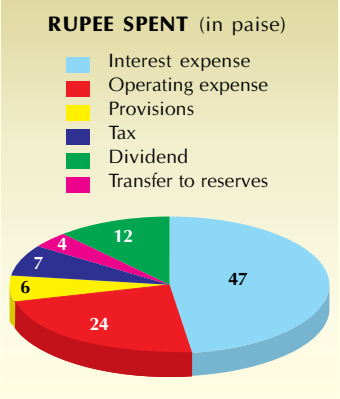
Your directors would like to place on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. Your directors would also like to take this opportunity to express their appreciation to the dedicated and committed team of employees for their contribution in building a world class Indian bank.

On behalf of the Board of Directors

**Jagdish Capoor**
*Chairman*

Mumbai, 15 April, 2003



# Auditors' Report

## TO THE MEMBERS OF HDFC BANK LIMITED

We have audited the attached Balance Sheet of **HDFC BANK LIMITED** as at 31st March, 2003 and the Profit and Loss Account of the Bank, annexed thereto and the cash flow statement for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express our opinion on these financial statements based on our audit.

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

We report thereon as follows :

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

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

(3) The transactions of the Bank which have come to our notice have been within the powers of the Bank.

(4) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches of the Bank.

(5) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account and the Branch returns.

(6) In our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, in so far as they apply to banks.

(7) On the basis of the written representations received from the directors, taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2003 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.

(8) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view:

(i) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2003;

(ii) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and

(iii) in case of the Cash Flow Statement of the cashflows for the year ended on the date.

For **P. C. Hansotia & Co.**
*Chartered Accountants*

**N. P. Sarda**
*(Partner)*

Mumbai, 15 April, 2003

# Balance Sheet as at 31 March, 2003

(Rs. lacs)

| | Schedule | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| Capital | 1 | **282,05** | 281,37 |
| Reserves and Surplus | 2 | **1,962,78** | 1,660,91 |
| Employees' Stock Options (Grants) Outstanding | | **6,91** | 9,05 |
| Deposits | 3 | **22,376,07** | 17,653,81 |
| Borrowings | 4 | **2,084,65** | 1,823,02 |
| Subordinated debt | 19(4) | **200,00** | 200,00 |
| Other Liabilities and Provisions | 5 | **3,511,62** | 2,159,22 |
| **Total** | | **30,424,08** | 23,787,38 |
| **ASSETS** | | | |
| Cash and balances with Reserve Bank of India | 6 | **2,081,96** | 1,211,17 |
| Balances with Banks and Money at Call and Short notice | 7 | **1,087,26** | 2,247,02 |
| Investments | 8, 19(7) | **13,388,08** | 12,004,02 |
| Advances | 9 | **11,754,86** | 6,813,72 |
| Fixed Assets | 10 | **52,858** | 371,10 |
| Other Assets | 11 | **1,583,34** | 1,140,35 |
| **Total** | | **30,424,08** | 23,787,38 |
| Contingent Liabilities | 12 | **41,559,85** | 20,327,95 |
| Bills for Collection | | **1,761,39** | 1,036,90 |

The attached notes form part of the financial statements.

In terms of our report of even date attached.

For **P. C. HANSOTIA & CO.**
*Chartered Accountants*

**N. P. SARDA**
*Partner*

Mumbai, 15 April, 2003

For and on behalf of the Board

**JAGDISH CAPOOR**
*Chairman*

**ADITYA PURI**
*Managing Director*

**SANJAY DONGRE**
*Vice President (Legal) & Company Secretary*

**KEKI M. MISTRY**
**Dr. (Mrs.) AMLA SAMANTA**
**ANIL AHUJA**
**Dr. VENKAT RAO GADWAL**
**RENU KARNAD**
**ARVIND PANDE**
*Directors*

# Profit and Loss Account for the year ended 31 March, 2003

(Rs. lacs)

| | | Schedule | Year ended 31-03-2003 | Year ended 31-03-2002 |
|---|---|---|---|---|
| **I.** | **INCOME** | | | |
| | Interest earned | 13 | **2,022,97** | 1,702,99 |
| | Other income | 14 | **473,10** | 333,25 |
| | **Total** | | **2,496,07** | 2,036,24 |
| **II.** | **EXPENDITURE** | | | |
| | Interest expended | 15 | **1,191,96** | 1,073,74 |
| | Operating expenses | 16 | **591,83** | 417,95 |
| | Provisions & Contingencies [includes Income Tax provision of Rs. 183,25 lacs (previous year Rs. 128,34 lacs)] | 17 | **324,68** | 247,51 |
| | **Total** | | **2,108,47** | 1,739,20 |
| **III.** | **PROFIT** | | | |
| | **Net Profit for the year** | | **387,60** | 297,04 |
| **IV.** | **APPROPRIATIONS** | | | |
| | Transfer to Statutory Reserve | | **96,90** | 74,26 |
| | Proposed dividend | | **84,95** | 70,34 |
| | Tax on dividend | | **10,88** | — |
| | Dividend paid during the year | | **10** | — |
| | Transfer to General Reserve | | **38,76** | 29,71 |
| | Transfer to Investment Fluctuation Reserve | | **—** | 97,18 |
| | Transfer to Debenture Redemption Reserve | | **—** | 9,54 |
| | Balance carried over to Balance Sheet | | **156,01** | 16,01 |
| | **Total** | | **387,60** | 297,04 |
| **V.** | **EARNINGS PER EQUITY SHARE** (Face value Rs. 10/- per share) (Rupees) | 18 | | |
| | Basic | | **13.75** | 11.01 |
| | Diluted | | **12,79** | 10.29 |

In terms of our report of even date attached.

For **P. C. HANSOTIA & CO.**
*Chartered Accountants*

**N. P. SARDA**
*Partner*

Mumbai, 15 April, 2003

For and on behalf of the Board

**JAGDISH CAPOOR**
*Chairman*

**ADITYA PURI**
*Managing Director*

**SANJAY DONGRE**
*Vice President (Legal) & Company Secretary*

**KEKI M. MISTRY**
**Dr. (Mrs.) AMLA SAMANTA**
**ANIL AHUJA**
**Dr. VENKAT RAO GADWAL**
**RENU KARNAD**
**ARVIND PANDE**
*Directors*

# Schedules to the Accounts

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 1 – CAPITAL** | | | |
| **Authorised Capital** | | **450,00** | 450,00 |
| **45,00,00,000** (31 March, 2002: 45,00,00,000 ) Equity Shares of Rs. 10/- each | | | |
| **Issued, Subscribed and Paid-up Capital** | | **282,05** | 281,37 |
| **28,20,45,713** (31 March, 2002: 28,13,74,613) Equity Shares of Rs. 10/- each | | | |
| | **Total** | **282,05** | 281,37 |
| **SCHEDULE 2 – RESERVES AND SURPLUS** | | | |
| **I. Statutory Reserve** | | | |
| Opening Balance | | **228,09** | 153,83 |
| Additions during the year | | **96,90** | 74,26 |
| | **Total** | **324,99** | 228,09 |
| **II. General Reserve** | | | |
| Opening Balance | | **58,59** | — |
| Transfer from Profit and Loss Account | | **—** | 28,88 |
| Additions during the year | | **38,76** | 29,71 |
| | **Total** | **97,35** | 58,59 |
| **III. Balance in Profit and Loss Account** | | | |
| Opening Balance | | **190,38** | 329,80 |
| Transfer from deferred tax asset | | **—** | 16,35 |
| Transfer to General Reserve | | **—** | (28,88) |
| Transfer from Debenture Redemption Reserve | | **9,74** | — |
| Transfer to Investment Fluctuation Reserve | | **—** | (142,90) |
| Additions during the year | | **156,01** | 16,01 |
| | **Total** | **356,13** | 190,38 |
| **IV. Share Premium Account** | | | |
| Opening Balance | | **919,51** | 171,14 |
| Additions during the year | | **10,20** | 780,87 |
| Deductions during the year | | **—** | (32,50) |
| | **Total** | **929,71** | 919,51 |
| **V. Investment Fluctuation Reserve** | | | |
| Opening Balance | | **240,08** | — |
| Transfer from Profit and Loss Account | | **—** | 142,90 |
| Additions during the year | | **—** | 97,18 |
| | **Total** | **240,08** | 240,08 |

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 2 – RESERVES AND SURPLUS–(Contd.)** | | | |
| **VI. Amalgamation Reserve** | | | |
| Opening Balance | | **14,52** | 14,52 |
| | **Total** | **14,52** | 14,52 |
| **VII. Debenture Redemption Reserve** | | | |
| Opening Balance | | **9,74** | 20 |
| Additions during the year | | **—** | 9,54 |
| Transfer to General Reserve | | **(9,74)** | — |
| | **Total** | **—** | 9,74 |
| | **Total** | **1,962,78** | 1,660,91 |
| **SCHEDULE 3 – DEPOSITS** | | | |
| **I. Demand Deposits** | | | |
| (i) From Banks | | **426,77** | 371,72 |
| (ii) From Others | | **4,524,19** | 3,848,46 |
| | **Total** | **4,950,96** | 4,220,18 |
| **II. Savings Bank Deposits** | | **4,663,14** | 2,957,45 |
| **III. Term Deposits** | | | |
| (i) From Banks | | **476,47** | 411,76 |
| (ii) From Others | | **12,285,50** | 10,064,42 |
| | **Total** | **12,761,97** | 10,476,18 |
| | **Total** | **22,376,07** | 17,653,81 |
| **SCHEDULE 4 – BORROWINGS** | | | |
| **I. Borrowings in India** | | | |
| (i) Reserve Bank of India | | **13,47** | 96,67 |
| (ii) Banks | | **1,406,60** | 920,31 |
| (iii) Institutions and agencies | | **656,54** | 806,04 |
| | **Total** | **2,076,61** | 1,823,02 |
| **II. Borrowings outside India** | | **8,04** | — |
| | **Total** | **2,084,65** | 1,823,02 |

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS** | | | |
| I. | Bills Payable | **851,12** | 867,38 |
| II. | Interest Accrued | **688,21** | 416,89 |
| III. | Others *(including provisions)* | **1,876,46** | 804,61 |
| IV. | Proposed Dividend *(includes tax on dividend for the current year)* | **95,83** | 70,34 |
| | **Total** | **3,511,62** | 2,159,22 |
| **SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA** | | | |
| I. | Cash in hand *(including foreign currency notes)* | **166,68** | 112,85 |
| II. | Balances with Reserve Bank of India in current accounts | **1,915,28** | 1,098,32 |
| | **Total** | **2,081,96** | 1,211,17 |
| **SCHEDULE 7 – BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** | | | |
| **I.** | **In India** | | |
| | (i) Balances with Banks : | | |
| | (a) In current accounts | **83,43** | 67,62 |
| | (b) In other deposit accounts* | **82,63** | 22,07 |
| | **Total** | **166,06** | 89,69 |
| | (ii) Money at call and short notice : | | |
| | (a) With banks | **278,17** | 144,42 |
| | **Total** | **278,17** | 144,42 |
| | **Total** | **444,23** | 234,11 |
| **II.** | **Outside India** | | |
| | (i) In current accounts | **3,36** | 57,59 |
| | (ii) Money at call and short notice | **639,67** | 1,955,32 |
| | **Total** | **643,03** | 2,012,91 |
| | **Total** | **1,087,26** | 2,247,02 |

** Represents deposit with NABARD under the RIDF Deposit Scheme. This deposit is eligible for priority sector lending.*

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 8 – INVESTMENTS** | | | |
| **Investments in India in** | | | |
| (i) Government securities | | **6,356,25** | 5,295,03 |
| (ii) Other approved securities | | **11,84** | 11,84 |
| (iii) Shares | | **108,39** | 145,18 |
| (iv) Debentures and Bonds | | **4,166,58** | 4,268,47 |
| (v) Joint Venture | | **2,43** | 89 |
| (vi) Units, Certificate of Deposits and Others | | **2,742,59** | 2,282,61 |
| | **Total** | **13,388,08** | 12,004,02 |
| **SCHEDULE 9 – ADVANCES** | | | |
| A. (i) Bills purchased and discounted | | **2,622,79** | 1,325,08 |
| (ii) Cash Credits, Overdrafts and Loans repayable on demand | | **2,607,80** | 1,737,52 |
| (iii) Term loans | | **6,524,27** | 3,751,12 |
| | **Total** | **11,754,86** | 6,813,72 |
| B. (i) Secured by tangible assets* | | **9,990,73** | 6,185,71 |
| (ii) Covered by Bank/Government Guarantees | | **93,69** | 51,48 |
| (iii) Unsecured | | **1,670,44** | 576,53 |
| | **Total** | **11,754,86** | 6,813,72 |
| ** Including advances against Book Debts* | | | |
| C. Advances in India | | | |
| (i) Priority Sector | | **1,421,82** | 732,46 |
| (ii) Public Sector | | **851,90** | 910,69 |
| (iii) Banks | | **22,18** | 188,34 |
| (iv) Others | | **9,458,96** | 4,982,23 |
| | **Total** | **11,754,86** | 6,813,72 |
| *(Advances are net of specific loan loss provisions)* | | | |

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 10 – FIXED ASSETS** | | | |
| A. **Premises** *(including Land)* | | | |
| **Gross Block** | | | |
| At cost on 31 March of the preceding year | | **153,18** | 129,60 |
| Additions during the year | | **40,17** | 33,05 |
| Deductions during the year | | **—** | (9,47) |
| | **Total** | **193,35** | 153,18 |
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **17,34** | 13,87 |
| Charge for the year | | **6,23** | 4,25 |
| On deductions during the year | | **—** | (78) |
| | **Total** | **23,57** | 17,34 |
| **Net Block** | | **169,78** | 135,84 |
| B. **Other Fixed Assets** *(including furniture and fixtures)* | | | |
| **Gross Block** | | | |
| At cost on 31 March of the preceding year | | **403,90** | 274,33 |
| Additions during the year | | **227,62** | 135,22 |
| Deductions during the year | | **(14,59)** | (5,65) |
| | **Total** | **616,93** | 403,90 |
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **173,93** | 114,04 |
| Charge for the year | | **99,01** | 63,32 |
| On deductions during the year | | **(13,98)** | (3,43) |
| | **Total** | **258,96** | 173,93 |
| **Net Block** | | **357,97** | 229,97 |
| C. **Assets on Lease** *(Plant and Machinery)* | | | |
| **Gross Block** | | | |
| At cost on 31 March of the preceding year | | **43,83** | 43,83 |
| | **Total** | **43,83** | 43,83 |
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **10,62** | 9,17 |
| Charge for the year | | **90** | 1,45 |
| | **Total** | **11,52** | 10,62 |
| **Lease Adjustment Account** | | | |
| As at 31 March of the preceding year | | **27,92** | 20,94 |
| Charge for the year | | **3,56** | 6,98 |
| | **Total** | **31,48** | 27,92 |
| **Unamortised cost of assets on lease** | | **83** | 5,29 |
| | **Total** | **528,58** | 371,10 |

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 11 – OTHER ASSETS** | | | |
| I. | Interest accrued | **663,00** | 455,66 |
| II. | Advance tax *(net of provision)* | **88,86** | 29,51 |
| III. | Stationery and stamps | **94** | 34 |
| IV. | Bond and share application money pending allotment | **50** | 1,00 |
| V. | Security deposit for commercial and residential property | **87,90** | 72,34 |
| VI. | Cheques in course of collection | **294,45** | 405,53 |
| VII. | Other assets | **447,69** | 175,97 |
| | **Total** | **1,583,34** | 114,035 |
| **SCHEDULE 12 – CONTINGENT LIABILITIES** | | | |
| I. | Claims against the Bank not acknowledged as debts | **51,05** | 1,74 |
| II. | Liability on account of outstanding forward exchange contracts | **19,772,55** | 11,984,92 |
| III. | Liability on account of outstanding derivative contracts | **18,605,04** | 5,302,85 |
| IV. | Guarantees given on behalf of constituents- in India | **1,424,70** | 1,695,03 |
| V. | Acceptances, endorsements and other obligations | **1,171,51** | 944,41 |
| VI. | Other items for which the Bank is contingently liable | **535,00** | 399,00 |
| | **Total** | **41,559,85** | 20,327,95 |
| **SCHEDULE 13 – INTEREST EARNED** | | | |
| I. | Interest/discount on advances/bills | **786,68** | 623,93 |
| II. | Income from investments | **1,112,95** | 863,97 |
| III. | Interest on balance with RBI and other inter-bank funds | **120,44** | 213,96 |
| IV | Others | **2,90** | 1,13 |
| | **Total** | **2,022,97** | 1,702,99 |
| **SCHEDULE 14 – OTHER INCOME** | | | |
| I. | Commission, exchange and brokerage | **241,81** | 164,48 |
| II. | Profit on sale of investments | **132,46** | 103,83 |
| III. | Profit/(Loss) on sale of building and other assets | **1,08** | (81) |
| IV. | Profit on exchange transactions | **44,53** | 39,14 |
| V. | Miscellaneous income | **53,22** | 26,61 |
| | **Total** | **473,10** | 333,25 |

# Schedules to the Accounts - *(Contd.)*

(Rs. lacs)

| | | As at 31-03-2003 | As at 31-03-2002 |
|---|---|---|---|
| **SCHEDULE 15 – INTEREST EXPENDED** | | | |
| I. | Interest on Deposits | **1,063,29** | 915,52 |
| II. | Interest on RBI/Inter-bank borrowings | **103,29** | 132,85 |
| III. | Other interest | **25,38** | 25,37 |
| | **Total** | **1,191,96** | 1,073,74 |
| **SCHEDULE 16 – OPERATING EXPENSES** | | | |
| I. | Payments to and provisions for employees | **151,95** | 109,24 |
| II. | Rent, taxes and lighting | **77,26** | 57,75 |
| III. | Printing & stationery | **27,53** | 17,72 |
| IV. | Advertisement and publicity | **17,51** | 18,78 |
| V. | Depreciation on bank's property | **106,14** | 69,02 |
| VI. | Directors' fees, allowances and expenses | **4** | 5 |
| VII | Auditors' fees and expenses | **26** | 22 |
| VIII. | Law charges | **42** | 21 |
| IX. | Postage, telegram, telephone etc. | **51,92** | 37,06 |
| X. | Repairs and maintenance | **45,67** | 34,72 |
| XI. | Insurance | **12,26** | 8,36 |
| XII. | Other Expenditure* | **100,87** | 64,82 |
| | **Total** | **591,83** | 417,95 |
| **SCHEDULE 17 – PROVISIONS AND CONTINGENCIES** | | | |
| I. | Income tax | **183,25** | 128,34 |
| II. | Wealth tax | **47** | 18 |
| III. | Loan loss provision | **88,39** | 85,77 |
| IV. | Depreciation and amortisation on investments | **52,57** | 19,16 |
| V. | Others | **—** | 14,06 |
| | **Total** | **324,68** | 247,51 |

** Other expenditure, inter alia, includes selling expenses, professional fees, travel and hotel charges, entertainment, Registrar and Transfer agency fees and system management fees.*

# Schedules to the Accounts - *(Contd.)*

(Rupees)

| | For the year | |
|---|---|---|
| | **2002-2003** | 2001-2002 |

## SCHEDULE 18 – EARNINGS PER EQUITY SHARE

Annualised Earnings per equity share have been calculated based on the net income after taxation of Rs. 387,60 lacs (previous year : Rs. 297,04 lacs) and the average number of equity shares in issue during the year of 281,934,292 (previous year : 269,884,245).

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

| | | |
|---|---|---|
| Nominal value per share | **10.00** | 10.00 |
| Basic earnings per share | **13.75** | 11.01 |
| Effect of potential equity shares for stock options and subordinated debt (per share) | **(0.96)** | (0.72) |
| Diluted earnings per share | **12.79** | 10.29 |

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

The following is the reconcilation of the earnings used in the computation of basic and diluted earnings per share:

| | **Rs. lacs** | Rs. lacs |
|---|---|---|
| Earnings used in Basic earnings per share | **387,60** | 297,04 |
| Impact of dilution on profits | **12,06** | 12,27 |
| Earnings used in diluted earnings per share | **399,66** | 309,31 |

The following is the reconcilation of weighted average number of equity shares used in the computation of basic and diluted earnings per share :

| | | |
|---|---|---|
| Weighted average number of equity shares used in computing basic earnings per equity share | **281,934,292** | 269,884,245 |
| Effect of potential equity shares for stock options outstanding and subordinated debt | **30,431,174** | 30,835,755 |
| Weighted average number of equity shares used in computing diluted earnings per equity share | **312,365,466** | 300,720,000 |

# Schedules to the Accounts - *(Contd.)*

| | For the year | |
|---|---|---|
| | **2002-2003** | 2001-2002 |

## SCHEDULE 19 – NOTES AND PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2003.

### 1. Capital Adequacy Ratio

(Rs Lacs)

The Bank's capital adequacy ratio, calculated in accordance with RBI guidelines, is as follows:

| | | |
|---|---|---|
| Tier 1 Capital | **1,985,02** | 1,692,46 |
| Tier 2 Capital | **341,47** | 487,16 |
| **Total Capital** | **2,326,49** | 2,179,62 |
| Total Risk weighted assets and contingents | **20,917,71** | 15,652,17 |
| **Capital ratios** | | |
| Tier 1 | **9.49%** | 10.81% |
| **Total capital** | **11.12%** | 13.93% |

Tier 1 capital includes paid up capital, statutory reserve, general reserve, balance in profit and loss account and amalgamation reserve. To this, outstanding deferred tax asset, if any, is deducted.

Tier 2 capital includes general loan loss reserves and investment fluctuation reserve, subject to a maximum of 1.25% of total risk weighted assets and contingents, and subordinated debt and debenture redemption reserve.

The Reserve Bank of India in its master circular on prudential norms relating to capital adequacy has now capped general loan loss provisions and investment fluctuation reserve at 1.25% of the total risk weighted assets and contingents for inclusion as Tier 2 capital. This is the first time the investment fluctuation reserve has been included in this limit. The bank holds higher levels of general provisions and investment fluctuation reserves which are now therefore, excluded from the tier 2 capital calculation. But for this ceiling, the total capital adequacy ratio would have been higher by 0.45%.

### 2 Business ratios/information

| | | |
|---|---|---|
| Interest income as a percentage of working funds[1] | **7.93%** | 8.46% |
| Net interest income as a percentage of working funds | **3.26%** | 3.12% |
| Non–interest income as a percentage of working funds | **1.85%** | 1.65% |
| Operating profit[2] as a percentage of working funds | **2.58%** | 2.61% |
| Return on assets *(average)* | **1.52%** | 1.48% |
| Business[3] per employee (Rs. Lacs) | **8,65** | 7,78 |
| Profit per employee[4] (Rs. lacs) | **10.09** | 9.75 |
| Percentage of net Non Performing Assets[5] to customer assets[6] | **0.26%** | 0.30% |
| Percentage of net Non Performing Assets to net advances[7] | **0.37%** | 0.50% |

# Schedules to the Accounts - *(Contd.)*

**Definitions:**

1. Working funds is the daily average of total assets during the year.
2. Operating profit = (Interest income + other income – interest expense – operating expense – depreciation on investments)
3. "Business" is the total of net advances and deposits.
4. Productivity ratios are based on average employee numbers.
5. Net NPAs are non performing assets net of interest in suspense, specific provisions and ECGC claims received.
6. Customer assets include gross advances (but net of specific provisions), credit substitutes like debentures, commercial paper and unamortised cost of assets leased out.
7. Net advances are net of bills rediscounted, specific loan loss provisions, interest in suspense and ECGC claims received.

**3 Reserves and Surplus**

**General Reserve**

The Bank has made an appropriation from the Profit and Loss Account balance of Rs. 38,76 lacs out of profits for the year ended March 31, 2003 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975. Previous years appropriation of Rs 58,59 lacs includes Rs 28,88 lacs in respect of earlier years.

**Investment Fluctuation Reserve**

In an effort to create a need for banks to follow prudent policy for utilizing gains realized on sale of investments, the Reserve Bank of India vide its circular no. DBOD.BP.BC.57/21.04.048/2001-02 dated January 10, 2002 issued guidelines on the need to appropriate a minimum of 5% of the investment portfolio to an Investment Fluctuation Reserve over a period of five years. The bank currently carries an Investment Fluctuation Reserve of Rs 240,08 lacs which is 2.51 % of the investment portfolio, excluding investments held to maturity. The bank views this holding to be more than adequate and hence has not made any additions during this year into this reserve.

**Debenture Redemption Reserve**

Pursuant to Section 117C (1) of the Companies Act as amended by Companies (Amendment) Act 2000, companies, were required to create Debenture Redemption Reserve for the redemption of debentures issued after the commencement of this Act. However, the Department of Company Affairs vide its circular number 9/2002 dated April 18, 2002, has clarified that banking companies need not create Debenture Redemption Reserve. In the light of this clarification, the bank has transferred the balance outstanding as of April 1, 2002 in the Debenture Redemption Reserve account of Rs 9,74 lacs to the balance in profit and loss account.

**4 Subordinated Debt**

Subordinated debt outstanding as at March 31, 2003 is a long-term unsecured non-convertible debt aggregating Rs. 200 crores (previous year: Rs 200 crores). This debt is subordinate to present and future senior indebtedness of the Bank and qualifies as Tier 2 risk-based capital under the RBI's guidelines for assessing capital adequacy. Based on the balance term to maturity as at March 31, 2003, only 40% of the book value of subordinated debt is considered as Tier 2 capital for the purpose of capital adequacy computation.

**Conversion clause**

Of the outstanding amount of debt, Rs.150 crores principal amount of subordinated debt issued to certain government owned Indian financial institutions contains a clause, wherein in the event of a default in payment of interest or principal, the primary lender shall have the right to convert, not exceeding 20% of such outstanding interest and principal, into fully paid equity shares at an exercise price equal to the par value of such shares. These provisions are commonly found in loan agreements of this nature. The Bank has never missed any payment on this debt or on any other debt. If the Bank were to default on all such debt and be obligated to issue the maximum number of shares on the basis of the amount outstanding and interest payable till March 31, 2003, such amount would approximately be 295 lac shares (previous year: 296 lac shares).

**5 Other liabilities**

Others in other liabilities include :

- General loan loss provisions of Rs 114,70 lacs (previous year: Rs 117,34 lacs)
- Share application monies received Rs. 14,65 lacs (previous year: Rs. 5,53 lacs) pursuant to the exercise of employee stock options.

# Schedules to the Accounts - *(Contd.)*

**6 Dividend paid on shares issued on exercise of stock options**

The bank has allotted 11,06,500 shares on April 7, 2003, pursuant to the exercise of options. These shares will be eligible for full dividend, if approved at the ensuing Annual General Meeting. This is in accordance with the Employees Stock Option Scheme as amended and approved by the shareholders at the last annual general body meeting.

Dividend pertaining to FY 2001-02 amounting to Rs. 10 lacs, in respect of shares allotted on April 3, 2002 pursuant to exercise of options during the quarter ended March 31, 2002, was paid in 2002-03.

**7. Investments**

Amounts of investments held under the three categories viz. 'Held to Maturity', 'Available for Sale' and 'Held for Trading'. The book values are as under:

(Rs. lacs)

| | As at March 31, 2003 | | | | As at March 31, 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Held for Trading** | **Available for Sale** | **Held to Maturity** | **Total** | Held for Trading | Available for Sale | Held to Maturity | Total |
| Government Securities | **374,68** | **4,074,53** | **1,907,04** | **6,356,25** | 324,74 | 3,638,19 | 1,332,10 | 5,295,03 |
| Other Approved Securities | **—** | **11,84** | **—** | **11,84** | — | 11,84 | — | 11,84 |
| Shares | **—** | **18,84** | **89,55** | **108,39** | — | 145,18 | — | 145,18 |
| Bonds and Debentures | **22,89** | **2,315,64** | **1,828,05** | **4,166,58** | 58,51 | 2,136,29 | 2,073,67 | 4,268,47 |
| Joint Ventures | **—** | **—** | **2,43** | **2,43** | — | — | 89 | 89 |
| Others | **—** | **2,742,59** | **—** | **2,742,59** | — | 2,282,61 | — | 2,282,61 |
| Total | **397,57** | **9,163,44** | **3,827,07** | **13,388,08** | 383,25 | 8,214,11 | 3,406,66 | 12,004,02 |

- Investments as at March 31, 2003 include securities held under reverse repurchase options of Rs. Nil (previous year: Rs. 282,35 lacs).
- Other investments include commercial paper of Rs 595,42 lacs (previous year: Rs 1,196,18 lacs) and investment in securitised paper Rs. 1,918,92 lacs (previous year: Rs. 838,35 lacs).
- The bank has made investments in certain companies where it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as given in paragraph 3 of (AS) 27, Financial Reporting of Interest in Joint Ventures, of the Institute of Chartered Accountants of India, and the said accounting standard is thus not applicable. However, pursuant to Reserve Bank of India circular No. DBOD.NO.BP.BC.3/21.04.141/2002, dated July 11, 2002, the Bank has classified these investments as joint ventures.
- Summary of investment portfolio

(Rs. lacs)

| | **March 31, 2003** | March 31, 2002 |
|---|---|---|
| Gross value of investment | **13,396,66** | 12,010,47 |
| Depreciation in the value of investment | **8,58** | 6,45 |
| Net book value | **13,388,08** | 12,004,02 |

- Book value of equity shares and units is restated at market value, if the year end valuation requires a mark down in that category.

**8. Advances**

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

# Schedules to the Accounts - *(Contd.)*

**9. Other Assets**

Other assets include deferred tax asset (net) of Rs. 19,74 lacs (previous year: Rs. 30,73 lacs). The break up of the same is as follows:

| | | (Rs. lacs) |
|---|---|---|
| | **March 31, 2003** | March 31, 2002 |
| **Deferred tax asset** | | |
| Loan loss provisions | **71,05** | 55,23 |
| Investments | **94** | 96 |
| Others | **6,12** | 6,27 |
| **Total** | **78,11** | 62,46 |
| **Deferred tax Liability** | | |
| Depreciation | **(57,55)** | (31,36) |
| Others | **(82)** | (37) |
| **Total** | **(58,37)** | (31,73) |
| Deferred Tax Asset (net) | **19,74** | 30,73 |

**10. Interest Income**

Interest income under the sub-head income from investments includes dividend received during the year on units, equity and preference shares amounting to Rs.50,79 lacs.(previous year: Rs 37,14 lacs)

**11. Interest Expense**

Other interest expense represents interest on subordinated debt.

**12. Commission, Exchange and Brokerage Income**

Commission, Exchange and Brokerage income includes lease rentals net of equalisation charge and is also net of correspondent bank charges and brokerage paid on purchase and sale of investments.

**13.** Miscellaneous Income includes Rs. 50,85 lacs (previous year: Rs. 24,97 lacs) pertaining to derivative transactions. Other expenditure includes selling expenses Rs 47,10 lacs (previous year: Rs. 32,52 lacs) exceeding 1% of the total income.

As is the market practice, the bank pays commission to sales agents and also receives front-ended subventions from dealers and manufacturers for originating retail loans. The bank has, in line with International Accounting Standards, amortized the commissions paid net of commissions / subventions received, over the tenor of the loans on a yield to maturity basis. Consequently, the net profit after tax for the year ended March 31, 2003 is higher by Rs. 17,96 lacs. Had the bank followed the revised accounting policy in the previous year, then the net profit after tax would have been higher by Rs. 4,44 lacs for the year ended March 31, 2002.

**14. Income taxes**

| | | (Rs. lacs) |
|---|---|---|
| | **2002-2003** | 2001-2002 |
| The income tax expense comprises the following: | | |
| Current income tax expense | **172,26** | 142,72 |
| Deferred income tax expense (benefit) | **10,99** | (14,38) |
| Income tax expense | **183,25** | 128,34 |
| The following is the reconciliation of estimated income taxes at the statutory income tax rate to income tax expense as reported: | | |
| Net income before taxes | **570,85** | 425,38 |
| Effective statutory income tax rate | **36.75%** | 35.70% |
| Expected income tax expense | **209,79** | 151,86 |

# Schedules to the Accounts - *(Contd.)*

| Adjustments to reconcile expected income tax to actual tax expense: | | (Rs. lacs) |
|---|---|---|
| Permanent differences: | | |
| Income exempt from taxes | **(27,31)** | (28,44) |
| Other, net | **17** | 5,33 |
| Effect of change in statutory tax rates – net | **60** | (41) |
| Income tax expense | **183,25** | 128,34 |

Management believes that the realisation of the recognised deferred tax assets is more likely than not based on expectations as to future taxable income.

**15. Maturity pattern of key assets and liabilities**

As at March 31, 2003 (Rs. lacs)

| | 1-14 days | 15-28 days | 29 days - 3 months | Over 3 months to 6 months | Over 6 months to 12 months | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| Loans and Advances | 2,843,10 | 957,17 | 3,379,96 | 1,096,42 | 847,16 | 2,296,50 | 223,22 | 186,33 | 11,829,86 |
| Investments | 2,171,06 | 454,40 | 1,675,21 | 541,34 | 1,271,83 | 5,095,59 | 818,26 | 1,843,39 | 13,871,08 |
| Deposits | 2,040,27 | 1,077,75 | 1,128,12 | 1,168,64 | 3,492,24 | 13,231,48 | 237,57 | — | 22,376,07 |
| Borrowings | 808,79 | 362,20 | 497,50 | 862,69 | — | — | — | 13,47 | 2,544,65 |
| Foreign currency assets | 353,34 | 104,13 | 578,95 | 320,23 | 34,58 | 281,84 | 17,66 | 4,42 | 1,695,15 |
| Foreign currency liabilities | 164,34 | 32,54 | 98,18 | 99,70 | 166,63 | 717,88 | 3 | — | 1,279,30 |

- Assets and liabilities are classified as per the guidelines issued by the Reserve Bank of India.
- Advances are gross of bills rediscounted.
- Investments are grossed up to include repurchase options
- Borrowings include repurchase options.

(Rs. lacs)

**16. Capital Market Exposure**

| **Items** | **March 31, 2003** | March 31, 2002 |
|---|---|---|
| Investments in shares, bonds, debentures & equity oriented mutual funds | **21,27** | 18,62 |
| Advances against shares* | **43,82** | 51,12 |
| Other funded exposures | **1,46** | 12,21 |
| Non fund exposures | **319,27** | 340,78 |
| **Total** | **385,82** | 422,73 |
| **Advance reckoned for capital market exposure**** | **8,197,92** | 5,630,23 |
| **Capital market exposure as a ratio of advances (%)** | **4.71%** | 7.51% |

* Advance against shares does not include advances to individuals against collateral of shares for personal purposes like education, housing, consumption etc. of Rs. 319,10 lacs (previous year: Rs 273,26 lacs) in line with the guidelines issued by the Reserve Bank of India vide its circular DBOD.BP.BC.119/21.04.137/2000-2001.

** Advance reckoned for capital market is net of bills refinance and includes investment in commercial paper. Advance so reckoned is the amount outstanding at the end of the previous year.

# Schedules to the Accounts - *(Contd.)*

**17. Lending to other sensitive sectors** (Rs. lacs)

| | As at March 31, 2003 | As at March 31, 2002 |
|---|---|---|
| Real Estate Sector | **2,41** | 6,82 |
| Commodities Sector | **320,52** | 152,00 |
| **Total** | **322,93** | 158,82 |

**18. Financing of equities and investments in shares** (Rs. lacs)

| | As at March 31, 2003 | As at March 31, 2002 |
|---|---|---|
| Equity Shares | **21,27** | 18,62 |
| Preference Shares | **89,55** | 127,45 |
| Advance against shares | **362,92** | 324,38 |
| **Total** | **473,74** | 470,45 |

Advance against shares includes advances to individuals for personal purposes like education, housing, consumption etc., against security of shares of Rs. 319,10 lacs (previous year Rs. 273,26 lacs) which should be excluded for reckoning the Bank's aggregate exposure to the captial markets.

**19. Movements in NPAs (funded)** (Rs. lacs)

| **Gross NPAs** | 2002-2003 | 2001-2002 |
|---|---|---|
| As at 1 April | **222,86** | 146,79 |
| Additions during the year | **106,41** | 91,19 |
| Deductions during the year | **63,82** | 15,12 |
| As at 31 March | **265,45** | 222,86 |
| **Provisions** | | |
| As at 1 April | **188,50** | 126,09 |
| Add: Provisions made during the year | **88,30** | 85,40 |
| Less: Write-off, write back of excess provision during the year | **54,27** | 22,99 |
| As at 31 March | **222,53** | 188,50 |
| **Net NPAs as at 31 March** | **42,92** | 34,36 |

*Movements in retail assets have been computed at a portfolio level.*

# Schedules to the Accounts - *(Contd.)*

| | | 2002 – 2003 | (Rs. lacs) 2001-2002 |
|---|---|---|---|
| **20.** | **Loan Restructured :** | | |
| | Total amount of loans subjected to restructuring | **10,81** | — |
| | *Of which* : Standard assets subjected to restructuring | **9,24** | — |
| | Substandard assets subjected to restructuring | **1,47** | — |
| | *(Substandard assets subjected to restructuring have been fully provided for.)* | | |

| | | 2002 – 2003 | (Rs. lacs) 2001-2002 |
|---|---|---|---|
| **21.** | **Movement in provisions for depreciation on investments:** | | |
| | As at 1 April | **6,45** | 9,10 |
| | Add: Provisions made during the year | **4,58** | 5,18 |
| | Less: Write-off, write back of excess provision during the year | **2,45** | 7,83 |
| | As at 31 March | **8,58** | 6,45 |

**22. Related Party Transactions**

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

**List of related parties:**

**Promoter**
Housing Development Financial Corporation Ltd. (HDFC Ltd.)

**Enterprises under common control of the promoter**
HDFC Asset Management Company Ltd.
HDFC Standard Life Insurance Company Ltd.
HDFC Developers Ltd.
HDFC Holdings Ltd.
HDFC Investments Ltd.
HDFC Trustee Company Ltd.
GRUH Finance Ltd.
HDFC Realty Ltd.
HDFC Chubb General Insurance Company Ltd.
Intelenet Global Services Ltd.

**Associates**
Computer Age Management Services Private Ltd.
Acsys Software (India) Private Ltd.('Acsys') (As at 31 March, 2003, the Bank did not have any holdings in Acsys.)
SolutionNET India Private Ltd. (Formerly Net Savvy Solutions Ltd.)
Softcell Technologies Ltd.
HDFC Securities Limited
Atlas Documentary Facilitators Company Private Ltd.
Flexcel International Private Ltd.
HBL Global Private Ltd.

**Key Management Personnel**
Aditya Puri, Managing Director

**Related Party to Key Management Personnel**
Salisbury Investments Pvt. Ltd.

# Schedules to the Accounts - *(Contd.)*

The Bank's related party balances and transactions are summarised as follows: (Rs. lacs)

| Items/Related Party | Promoter | Enterprises under common control of the Promoter | Associates | Key Management Personnel | Related party to Key Management Personnel | Total |
|---|---|---|---|---|---|---|
| Accounts Payable | – | – | 61 | – | – | 61 |
| Placement of deposits – Premises | 2 | 17 | – | – | 2,10 | 2,29 |
| Placement of deposits – Others | – | – | 4,60 | – | – | 4,60 |
| Accounts Receivable | – | – | 17 | – | – | 17 |
| Investments | – | – | 6,40 | – | – | 6,40 |
| Purchase of fixed assets | – | – | 4,30 | – | – | 4,30 |
| Rendering of services | – | 2,97 | 2 | – | – | 2,99 |
| **Receiving of services** | | | | | | |
| a) Outsourcing | – | – | 6,078 | – | – | 6,078 |
| b) Maintenance & Service charges | 18 | 6 | – | – | – | 24 |
| c) Rent | 57 | 28 | 64 | – | 11 | 1,60 |
| Management contracts | – | – | – | 80 | – | 80 |

## 23. Segment reporting

The Bank operates in three segments: wholesale banking, retail banking and treasury services. (See Principal Accounting Policy B-12).

(Rs. lacs)

| | | 2002-2003 | 2001-2002 |
|---|---|---|---|
| Summary of the three operating segments of the Bank are: | | | |
| 1. | **Segment Revenue** | | |
| a) | Wholesale Banking | **1,797,71** | 1,606,45 |
| b) | Retail Banking | **1,931,44** | 1,487,44 |
| c) | Treasury | **424,99** | 405,41 |
| | Total | **4,154,14** | 3,499,30 |
| | Less: Inter Segment Revenue | **1,658,07** | 1,463,06 |
| | Income from Operations | **2,496,07** | 2,036,24 |
| 2. | **Segment Results** | | |
| a) | Wholesale Banking | **272,22** | 207,80 |
| b) | Retail Banking | **143,33** | 104,92 |
| c) | Treasury | **155,30** | 112,66 |
| | Total Profit Before Tax | **570,85** | 425,38 |
| | Income tax | **(172,26)** | (142,72) |
| | Deferred tax | **(10,99)** | 14,38 |
| | Total Result | **387,60** | 297,04 |

# Schedules to the Accounts - *(Contd.)*

| | | | (Rs. lacs) |
|---|---|---|---|
| | | **2002 – 2003** | 2001 - 2002 |
| 3. | **Capital Employed** | | |
| | Segment assets | | |
| | a) Wholesale Banking | **17,633,99** | 15,553,24 |
| | b) Retail Banking | **9,977,03** | 5,211,98 |
| | c) Treasury | **2,699,52** | 2,504,86 |
| | d) Unallocated | **113,54** | 517,30 |
| | Total Assets | **30,424,08** | 23,787,38 |
| | Segment liabilities | | |
| | a) Wholesale Banking | **10,476,95** | 8,031,63 |
| | b) Retail Banking | **15,847,13** | 11,532,87 |
| | c) Treasury | **1,737,50** | 1,722,46 |
| | d) Unallocated | **2,362,50** | 2,500,42 |
| | Total Liabilities | **30,424,08** | 23,787,38 |
| | Net Segment assets / liabilities | | |
| | a) Wholesale Banking | **7,157,04** | 7,521,61 |
| | b) Retail Banking | **(5,870,10)** | (6,320,89) |
| | c) Treasury | **962,02** | 782,40 |
| | d) Unallocated | **(2,248,96)** | (1,983,12) |
| | **Other information** | | |
| 4. | **Capital Expenditure** | | |
| | a) Wholesale Banking | **41,73** | 22,33 |
| | b) Retail Banking | **205,13** | 119,04 |
| | c) Treasury | **20,93** | 26,90 |
| | Total | **267,79** | 168,27 |
| 5. | **Depreciation** | | |
| | a) Wholesale Banking | **20,54** | 13,21 |
| | b) Retail Banking | **77,14** | 47,10 |
| | c) Treasury | **8,46** | 8,71 |
| | Total | **106,14** | 69,02 |

| **24. Derivatives :** | **March 31, 2003** | March 31, 2002 |
|---|---|---|
| **Interest Rate Swaps:** | | |
| *Notional Principal:* | ***17,484,17*** | *3,980,96* |
| *Fair Value:* | ***20,20*** | *(1,60)* |
| *Default Risk:* Losses, which would be incurred if the counters parties failed to fulfil their obligations under the agreements | **113,76** | 11,55 |

*Credit Risk Concentration:* Rupee Interest Rate Swaps to the extent of 85% (previous year : 77%) have been contracted with banks.

The above excludes interest rate swaps embedded in cross currency interest rate swaps. Notional value of such swaps is Rs. 428,98 lacs.

There were no Forward Rate Agreements (FRAs) outstanding as at 31 March, 2003.

As per prevailing market practice, collateral is not insisted upon from the counter party.

Interest rate swaps are reported as off balance sheet exposures. The swaps are bifurcated as trading or hedged swaps. Trading swaps are valued with only the resulting unrealised loss on the overall swap portfolio being accounted for in the Profit & Loss account. Hedged swaps are accounted for on an accrual basis.

**25. Comparative figures**

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

# Schedules to the Accounts - *(Contd.)*

## PRINCIPAL ACCOUNTING POLICIES

### A BASIS OF PREPARATION

The financial statements are prepared on the historical cost convention, on the accrual basis of accounting, and conform to statutory provisions and practices prevailing within the banking industry in India.

### B SIGNIFICANT ACCOUNTING POLICIES

**1 Investments**

In accordance with the Reserve Bank of India guidelines, Investments are classified into "Held for trading", "Available for sale" and "Held to maturity" categories (hereafter called "categories"). However, for disclosure in the Balance Sheet, these are classified under six groups (hereafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint Ventures and Other Investments.

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

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

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

**Basis of classification :**

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

Investments that the Bank intends to hold to maturity are classified as "Held to maturity". These are carried at acquisition cost, unless acquired at a premium, which is amortised over the period remaining to maturity.

Securities which are not be classified in the above categories, are classified as "Available for Sale".

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

**Transfer of security between categories :**

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

**Valuation :**

- *Held for trading and Available for Sale categories :*
  Each scrip in the above two categories is revalued at the market price or fair value and only the net depreciation of each group for each category is recognised in the profit and loss account.
- *Held to maturity :*
  These are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the balance maturity of the security on a straight line basis.

The valuation of investments is made in accordance with the Reserve Bank of India's guidelines.

**2. Advances**

Advances are recognised as non-performing based on RBI guidelines. Interest on non-performing advances is credited to an interest suspense account and not recognised in the profit and loss account until received.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in RBI guidelines.

The Bank also maintains general provisions to cover potential credit losses which are inherent in any loan portfolio but, not yet identified. These general provisions are linked to projected delinquencies for retail loans and other advances managed on a product program basis. For corporate standard assets, general

provisions are determined having regard to overall portfolio quality, asset growth, economic conditions and other risk factors.

**3 Fixed assets and depreciation**

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

Depreciation is charged over the estimated useful life of the fixed asset on a straight line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are:

- Improvements to lease hold premises are charged off over the primary period of lease.
- VSATs at 10% per annum
- ATMs at 12.5% per annum
- Office equipment at 16.21% per annum
- Computer hardware at 33.33% per annum
- Motor cars at 25% per annum
- Software and System development expenditure 25% per annum
- Assets at residences of executives of the Bank at 25% per annum
- Items costing less than Rs 5,000/- are fully depreciated in the year of purchase
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

**4 Transactions involving foreign exchange**

Foreign currency assets and liabilities are translated at the balance sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI).

Foreign exchange contracts (other than deposit and placement swaps) outstanding at the balance sheet date are revalued at rates notified by FEDAI and resulting profits or losses are included in the Profit and Loss account. Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the ruling spot rate at the time of swap. The premium/discount on the swap arising out of the difference in the exchange rate on the swap (spot) date and the maturity date of the underlying forward contract, is amortised over the period of the swap and the same is recognised as interest income/expense.

Contingent liabilities at the balance sheet date on account of outstanding foreign exchange contracts are reported at contracted rates.

Income and expenditure items are accounted for at exchange rates ruling on the date of the transaction.

**5 Lease accounting**

Lease income is recognised based on the Internal Rate of Return method over the primary period of the lease and accounted for in accordance with the (AS) 19, Leases, issued by the Institute of Chartered Accountants of India.

**6 Retirement Benefits**

*Gratuity*

The Bank provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides for lump sum payments to vested employees at retirement, death while in employment or on termination of employment in an amount equivalent to 15 days salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to a fund administered by trustees and managed by the Life Insurance Corporation of India (" LIC" ) for an amount notified by the LIC. The Bank accounts for the liability for future gratuity benefits based on an external actuarial valuation carried out annually.

*Superannuation*

Employees of the Bank above a prescribed grade are entitled to receive retirement benefits under the Bank's superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee's eligible annual salary to the LIC, who

administer the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognises such contributions as an expense in the year incurred.

*Provident fund*
In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of employee's salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees. The Bank has no liability for future provident fund benefits other than its annual contribution, and recognises such contributions as an expense in the year incurred.

The Bank does not have a policy of providing leave encashment to its employees.

**7. Fees and commission income**
Fees and commission income is recognised when due, except for guarantee commission which is recognised over the period of the guarantee.

Effective FY 2002-03, non volume based subvented income from dealers and manufacturers for originating retail loans is amortized, over the tenor of the loans on a yield to maturity basis.

**8. Acquisition costs**
Effective FY 2002-03, commission paid to sales agents for originating retail loans is amortized, over the tenor of the loans on a yield to maturity basis.

**9. Credit cards reward points**
Provision for credit card reward points is based on their expected redemption value as per prevailing market practice.

**10. Income tax**
Income tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognised for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets are recognised subject to management's judgement that realisation is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income statement in the period of enactment of the change.

**11. Earnings per share**
The Bank reports basic and diluted earnings per equity share in accordance with (AS) 20, Earnings Per Share issued by the Institute of Chartered Accountants of India. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

**12. Segment Information – Basis of preparation**
The Bank operates in three segments: wholesale banking, retail banking and treasury services. Segments have been identified and reported taking into account the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the internal business reporting systems.

The wholesale banking segment provides loans and transaction services to corporate and institutional customers. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers, investment income from commercial paper, debentures and bonds, interest earned on the cash float arising from transaction services, fees from such transaction services and also trading operations on behalf of corporate customers in debt, foreign exchange and derivatives segment. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment primarily comprise interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account, foreign exchange operations and derivatives trading. Revenues of the treasury services segment primarily consist of fees and gains or losses from trading operations.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments.

Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment.

Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market discovered interest rates. Transaction charges are made by the retail banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels, such transaction costs are determined on a cost plus basis.

Segment capital employed represents the net assets in that segment. It excludes capital and tax related assets.

*Geographic Segments*

Since the Bank does not have material earnings emanating outside India, the Bank is considered to operate in only the domestic segment.

**13. Net Profit**

The net profit in the profit and loss account is after provision for any depreciation in the value of investments, provision for taxation and other necessary provisions.

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For and on behalf of the Board

**JAGDISH CAPOOR**
*Chairman*

**ADITYA PURI**
*Managing Director*

**SANJAY DONGRE**
*Vice President (Legal) & Company Secretary*

**KEKI M. MISTRY**
**Dr. (Mrs.) AMLA SAMANTA**
**ANIL AHUJA**
**Dr. VENKAT RAO GADWAL**
**RENU KARNAD**
**ARVIND PANDE**
*Directors*

Mumbai, 15 April, 2003

# Cash Flow Statement for the year ended 31 March, 2003

(Rs lacs)

| | 2002-2003 | 2001-2002 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit before income tax | **570,85** | 425,38 |
| *Adjustment for:* | | |
| Depreciation charge for the year *(including lease equalisation charge)* | **109,70** | 76,00 |
| Depreciation and amortisation of premia on investments | **52,57** | 19,16 |
| Loan Loss provisions | **88,39** | 85,77 |
| ESOS compensation lapsed | **(12)** | (54) |
| Contingency provision | **—** | 14,06 |
| (Profit)/Loss on sale of fixed assets | **(1,08)** | 81 |
| | **820,31** | 620,64 |
| *Adjustments for :* | | |
| (Increase) in Investments | **(1,436,63)** | (4,875,54) |
| (Increase) in Advances | **(5,029,53)** | (2,262,83) |
| Increase in Borrowings | **261,63** | 590,12 |
| Increase in Deposits | **4,722,26** | 5,995,70 |
| (Increase) in Other assets net of opening deferred tax adjustment | **(403,13)** | (180,26) |
| Increase in Other liabilities and provisions | **1,317,79** | 520,42 |
| Increase in Deposit Placements | **(774,74)** | — |
| | **(522,04)** | 408,25 |
| Direct taxes paid | **(237,47)** | (148,70) |
| **Net cash flow from operating activities** | **(759,51)** | 259,55 |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | **(253,43)** | (168,27) |
| Proceeds from sale of fixed assets | **1,69** | 10,10 |
| Long term investments | **—** | (2,50) |
| **Net cash used in investing activities** | **(251,74)** | (160,67) |

# Cash Flow Statement for the year ended 31 March, 2003 - *(Contd.)*

(Rs lacs)

| | 2002-2003 | 2001-2002 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares abroad net of underwriting commission - nil (previous year - Rs. 32,50 lacs) | — | 780,34 |
| Money received on exercise of stock options by employees | 17,98 | 10,25 |
| Dividend provided last year paid during the year | (70,34) | (53,69) |
| Dividend paid during the year on Stock Option exercised during the previous year | (10) | — |
| **Net cash generated from financing activities** | (52,46) | 736,90 |
| **Net increase/(decrease) in cash and cash equivalents** | (1,063,71) | 835,78 |
| **Cash and cash equivalents at 1 April, 2002** | 3,458,19 | 2,622,41 |
| **Cash and cash equivalents as at 31 March, 2003** | 2,394,48 | 3,458,19 |

In terms of our report of even date attached.

For **P. C. HANSOTIA & CO.**
*Chartered Accountants*

**N. P. SARDA**
*Partner*

Mumbai, 15 April, 2003

For and on behalf of the Board

**JAGDISH CAPOOR**
*Chairman*

**ADITYA PURI**
*Managing Director*

**SANJAY DONGRE**
*Vice President (Legal) & Company Secretary*

**KEKI M. MISTRY**
**Dr. (Mrs.) AMLA SAMANTA**
**ANIL AHUJA**
**Dr. VENKAT RAO GADWAL**
**RENU KARNAD**
**ARVIND PANDE**
*Directors*

The following balance sheets, statements of income, statements of cashflows, statements of shareholders' equity have been extracted from US GAAP financial statements.

For the readers' convenience, we have also provided a reconciliation of net profit as reported in statutory financial statements prepared in accordance with Indian GAAP to the net income as determined in accordance with US GAAP.

By order of the Board

**Vinod Yennemadi**
*Country Head - Finance,*
*Administration & Secretarial*

# Summarised US GAAP Financial Statements

## BALANCE SHEETS

### As of March 31, 2002 and 2003

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | (In millions) | |
| **ASSETS:** | | | |
| Cash and cash equivalents | Rs. 34,590.6 | Rs. 23,944.9 | US$ 503.8 |
| Term placements | — | 7,747.4 | 163.0 |
| Investments held for trading | 3,837.6 | 3,976.1 | 83.7 |
| Investments available for sale | 80,320.6 | 98,929.2 | 2,081.4 |
| Investments held to maturity | 35,429.9 | 38,426.7 | 808.5 |
| Securities purchased under agreements to resell | 2,823.5 | — | — |
| Loans (net of allowance of Rs 1,605.9 and Rs. 1,866.7, respectively) | 71,528.9 | 118,299.9 | 2,488.9 |
| Accrued interest receivable | 4,084.0 | 6,283.8 | 132.2 |
| Property and equipment | 3,658.1 | 5,277.5 | 111.0 |
| Other assets | 6,759.0 | 8,955.2 | 188.4 |
| Total assets | Rs. 243,032.2 | Rs. 311,840.7 | US$ 6,560.9 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | | |
| **Liabilities** | | | |
| Interest-bearing deposits | Rs. 134,336.3 | Rs. 174,250.4 | US$ 3,666.1 |
| Non-interest bearing deposits | 42,201.8 | 49,509.6 | 1,041.6 |
| Total deposits | 176,538.1 | 223,760.0 | 4,707.7 |
| Securities sold under repurchase agreements | 643.9 | 4,600.0 | 96.8 |
| Short-term borrowings | 21,600.3 | 21,579.6 | 454.0 |
| Accrued interest payable | 4,178.5 | 6,897.3 | 145.1 |
| Long-term debt | 2,157.9 | 2,116.0 | 44.5 |
| Accrued expenses and other liabilities | 15,852.6 | 26,774.7 | 563.5 |
| Total liabilities | 220,971.3 | 285,727.6 | 6,011.6 |
| Contingencies | — | — | — |
| **Shareholders' equity:** | | | |
| Equity shares: par value—Rs.10 each | | | |
| Authorized 450,000,000 shares; issued and outstanding 279,032,838 shares and 279,718,938 shares | 2,790.3 | 2,797.2 | 58.8 |
| Additional paid in capital | 11,679.1 | 11,758.9 | 247.4 |
| Advance received pending allotment of shares | — | 146.5 | 3.1 |
| Retained earnings | 4,684.8 | 6,532.1 | 137.4 |
| Statutory reserve | 2,280.9 | 3,249.9 | 68.4 |
| Deferred stock based compensation | (198.2) | (60.2) | (1.3) |
| Accumulated other comprehensive income | 824.0 | 1,688.7 | 35.5 |
| Total shareholders' equity | 22,060.9 | 26,113.1 | 549.3 |
| Total liabilities and shareholders' equity | Rs. 243,032.2 | Rs. 311,840.7 | US$ 6,560.9 |

## STATEMENTS OF INCOME

**For each of the years ended March 31, 2001, 2002 and 2003**

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2003** |
| | **(In millions, except per share amounts)** | | | |
| Interest and dividend revenue: | | | | |
| Loans | Rs. 4,898.1 | Rs. 6,130.7 | Rs. 7,805.3 | US$ 164.2 |
| Trading account | — | 218.7 | 478.9 | 10.1 |
| Securities, including dividend | 6,355.9 | 7,947.7 | 9,907.2 | 208.4 |
| Other | 1,307.5 | 2,150.9 | 1,233.4 | 25.9 |
| Total interest revenue | 12,561.5 | 16,448.0 | 19,424.8 | 408.6 |
| Interest Expense: | | | | |
| Deposits | 6,390.8 | 9,158.5 | 10,631.3 | 223.7 |
| Short-term borrowings | 947.1 | 1,328.1 | 973.1 | 20.5 |
| Long-term debt | 235.5 | 275.9 | 297.6 | 6.3 |
| Total interest expense | 7,573.4 | 10,762.5 | 11,902.0 | 250.5 |
| Net interest revenue | 4,988.1 | 5,685.5 | 7,522.8 | 158.1 |
| Allowance for credit losses, net | 247.0 | 451.6 | 741.5 | 15.6 |
| Net interest revenue after allowance for credit losses | 4,741.1 | 5,233.9 | 6,781.3 | 142.5 |
| Non-interest revenue, net: | | | | |
| Fees and commissions | 1,302.1 | 1,620.5 | 2,306.4 | 48.5 |
| Trading account | — | 600.9 | 507.8 | 10.7 |
| Realized gains (losses) on sales of securities, net | (74.2) | 344.4 | 721.7 | 15.2 |
| Foreign exchange transactions | 252.5 | 391.4 | 445.3 | 9.4 |
| Derivative transactions | 146.0 | 249.7 | 501.9 | 10.6 |
| Other, net | 0.7 | 8.2 | 37.0 | 0.8 |
| Total non-interest revenue, net | 1,627.1 | 3,215.1 | 4,520.1 | 95.2 |
| Total revenue, net | 6,368.2 | 8,449.0 | 11,301.4 | 237.7 |
| Non-interest expense: | | | | |
| Salaries and staff benefits | 918.5 | 1,184.6 | 1,661.2 | 35.0 |
| Premises and equipment | 656.5 | 913.8 | 1,343.6 | 28.3 |
| Depreciation and amortization | 538.8 | 675.7 | 1,052.4 | 22.1 |
| Administrative and other | 1,048.7 | 1,421.9 | 2,000.7 | 42.1 |
| Total non-interest expense | 3,162.5 | 4,196.0 | 6,057.9 | 127.5 |
| Income before income tax | 3,205.7 | 4,253.0 | 5,243.5 | 110.2 |
| Income tax | 1,065.1 | 1,294.6 | 1,729.7 | 36.4 |
| Net income | Rs. 2,140.6 | Rs. 2,958.4 | Rs. 3,513.8 | US$ 73.8 |
| Per share information: | | | | |
| Earnings per equity share—basic | Rs. 8.97 | Rs. 11.10 | Rs. 12.57 | US$ 0.26 |
| Earnings per equity share—diluted | Rs. 8.87 | Rs. 11.04 | Rs. 12.51 | US$ 0.26 |
| Per ADS information (where 1 ADS represents 3 shares): | | | | |
| Earnings per ADS—basic | — | Rs. 33.30 | Rs.37.71 | US$ 0.78 |
| Earnings per ADS—diluted | — | Rs. 33.12 | Rs.37.53 | US$ 0.78 |

## STATEMENTS OF CASH FLOWS

**For each of the years ended March 31, 2001, 2002 and 2003**

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | (In millions) | | | |
| **Cash flows from operating activities:** | | | | |
| Net income | Rs.2,140.6 | Rs.2,958.4 | Rs.3,513.8 | US$ 73.8 |
| Adjustment to reconcile net income to net cash provided by operating activities : | | | | |
| Allowance for credit losses | 247.0 | 451.6 | 741.5 | 15.6 |
| Depreciation and amortization | 538.8 | 675.7 | 1,052.4 | 22.1 |
| Amortization of deferred stock based compensation | 135.0 | 89.8 | 138.0 | 2.9 |
| Amortization of deferred acquisition costs | 14.9 | 46.7 | 66.3 | 1.4 |
| Amortization of investments | — | 499.2 | 761.6 | 16.0 |
| Provision for deferred income taxes | 15.7 | (105.6) | (102.8) | (2.2) |
| Accrued interest income | (688.7) | (1,774.1) | (2,199.9) | (46.2) |
| Net realized (gain) loss on sale of available for sale securities | 74.2 | (344.4) | (721.7) | (15.2) |
| Accrued interest expense | 1,896.5 | 1,214.8 | 2,718.6 | 57.3 |
| Loss/(gain) on disposal of property and equipment, net | 6.0 | 8.1 | (10.8) | (0.2) |
| Net change in: | | | | |
| Other assets | (1,933.8) | 347.5 | (2,406.2) | (50.6) |
| Other liabilities | 4,328.7 | 4,340.9 | 11,075.2 | 233.0 |
| Trading account assets | — | (3,837.6) | (138.5) | (2.9) |
| Net cash provided by operating activities | 6,774.9 | 4,571.0 | 14,487.5 | 304.8 |
| **Cash flows from investing activities:** | | | | |
| Net change in term placements | — | — | (7,747.4) | (163.1) |
| Activity in available for sale securities: | | | | |
| Purchases | (157,509.6) | (300,993.8) | (382,916.3) | (8,056.3) |
| Proceeds from sales | 133,665.8 | 243,462.6 | 341,254.1 | 7,179.8 |
| Maturities, prepayments and calls | 12,430.5 | 25,514.1 | 24,209.6 | 509.4 |
| Activity in held to maturity securities: | | | | |
| Purchases | — | (23,281.5) | (56,274.0) | (1,184.0) |
| Maturities, prepayments and calls | — | 10,213.3 | 52,896.0 | 1,112.9 |
| Net change in repos and reverse repos | (2,463.4) | (722.7) | 6,779.6 | 142.6 |
| Increase in loans originated, net of principal collections | (15,271.7) | (20,897.3) | (47,512.5) | (999.6) |
| Additions to property and equipment | (1,150.7) | (1,682.6) | (2,533.5) | (53.2) |
| Proceeds from sale or disposal of property and equipment | 16.9 | 101.0 | 16.2 | 0.3 |
| Net cash used in investing activities | (30,282.2) | (68,286.9) | (71,828.2) | (1,511.2) |

## STATEMENTS OF CASH FLOWS (Contd.)

**For each of the years ended March 31, 2001, 2002 and 2003**

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | (In millions) | | | |
| **Cash flows from financing activities:** | | | | |
| Net increase in deposits | 32,303.9 | 59,957.0 | 47,221.9 | 993.5 |
| Net increase/(decrease) in short-term borrowings | 936.5 | 4,929.1 | (20.7) | (0.4) |
| Proceeds from issuance of long-term debt | 595.6 | — | — | — |
| Repayments of long-term debt. | (95.0) | (62.7) | (41.9) | (0.9) |
| Proceeds from issuance of equity shares and ADSs | 57.0 | 7,890.6 | 86.7 | 1.8 |
| Proceeds from application received for shares pending allotment | — | — | 146.5 | 3.1 |
| Payment of dividends and dividend tax | (351.5) | (528.6) | (697.5) | (14.7) |
| Net cash provided by financing activities | 33,446.5 | 72,185.4 | 46,695.0 | 982.4 |
| Net change in cash flows | 9,939.2 | 8,469.5 | (10,645.7) | (224.0) |
| Cash and cash equivalents, beginning of year | 16,181.9 | 26,121.1 | 34,590.6 | 727.8 |
| **Cash and cash equivalents, end of year** | Rs.26,121.1 | Rs.34,590.6 | Rs.23,944.9 | US$ 503.8 |
| **Supplementary cash flow information:** | | | | |
| Interest paid | Rs. 5,641.0 | Rs. 9,547.7 | Rs. 9,183.4 | US$ 193.2 |
| Income taxes paid | Rs. 1,426.8 | Rs. 1,487.0 | Rs. 2,374.7 | US$ 50.0 |
| **Supplementary information on non cash transactions:** | | | | |
| Investments transferred from available for sale to held to maturity category | — | Rs. 22,627.0 | — | — |
| Investments transferred from held to maturity to available for sale category | — | — | Rs. 450.0 | US$ 9.5 |
| Investments transferred from held for trading to available for sale category | — | — | Rs.1,162.3 | US$ 24.5 |

## STATEMENTS OF SHAREHOLDERS' EQUITY

### For each of the years ended March 31, 2001, 2002 and 2003

| | Number of equity shares | Equity share capital | Additional paid in capital capital | Advance received pending allotment of shares | Retained earnings | Statutory reserve | Deferred stock based compensation | Accumulated other comprehensive income (loss) | Total Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions, except for equity shares) | | | | | |
| **Balance at March 31, 2000** | 238,130,261 | Rs. 2,381.3 | Rs. 3,916.2 | Rs. — | Rs. 1,733.8 | Rs. 1,013.0 | Rs. (198.7) | Rs. (102.3) | Rs. 8,743.3 |
| Shares purchased by EWT Plan (See Note 18) | (48,375) | (0.5) | (9.5) | | | | | | (10.0) |
| Shares issued upon exercise of options | 1,656,400 | 16.5 | 50.5 | | | | | | 67.0 |
| Net income | | | | | 2,140.6 | | | | 2,140.6 |
| Dividends, including dividend tax | | | | | (351.5) | | | | (351.5) |
| Amortization of deferred stock based compensation | | | | | | | 135.0 | | 135.0 |
| Transfer to statutory reserve | | | | | (525.3) | 525.3 | | | — |
| Unrealized gain on available for sale securities, net | | | | | | | | 35.4 | 35.4 |
| **Balance at March 31, 2001** | 239,738,286 | 2,397.3 | 3,957.2 | — | 2,997.6 | 1,538.3 | (63.7) | (66.9) | 10,759.8 |
| Shares issued upon exercise of options | 1,875,900 | 18.8 | 68.3 | | | | | | 87.1 |
| Shares issued as ADSs upon IPO in the United States (See Note 19 ) | 37,418,652 | 374.2 | 7,429.3 | | | | | | 7,803.5 |
| Net income | | | | | 2,958.4 | | | | 2,958.4 |
| Dividends, including dividend tax | | | | | (528.6) | | | | (528.6) |
| Stock options issued | | | 224.3 | | | | (224.3) | | — |
| Amortization of deferred stock based compensation | | | | | | | 89.8 | | 89.8 |

## STATEMENTS OF SHAREHOLDERS' EQUITY

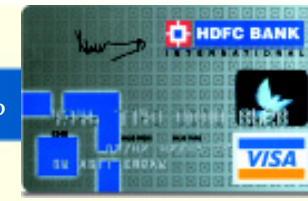
### For each of the years ended March 31, 2001, 2002 and 2003

| | Number of equity shares | Equity share capital | Additional paid in capital capital | Advance received pending allotment of shares | Retained earnings | Statutory reserve | Deferred stock based compensation | Accumulated other comprehensive income (loss) | Total Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions, except for equity shares) | | | | | |
| Transfer to statutory reserve ..... | | | | | (742.6) | 742.6 | | | — |
| Unrealized gain on available for sale securities, net ..... | | | | | | | | 890.9 | 890.9 |
| **Balance at March 31, 2002 .....** | 279,032,838 | 2,790.3 | 11,679.1 | — | 4,684.8 | 2,280.9 | (198.2) | 824.0 | 22,060.9 |
| Shares issued upon exercise of options ..... | 686,100 | 6.9 | 79.8 | | | | | | 86.7 |
| Net income ..... | | | | | 3,513.8 | | | | 3,513.8 |
| Dividends, including dividend tax . | | | | | (697.5) | | | | (697.5) |
| Advance paid pending allotment of shares ..... | | | | 146.5 | | | | | 146.5 |
| Amortization of deferred stock based compensation ..... | | | | | | | 138.0 | | 138.0 |
| Transfer to statutory reserve ..... | | | | | (969.0) | 969.0 | | | |
| Unrealized gain on available for sale securities, net ..... | | | | | | | | 864.7 | 864.7 |
| **Balance at March 31, 2003** ..... | 279,718,938 | Rs. 2,797.2 | Rs. 11,758.9 | Rs. 146.5 | Rs. 6,532.1 | Rs. 3,249.9 | Rs. (60.2) | Rs. 1,688.7 | Rs. 26,113.1 |
| **Balance at March 31, 2003** ..... | | US$ 58.8 | US$ 247.4 | US$ 3.1 | US$ 137.4 | US$ 68.4 | US$ (1.3) | US$ 35.5 | US$ 549.3 |

Rs. 10 lacs = Rs. 1 million

# Summarised US GAAP Financial Statements - *(Contd.)*

| Reconciliation of net profit/income as per Indian GAAP and US GAAP | | |
|---|---|---|
| | | **(In Rs million)** |
| Particulars | Results for the year ended 31-03-2003 | Results for the year ended 31-03-2002 |
| **Net profit as per Indian GAAP** | **3,876.0** | **2,970.4** |
| Adjustments to: | | |
| Investments | (302.6) | (379.3) |
| Loan loss provsions | 44.8 | 406.1 |
| Affiliates | (10.3) | 18.2 |
| Stock options | (136.9) | (89.8) |
| Deferred tax | 102.8 | (11.2) |
| Others | (60.0) | 44.0 |
| **Net income as per US GAAP** | **3,513.8** | **2,958.4** |




# Corporate Governance

## AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

**To the Members of**
**HDFC Bank Limited**

We have examined the compliance of conditions of corporate governance by **HDFC Bank Limited** for the year ended on 31st March, 2003 as stipulated in clause 49 of the Listing Agreement of the said Bank with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of corporate governance as stipulated in the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that no investor grievance is pending for a period exceeding one month against the Bank as per the records maintained by the Shareholders and Investors' Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the Management has conducted the affairs of the Bank.

For **P. C. HANSOTIA & CO.**
*Chartered Accountants*

**N. P. Sarda**
*Partner*

Mumbai, 17 April, 2003.

# Corporate Governance - *(Contd.)*

## PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE :

The Philosophy on Corporate Governance aims at attainment of the highest levels of transparency, accountability and equity in the functioning of the Bank vis-a-vis interactions with employees, shareholders, creditors, depositors and customers. The objective of the Bank is not only to meet the statutory requirements of the code but also go well beyond it by instituting such systems and procedures as are in accordance with the latest global trend of making management completely transparent and institutionally sound.

## BOARD OF DIRECTORS :

The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and clause 49 of the Listing Agreement. The Board has a strength of 9 directors as on 31 March, 2003. The Board has a combination of executive and non-executive Directors. Mr. Jagdish Capoor, continues to be the non-executive Chairman and more than one half of the total number of directors are independent directors.

The Board consists of eminent persons with considerable professional expertise and experience in banking, finance and other related fields as specified in the Banking Regulation Act, 1949. As required by the said Act, the Board also has two directors viz. Dr. (Mrs.) Amla Samanta and Dr. Venkat Rao Gadwal with specialized knowledge and experience in the small scale industry and agricultural sector respectively.

None of the directors on the Board is a member of more than ten committees and chairman of more than five committees in all the companies in which he/she is a director. All the directors have made disclosures regarding their membership on various committees in other companies.

Two directors, Mrs. Renu Karnad and Mr. Keki Mistry represent the HDFC Group (the promoters) on the Board of the Bank. Mr. Anil Ahuja was nominated on the Board by the strategic investors viz. The India Private Equity Fund (Mauritius) and Indocean Financial Holding Ltd. Since the shareholding of the strategic investor has been reduced to less than 7% of the share capital of the Bank, Mr Ahuja no more represents the strategic investor and now he is on the Board in his individual capacity. Mr. Vineet Jain represents the Bennett, Coleman Group.

- All directors other than Mr. Aditya Puri, Managing Director are non-executive directors on the Board.
- All directors other than Mr. Aditya Puri, Mr. Keki Misty and Mrs. Renu Karnad are independent directors on the Board.
- The Bank has not entered into any materially significant transactions, which could have a potential conflict of interest with the Bank, with its promoters, directors, management or relatives etc. other than the transactions entered into in the normal course of banking business.

## REMUNERATION OF DIRECTORS :

Mr. Aditya Puri was re-appointed as Managing Director of the Bank for another period of three years with effect from 30 September, 2002. The details of the remuneration paid to the Managing Director during the year 2002-03 :

| Break up of remuneration | Amount Paid (Rs.) |
|---|---|
| Basic | 3,152,500/- |
| Allowances | 128,926/- |
| Performance Bonus (for FY 2001-02) | 2,700,000/- |
| Provident Fund | 378,300/- |
| Gratuity | 57,960/- |
| Super Annuation | 432,375/- |

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

# Corporate Governance - *(Contd.)*

Mr. Jagdish Capoor has been appointed as part-time Chairman of the Bank with effect from 6 July, 2001. The professional fees payable to Mr. Capoor is Rs. Six lacs per annum.

The remuneration of the Managing Director and the professional fees of the Chairman have been approved by the Reserve Bank of India and the shareholders. Besides the sitting fees of Rs. 5,000/- paid to the directors for attending Board meetings, the Bank with effect from 16 January, 2003 has started paying Rs. 5,000/- as sitting fees to directors for attending committee meetings of which he/she is a member.

## COMPOSITION OF BOARD OF DIRECTORS :

### MR. JAGDISH CAPOOR

Mr. Jagdish Capoor holds a Masters degree in Commerce and is a Certified Associate of the Indian Institute of Bankers. Mr. Capoor was appointed as part-time Chairman of the Bank for a period of 3 years with effect from 6 July, 2001. Prior to joining the Bank, Mr. Capoor was the Deputy Governor of the Reserve Bank of India. Mr. Capoor served as the Chairman of Bharatiya Reserve Bank Note Mudran Ltd. and presently serves as Chairman of Agricultural Finance Corporation Ltd. He is a director of Indian Hotels Co. Ltd. and serves as a member of the Board of Governors of the Indian Institute of Management, Indore. He is also a member of the Governing Board of The Stock Exchange, Mumbai.

Mr. Capoor is a member of the Audit Committee of Indian Hotels Co. Ltd.

Mr. Capoor does not hold any equity shares of the Bank as on 31 March, 2003.

### MR. ADITYA PURI

Mr. Aditya Puri holds a Bachelors degree in Commerce from Punjab University and is an associate member of the Institute of Chartered Accountants of India. Mr. Puri has been the Managing Director of the Bank since September, 1994. He has over 26 years of banking experience in India and abroad.

Prior to joining the Bank, Mr. Puri was the Chief Executive Officer of Citibank, Malaysia from 1992 to 1994. At the Annual General Meeting of the Bank held on 30 May, 2002, the shareholders had approved the reappointment of Mr. Puri as Managing Director of the Bank for another period of three years with effect from 30 September, 2002.

Mr. Puri holds 1,37,953 equity shares of the Bank as on 31 March, 2003.

### DR. (MRS.) AMLA SAMANTA

Dr. (Mrs.) Amla Samanta holds a Masters degree in Science and is a Ph.D. in Biochemistry. Dr. Samanta has specialised knowledge and wide experience in small-scale industries. She has been one of the non-executive directors of the Bank since 26 April, 1996. In addition, Dr. Samanta is a director of Samanta Organics Private Limited and is a proprietor of Samanta Pharmachem.

Dr. Samanta holds 11,000 equity shares of the Bank as on 31 March, 2003.

### DR. VENKAT RAO GADWAL

Dr. V. R. Gadwal holds a Bachelors degree in Science in Agriculture from Osmania University and is a Master of Science and Ph.D. from the Indian Agricultural Research Institute. He is also a Fellow member of the Botanical Society of India and Indian Society of Genetics and Plant Breeding. Dr. Gadwal has been one of the non-executive directors since 15 March, 1999. Dr. Gadwal has specialised knowledge and practical experience in agriculture and rural economy. He serves as an advisor to agricultural research and development organisations. Presently, Dr. Gadwal is offering consultancy and advisory services to Maharashtra Hybrid Seeds Co. Ltd. (MAHYCO) and MAHYCO Research Foundation.

Mr. Gadwal holds 4,000 equity shares of the Bank as on 31 March, 2003.

### MR. KEKI MISTRY

Mr. Keki M. Mistry is a fellow member of the Institute of Chartered Accountants of India. He has served as one of our non-executive directors since 12 September, 1994. Mr. Mistry is the Managing Director of HDFC Ltd. and serves as a director on HDFC Developers Limited, HDFC Chubb General

# Corporate Governance - *(Contd.)*

Insurance Co. Limited, Intelenet Global Services Limited, Mahindra Holidays and Resorts India Limited and The Great Eastern Shipping Co. Limited as well as the companies mentioned in the table appearing hereunder.

Besides being a director, Mr. Mistry is also a member of the various Board committees of the companies mentioned in the table :

| Sr. No. | Name of the Company | Name of the Committee | Member/ Chairman |
|---|---|---|---|
| 1. | Housing Development Finance Corporation Limited | Investors Grievance | Member |
| 2. | HDFC Investments Limited | Audit | Member |
| 3 | HDFC Standard Life Insurance Co. Limited | Audit | Member |
| 4 | HDFC Trustee Company Limited | Audit | Member |
| 5 | Gruh Finance Limited | Audit | Member |
| 6 | Credit Information Bureau (India) Limited | Audit | Chairman |
| 7 | Infrastructure Leasing & Financial Services Limited | Audit<br>Share Transfer | Member<br>Member |
| 8. | Sun Pharmaceuticals Industries Limited | Audit | Chairman |
| 9. | HDFC Chubb General Insurance Co. Limited | Audit | Member |

Mr. Mistry holds 77,096 equity shares of the Bank as on 31 March, 2003.

**MR. ANIL AHUJA**

Mr. Anil Ahuja holds a Bachelors degree in Technology from the Indian Institute of Technology, New Delhi and a Post Graduate Diploma in Business Management from the Indian Institute of Management, Ahmedabad. Mr. Ahuja has served as one of the non-executive directors since 16 July, 1999. Presently he is the CEO of J.P. Morgan Partners Advisors, Singapore. He also serves as a director on the board of HDFC Securities Limited and MTR Foods Limited. He is a member of Audit Committee and Compensation Committee of HDFC Securities Ltd. In the past, he has served as an Executive Director to Indocean Chase Capital Advisors and as a vice president of Citibank N.A. Mr. Ahuja was a nominee of The India Private Equity Fund (Mauritius) Limited and Indocean Financial Holding Limited ('Strategic Investors'). Since the shareholding of Strategic Investors has reduced to less than 7% of the share capital of the Bank, Mr. Ahuja no longer represents the interest of the Strategic Investors on the Board of the Bank. He is now on the Board in his individual capacity. Mr. Ahuja is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr Ahuja does not hold any equity shares of the Bank as on 31 March, 2003.

**MR. VINEET JAIN**

Mr. Vineet Jain holds a Bachelors degree in Science and a degree in International Business Administration. Mr. Jain has been one of the non-executive director since April 14, 2001. He also serves as the Managing Director of Bennett, Coleman & Co. Limited, as a director of Times Internet Limited, Times Online Money Ltd., Times Infotainment Media Ltd. and as Chairman of Press Trust of India Ltd. He is a member of the Share Transfer Committee and Investment & Loans Committee of Bennett, Coleman & Co Ltd. Mr. Jain is a nominee of the Bennett, Coleman group. He is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Jain holds 2,60,869 equity shares of the Bank as on 31 March, 2003

**MRS. RENU KARNAD**

Mrs. Renu Karnad was appointed as an additional director of the Bank with effect from 17 July, 2002. Mrs. Renu Karnad is a graduate in law and holds a Master's degree in economics from Delhi University.

Mrs. Karnad is an Executive Director of Housing Development Finance Corporation Limited. She is

# Corporate Governance - *(Contd.)*

also a Director of HDFC Asset Management Co., HDFC Realty Limited, Credit Information Bureau (India) Limited, Feedback Ventures Limited, HDFC Chubb General Insurance Ltd. and Mother Dairy Fruits & Vegetables Limited and GRUH Finance Limited.

Mrs. Karnad is also a member of Compensation Committee of GRUH Finance Limited.

Mrs. Karnad holds 58,924 equity shares of the Bank as on 31 March, 2003.

### MR. ARVIND PANDE

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

Mr. Pande is a director of Sandhar Locking Devices Limited. Mr.Pande is not a member/chairman of the Audit Committee, Shareholder's Grievance Committee or Compensation Committee of any other company.

Mr. Pande does not hold any equity shares of the Bank as on 31 March, 2003.

### BOARD MEETINGS :

During the period under review, **seven** Board Meetings were held – 15 April, 2002, 30 May, 2002, 17 July, 2002, 20 September, 2002, 18 October, 2002, 15 January, 2003 and 27 March, 2003.

Details of attendance at the Board Meetings, directorship and membership in other companies for each director of the Bank are as follows:

| Name of Director | Attend-ance at the Bank's Board Meeting | Directorship of other Public Companies | Members of Other Companies' Committees |
|---|---|---|---|
| Mr. Jagdish Capoor, Chairman | 7 | 2 | 2 |
| Mr. Aditya Puri Managing Director | 7 | Nil | Nil |
| Mr. Keki Mistry[1] | 4 | 14 | 10 |
| Dr.(Mrs.) Amla Samanta | 5 | Nil | Nil |
| Dr. Venkat Rao Gadwal | 7 | Nil | Nil |
| Mr. Anil Ahuja | 6 | 2 | 2 |
| Mr. Vineet Jain | 3 | 5 | 1 |
| Mrs. Renu Karnad[5] | 5 | 8 | 1 |
| Mr. Arvind Pande[6] | 2 | 1 | Nil |
| Mr. Arnold Chavkin[2] | 1 | N.A. | N.A. |
| Mr. J. S. Baijal[3] | 2 | N.A | N.A. |
| Mr. D. M. Satwalekar[4] | 2 | N.A. | N.A. |

1. Mr. Keki Mistry had resigned as a Director with effect from 12 August, 2002 and was appointed de novo as additional director on 27 March, 2003.
2. Mr. Arnold Chavkin resigned as a Director with effect from 13 August, 2002.
3. Mr. J. S. Baijal resigned as a Director with effect from 12 August, 2002.
4. Mr. D. M. Satwalekar resigned as a Director with effect from 2 July, 2002.
5. Mrs Renu Karnad was appointed as additional director with effect from 17 July, 2002.
6. Mr Arvind Pande was appointed as additional director with effect from 15 January, 2003.

All directors other than Mr. Arnold Chavkin had attended the last Annual General Meeting. Mrs. Renu Karnad and Mr. Arvind Pande were not on the Board of the Bank on the date of last Annual General Meeting.

# Corporate Governance - *(Contd.)*

## COMPOSITION OF COMMITTEES OF DIRECTORS AND THEIR ATTENDANCE AT THE MEETINGS :

The Board has constituted committees of directors to take informed decisions in the best interest of the Bank. These committees monitor the activities falling within their terms of reference. The Board's committees are as follows :

### AUDIT AND COMPLIANCE COMMITTEE :

The Audit and Compliance Committee constituted by the Bank is headed by Mr. Jagdish Capoor. The other members of the Committee are Mr. Anil Ahuja, Dr. (Mrs.) Amla Samanta and Mr. Arvind Pande. During the year, Mr. Deepak Satwalekar and Mr. Keki Mistry resigned from their membership due to their vacating the office of the director of the Board. Mrs. Renu Karnad was a member of the Committee from 17 July, 2002 to 27 March, 2003.

During the year, the Committee held **seven** meetings.

The terms of reference of the Audit & Compliance Committee are in accordance with paragraph C and D of clause 49(II) of the Listing Agreement entered into with the Stock exchanges and inter-alia includes the following :

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

b) Recommending appointment and removal of external auditors and fixing of their fees;

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

d) Reviewing the adequacy of the Audit and Compliance function, including their policies, procedures, techniques and other regulatory requirements.

### COMPENSATION COMMITTEE :

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

Mr. Anil Ahuja, Dr. (Mrs.) Amla Samanta and Dr. Venkat Rao Gadwal are the members of the Committee. The Committee is chaired by Mr. Anil Ahuja.

During the year the Committee held one meeting.

### SHARE COMMITTEE (SHAREHOLDERS AND INVESTORS' GRIEVANCE COMMITTEE) :

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

The Share Committee comprises Mr. Jagdish Capoor and Mr. Aditya Puri.

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

# Corporate Governance - *(Contd.)*

As on 31 March, 2003, 26 instruments of transfer of shares were pending and since then the same have been processed. The details of share transfers are reported to the Board of Directors from time to time.

During the year, the Bank received 147 complaints from shareholders, which have been resolved.

No penalties or strictures were imposed on the Bank by any of the Stock Exchanges, SEBI or any statutory authority, on any matters relating to capital markets during the last three years.

**RISK MONITORING COMMITTEE :**

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

The Committee consists of Mr. Anil Ahuja, Mr. Aditya Puri and Mrs. Renu Karnad and is chaired by Mr. Anil Ahuja.

The Committee met four times during the year.

**CREDIT APPROVAL COMMITTEE :**

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

The Committee comprises of Mr. Jagdish Capoor, Mr. Aditya Puri and Dr. (Mrs.) Amla Samanta. The Committee is chaired by Mr. Jagdish Capoor and met five times during the year.

**PREMISES COMMITTEE :**

The Premises Committee approves purchases and leasing of premises for the use of Bank's branches, back offices, ATMs and residence of executives in accordance with the guidelines laid down by the Board. The committee consists of Mr. Aditya Puri, Dr. (Mrs) Amla Samanta and Mr. K. G. Krishnamurthy in an advisory capacity.

The Committee is chaired by Mr. Aditya Puri and met four times during the year.

**NOMINATION COMMITTEE :**

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

– formal qualifications, previous experience and track record; and

– integrity of the candidates.

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

The members of the Committee are Mr. Jagdish Capoor, Mr. Anil Ahuja, Dr. V. R. Gadwal and Mr. Arvind Pande. The Committee will be chaired by Mr. Jagdish Capoor. The Committee was constituted at the Board Meeting held on 27 March, 2003. Hence, no meeting of the Committee was held during the year.

# Corporate Governance - *(Contd.)*

## COMPOSITION OF COMMITTEES OF DIRECTORS AND THEIR ATTENDANCE AT THE MEETINGS

### AUDIT & COMPLIANCE COMMITTEE

Total **7** meetings held

| *Name* | *No.of Meetings attended* |
|---|---|
| Mr. Jagdish Capoor | 7 |
| Mr. Anil Ahuja | 6 |
| Mr. D. M. Satwalekar* | 1 |
| Mr. Keki Mistry** | 2 |
| Mrs. Renu Karnad# | 5 |
| Dr. (Mrs.) Amla Samanta## | 3 |
| Mr. Arvind Pande### | 2 |

### CREDIT APPROVAL COMMITTEE

Total **5** meetings held

| *Name* | *No. of Meetings attended* |
|---|---|
| Mr. Jagdish Capoor | 5 |
| Mr. Deepak Satwalekar* | 3 |
| Mr. Keki Mistry ** | 5 |
| Dr. (Mrs.) Amla Samanta | 3 |
| Mr. Aditya Puri | 3 |

### COMPENSATION COMMITTEE

Total **1** meeting held

| *Name* | *No. of Meetings attended* |
|---|---|
| Mr. Anil Ahuja | 1 |
| Dr. (Mrs.) Amla Samanta | Nil |
| Dr. V. R. Gadwal | 1 |
| Mr. Jagdish Capoor*** | N.A. |

### SHARE COMMITTEE

Total **13** meetings held

| *Name* | *No. of Meetings attended* |
|---|---|
| Mr. Jagdish Capoor | 12 |
| Mr. Aditya Puri | 9 |
| Mr. Keki Mistry** | 5 |

### RISK MONITORING COMMITTEE

Total **4** meetings held

| *Name* | *No. of Meetings attended* |
|---|---|
| Mr. Aditya Puri | 4 |
| Mr. Anil Ahuja | 4 |
| Mrs. Renu Karnad# | 2 |

### PREMISES COMMITTEE

Total **4** meetings held

| *Name* | *No. of Meetings attended* |
|---|---|
| Mr. Aditya Puri | 4 |
| Dr. (Mrs.) Amla Samanta | 4 |
| Mr. K. G. Krishnamurthy (Advisor) | 4 |

* Mr. Deepak Satwalekar resigned as Director of the Bank with effect from 2 July, 2002.

** Mr. Keki Mistry resigned as Director of the Bank with effect from 12 August, 2002

*** Mr. Jagdish Capoor has been inducted as a member of the Compensation Committee with effect from 15 April, 2003.

\# Mrs. Renu Karnad was inducted as a member of Audit & Compliance Committee and the Risk Monitoring Committee with effect from 17 July, 2002 and she has resigned from the Audit & Compliance Committee w.e.f. 27 March, 2003

## Dr. (Mrs.) Amla Samanta has been inducted as a member of Audit & Compliance Committee with effect from 11 October, 2002

### Mr. Arvind Pande has been inducted as a member of the Audit & Compliance Committee with effect from 15 January, 2003

# Corporate Governance - *(Contd.)*

## OWNERSHIP RIGHTS

Certain rights that a shareholder in a company enjoys :

- to transfer the shares.
- to receive the share certificates upon transfer within the stipulated period prescribed in the Listing Agreement.
- to receive notice of general meetings, Annual Report, the Balance Sheet & the Profit and Loss Account and the Auditors Report.
- to appoint proxy to attend and vote at the general meetings. In case the member is a body corporate, to appoint a representative to attend and vote at general meetings of the company on its behalf.
- to attend and speak in person, at general meetings. Proxy cannot vote on show of hands but can vote on a poll.
- to vote at the general meeting on show of hands wherein every shareholder has one vote. In case of poll, the number of votes of a shareholder depends on the proportion of equity shares held by him with the total paid-up equity capital of the company.
- to demand poll along with other shareholder(s) who collectively hold 5000 shares or is not less than 1/10th of the total voting power in respect of any resolution.
- to requisition an extraordinary general meeting of any Company by shareholders who collectively hold not less than 1/10th of the total paid – up capital of the Company.
- to move amendments to resolutions proposed at meetings.
- to receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- to take inspection of the various registers of the company.
- to inspect the minutes books of general meetings and to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- to appoint or remove director(s) and auditor(s) and thus participate in the management through them.
- to proceed against the company by way of civil or criminal proceedings.
- to apply for the winding-up of the Company.
- to receive the residual proceeds upon winding up of a company.

Kindly note that the rights mentioned above are prescribed in the Companies Act, 1956 and should be followed only after careful reading of the relevant sections. These rights are not necessarily absolute.

## PROMOTERS' RIGHTS (HDFC LTD.)

The Articles of Association of the Bank provides following rights to HDFC Ltd.:

- The Board shall appoint non-retiring directors from amongst the directors nominated by HDFC Ltd with the approval of shareholders, so long as HDFC Ltd and its subsidiaries, singly or jointly hold not less than 20% of the paid-up share capital of the Bank.
- HDFC Ltd shall nominate either a part – time Chairman and the Managing Director or a full time Chairman, with the approval of the Board and the shareholders, so long as HDFC Ltd and its subsidiaries, singly or jointly hold not less than 20% of the paid-up share capital of the Bank
- The Chairman and Managing Director are not liable to retire by rotation.

For detailed provisions, kindly refer to the Articles of Association of the Bank which is available on the web site of the Bank – www.hdfcbank.com.

## KEY SHAREHOLDERS' RIGHTS PURSUANT TO AGREEMENTS

1) The India Private Equity Fund (Mauritius) and Indocean Financial Holding Limited ('The Funds') acquired 15% holdings from Natwest Group in 1999. The Funds are advised by JP Morgan Advisors Partners, Singapore. The Bank had entered into an agreement dated 9 February, 1999 with the Funds. As per this agreement, Bank had offered certain rights to the Funds, inter alia the right to nominate two directors on the board of the Bank as long as their holding in the Bank was not less than 10% of the share capital of the Bank and to nominate one director as long as the holding in the Bank was not less than 7% of the share capital of the Bank. Since the shareholding of the Funds (currently the holding as on 31 March, 2003 is 5.53%) has been reduced to less than 7% of the share capital of the Bank, the Funds do not have a right to nominate any director on the Board to represent their interest and the said agreement with Funds has become inoperative. Mr. Anil Ahuja no more represents the Funds but is

# Corporate Governance - *(Contd.)*

a member on the board purely in his individual capacity.

2) HDFC Ltd. and the promoters of erstwhile Times Bank Ltd, Bennett, Coleman and Co. Ltd and its group companies (Bennett Coleman Group) and Chase Funds had entered into a tripartite agreement dated 26 November, 1999 for effecting amalgamation of Times Bank Ltd with the Bank. Under this agreement, Bennett Coleman Group has a right to nominate one director on the Board of Bank as long as their holding exceeds 5% of share capital of the Bank. Currently (as on 31 March, 2003), the Bennett Coleman Group holds 6.73% of the share capital of the Bank and Mr. Vineet Jain represents the group on the Board of the Bank.

## LIST OF SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT 31 MARCH, 2003

| Sr. No. | Name of the Shareholder | No. of shares held | % to share capital |
|---|---|---|---|
| 1. | Housing Development Finance Corporation Limited | 3,88,60,000 | 13.78 |
| 2. | ADS Depository (J. P. Morgan Chase Bank) | 3,73,65,252 | 13.25 |
| 3. | HDFC Investments Limited | 3,00,00,000 | 10.63 |
| 4. | The Standard Life Assurance Co. A/c SLAC (Mauritius Investments) Ltd | 1,21,64,098 | 4.31 |
| 5. | Life Insurance Corporation of India Limited | 1,18,76,048 | 4.21 |
| 6. | Bennett, Coleman & Company Limited | 1,16,49,929 | 4.13 |
| 7. | The India Private Equity Fund (Mauritius) | 1,16,20,886 | 4.12 |
| 8. | Smallcap World Fund Inc. | 89,92,200 | 3.19 |
| 9. | Emerging Markets Growth Fund Inc. | 70,72,752 | 2.51 |
| 10. | Government of Singapore | 45,05,856 | 1.60 |
| 11. | Indocean Financial Holding Limited | 39,82,752 | 1.41 |
| 12. | T. Rowe Price International Inc. A/c. T. Rowe Price New Asia Fund | 28,82,818 | 1.02 |

## DISTRIBUTION OF SHAREHOLDING AS AT 31 MARCH, 2003

| No of equity shares held | Folio | | Shares | |
|---|---|---|---|---|
| | Numbers | % age | Numbers | % age |
| upto 00500 | 248168 | 97.33 | 30862011 | 10.94 |
| 00501 to 01000 | 4139 | 1.62 | 3156279 | 1.12 |
| 01001 to 02000 | 1143 | 0.45 | 1687228 | 0.60 |
| 02001 to 03000 | 369 | 0.14 | 933600 | 0.33 |
| 03001 to 04000 | 184 | 0.07 | 654553 | 0.23 |
| 04001 to 05000 | 185 | 0.07 | 854443 | 0.30 |
| 05001 to 10000 | 323 | 0.13 | 2324278 | 0.82 |
| 10001 and above | 467 | 0.18 | 241573321 | 85.65 |
| Total | 254978 | 100 | 282045713 | 100 |

136471 Folios comprising of 41068575 shares forming 14.56% of the Share Capital are in physical form.
118507 Folios comprising of 240977138 shares forming 85.44% of the Share Capital are in demat form.

# Corporate Governance - *(Contd.)*

## CATEGORIES OF SHAREHOLDERS:

### SHAREHOLDING PATTERN AS AT 31 MARCH, 2003

| | Categories | No. of shares | Total | % to Cap |
|---|---|---|---|---|
| A. | **Promoters** | | | |
| | i. Housing Development Finance Corporation Limited | 38860000 | | |
| | ii. HDFC Investments Limited | 30000000 | | |
| | | | 68860000 | 24.41 |
| B. | **Foreign Institutional Investors** | | | |
| | i. The Standard Life Assurance Co. Limited | 12164098 | | |
| | ii. Smallcap World Fund Inc | 8992200 | | |
| | iii. Emerging Markets Growth Fund Inc | 7072752 | | |
| | iv. Government of Singapore | 4505856 | | |
| | v. T Rowe Price International Inc | 2882818 | | |
| | vi. Others (less then 1%) | 29987946 | | |
| | | | 65605670 | 23.26 |
| C. | **ADS Depository (J. P. Morgan Chase Bank)** | | 37365252 | 13.25 |
| D. | **Bennett Coleman Group** | | | |
| | i. Bennett Coleman & Co. Limited | 11649929 | | |
| | ii. Dharmayug Investments Limited | 2486956 | | |
| | iii. Satyam Properties Finance Limited | 1739130 | | |
| | iv. Vardhaman Publishers Limited | 1739130 | | |
| | v. Bharat Nidhi Limited | 573913 | | |
| | vi. PNB Finance Industries Limited | 431743 | | |
| | vii. Samir Jain | 260869 | | |
| | viii. Times Publishing House Limited | 75956 | | |
| | ix. Rajdhani Printers Limited | 34782 | | |
| | | | 18992408 | 6.73 |
| E. | **Strategic Investors (JP Morgan Advisors)** | | | |
| | i The India Private Equity Fund (Mauritius) | 11620886 | | |
| | ii Indocean Financial Holding Limited | 3982752 | | |
| | | | 15603638 | 5.53 |
| F. | **Life Insurance Corporation of India** | | 11876048 | 4.21 |
| G. | **Banks and Mutual Funds** | | 6362763 | 2.26 |
| H. | **Other Bodies Corporate** | | 3263674 | 1.16 |
| I. | **Overseas Corporate Bodies** | | | |
| | i Jarrington Pte Ltd. | 2755330 | | |
| | ii Others | 91320 | | |
| | | | 2846650 | 1.01 |
| J. | **GIC & its Subsideries** | | 2159425 | 0.77 |
| K. | **Directors** | | 549842 | 0.20 |
| L. | **Non Resident Indians** | | | |
| | wtih repatriation | 307853 | | |
| | without repatriation | 166331 | | |
| | | | 474184 | 0.17 |
| M. | **Others** | | 48086159 | 17.05 |
| | **Total** | | **282045713** | **100.00** |

# Corporate Governance - *(Contd.)*

| GENERAL MEETINGS | | |
|---|---|---|
| | **Date** | **Venue** |
| 8th AGM* | 30 May, 2002 | Patkar Hall, S N D T Women's University, 1, Nathibai Thackersey Road, New Marine Lines, Mumbai 400 020 |
| 7th AGM** | 1 June, 2001 | Nehru Centre Auditorium, Discovery of India Building, Worli, Mumbai 400 018 |
| 6th AGM*** | 19 May, 2000 | Patkar Hall, S N D T Women's University, 1, Nathibai Thackersey Road, New Marine Lines, Mumbai 400 020 |

* **Four special resolutions were passed :**
- i) Appointment of Mr. Jagdish Capoor as part time Chairman.
- ii) Re-appointment of Mr. Aditya Puri
- iii) Partial modification of resolution passed for ESOP in January, 2000.
- iv) Increase in FII limits from 40% to 49%.

** **Five special resolutions were passed :**
- i) To approve the extension of services of Mr. S. S. Thakur as part time Chairman of the Bank for 3 months.
- ii) To increase the Share Capital.
- iii) To amend the Articles of Association.
- iv) Increase in FII limits from 24% to 40%.
- v) Issue of American Depository Shares (ADS).

*** **Two special resolutions were passed.**
- i) Re-appointment of Mr. S. S. Thakur as part time Chairman for a period of one year
- ii) Re-appointment of Mr. Aditya Puri for three years.

No postal ballots were used/invited for voting at any of the above meetings.

## MEANS OF COMMUNICATION :

The quarterly and half yearly unaudited financial results were published in Business Standard in English and Maharashtra Times / Mumbai Sakal in Marathi (regional language). Visit the Bank's web site – www.hdfcbank.com for financial information, shareholding information, dividend policy, key shareholder's agreements, Memorandum of Association and Articles of Association of the Bank, etc. The website also gives a link to www.sec.gov. where investors can view statutory fillings of the Bank with Securities Exchange Commission (SEC), USA.

## FINANCIAL CALENDAR :

| **Financial Year 1 April, 2002 To 31 March, 2003** | |
|---|---|
| Board Meeting for consideration of accounts and recommendation of dividend | 15 April, 2003 |
| Posting of Annual Report | **5 May, 2003 to 8 May, 2003** |
| Book closure dates | **3 May, 2003 to 29 May, 2003** |
| Last date of receipt of proxy forms | 31 May, 2003 |
| Date of 9th AGM | 2 June, 2003 |
| Dividend Payment date | 3 June, 2003 |
| Probable date of dispatch of warrants | 3 June, 2003 onwards |
| Board meetings for considering unaudited results for first 3 quarters of FY. 2003-04 | By 25th day of the succeeding quarter. |

# Corporate Governance - *(Contd.)*

## LISTING ON STOCK EXCHANGES :

In order to impart liquidity and convenience for trading, the equity shares of the Bank are listed at the following stock exchanges :

| Sr. No. | Name and address of the Stock Exchange | Stock code |
|---|---|---|
| 1. | **The Stock Exchange, Mumbai**<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street, Fort, Mumbai 400 023 | 500180 |
| 2. | **The National Stock Exchange of India Limited**<br>Exchange Plaza, 5th Floor,<br>Bandra Kurla Complex,<br>Bandra, Mumbai 400 051 | HDFCBANK |
| 3. | **The Stock Exchange, Ahmedabad**<br>Kamdhenu Complex,<br>Opposite Sahajanand College,<br>Panjarpole, Ahmedabad 380 015. | 00500 |

The annual fees for 2002-2003 have been paid to all the Stock Exchanges where the shares of the Bank are listed.

Names of Depositories in India for dematerialisation of equity shares (ISIN No. INE040A01018) :

- National Securities, Depository Limited (NSDL)
- Central Depositories Services, (India ) Limited (CDSL)

The American Depository Shares (ADS) of the Bank are listed on :

**New York Stock Exchange (ticker - HDB)**
11, Wall Street, New York, N.Y.-11005

The depository for ADS is ( CUSIP No. 40415F101) :

- J P Morgan Chase Bank, NY, USA

The depository is represented in India (for ADS) by :

- ICICI Bank Ltd., Bandra-Kurla Complex, Mumbai.

## SHARE TRANSFER PROCESS :

The Bank's shares being in compulsory dematerialised (demat) list are transferable through the depository system. Shares in physical form are processed by the Registrar and Share Transfer Agents, MCS Limited and approved by the Share Committee of the Bank. The share transfers are processed within a period of 8 days from the date of receipt of the transfer documents by MCS Limited.

## INVESTOR HELPDESK :

Share transfers, dividend payments and all other investors related activities are attended to and processed at the office of our Registrars and Transfer Agents.

Pursuant to Section 205A of the Companies Act, 1956 the unclaimed application money has been transferred to the Investors Education and Protection Fund established under Section 205C of the Companies Act, 1956.

For lodgment of transfer deeds and any other documents or for any grievances / complaints kindly contact at the following address:

**Mrs. Valsa Sajan / Mr. Sachin Manve / Mr. Vikrant Deshmukh, MCS Limited,** Registrars and Transfer Agents, Unit HDFC BANK, Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, MIDC Area, Andheri (East), Mumbai 400 093.

Tel: 2821 5235/6/7
Fax 2835 0456
Email: mcsmum@vsnl.com
Counter Timing: 10.00 a.m. to 4.00 p.m.
(Monday to Saturday)

For the convenience of investors transfers only upto 500 shares and complaints from the investors are accepted at the Bank's Registered Office at Sandoz House, Dr. Annie Besant Road, Worli, Mumbai 400 018

Kindly contact Investor Helpdesk at the Registered Office between 10.30 a.m. to 3.30 p.m. between Monday to Friday (except on bank holidays).

Telephone : 2495 1616 Extn: 1116.
Fax: 2495 1771
Email: investor.helpdesk@hdfcbank.com

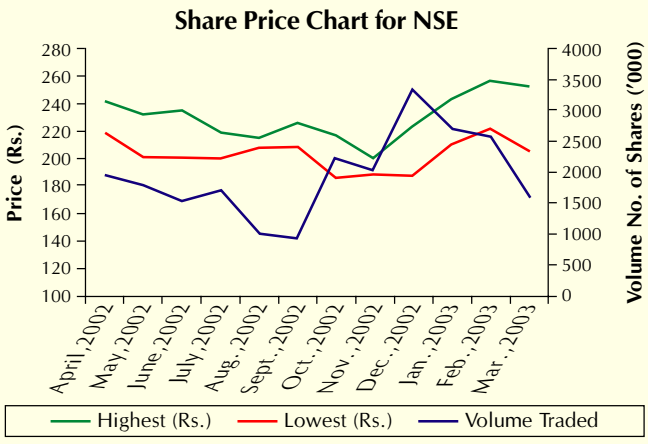
You may also address queries relating to Bank's operational and financial performance to :
investor.helpdesk@hdfcbank.com

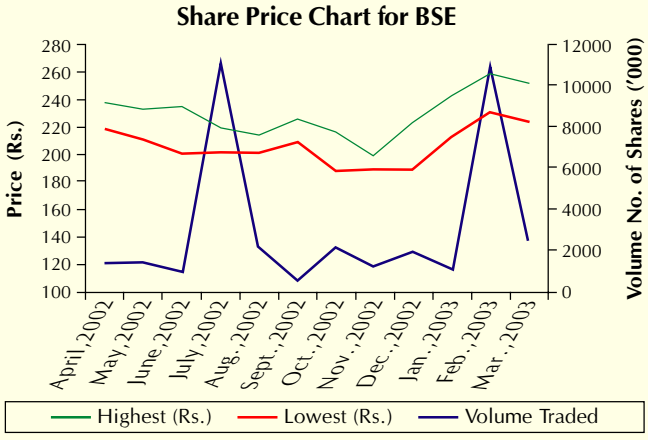
Name of the Compliance Officer of the Bank:
Mr. Sanjay Dongre – Company Secretary
Telephone : 2498 8484

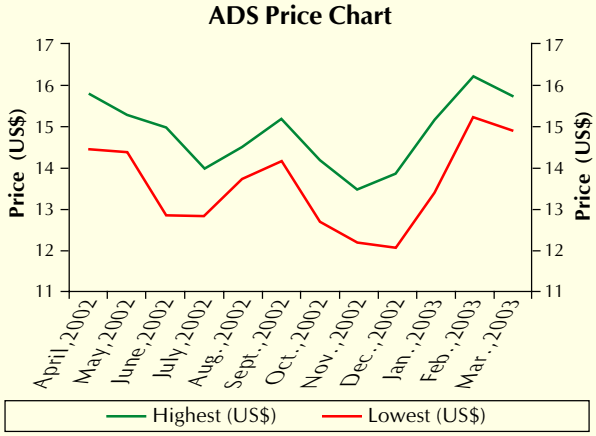
# Corporate Governance - *(Contd.)*

## SHARE PRICE / VOLUME

| The monthly high and low quotation and the volume of shares traded on NSE | | | |
|---|---|---|---|
| **Month** | **Highest (Rs.)** | **Lowest (Rs.)** | **Volume Traded** |
| April, 2002 | 241.50 | 218.50 | 1980417 |
| May, 2002 | 232.25 | 200.55 | 1803146 |
| June, 2002 | 235.00 | 199.75 | 1553756 |
| July,2002 | 219.10 | 200.00 | 1746233 |
| August,2002 | 215.00 | 207.00 | 1022170 |
| September,2002 | 226.00 | 208.35 | 938976 |
| October,2002 | 217.00 | 186.00 | 2244748 |
| November,2002 | 200.05 | 188.00 | 2027138 |
| December,2002 | 223.00 | 187.30 | 3341702 |
| January,2003 | 243.45 | 209.90 | 2719575 |
| February,2003 | 256.00 | 222.00 | 2603852 |
| March,2003 | 252.25 | 205.00 | 1615305 |




| The monthly high and low quotation and the volume of shares traded on BSE | | | |
|---|---|---|---|
| **Month** | **Highest (Rs.)** | **Lowest (Rs.)** | **Volume Traded** |
| April, 2002 | 237.50 | 218.00 | 1418933 |
| May, 2002 | 232.50 | 210.05 | 1499944 |
| June, 2002 | 234.65 | 199.50 | 1014851 |
| July,2002 | 219.50 | 201.00 | 11394776 |
| August,2002 | 214.00 | 200.00 | 2277996 |
| September,2002 | 226.00 | 208.05 | 652322 |
| October,2002 | 216.50 | 187.00 | 2260250 |
| November,2002 | 199.50 | 188.50 | 1263162 |
| December,2002 | 222.90 | 188.00 | 2031284 |
| January,2003 | 243.00 | 211.85 | 1178102 |
| February,2003 | 258.00 | 230.00 | 11261048 |
| March,2003 | 251.70 | 223.00 | 2415226 |

| The monthly high and low quotation of ADS traded on New York Stock Exchange | | |
|---|---|---|
| **Month** | **Highest (US$)** | **Lowest (US$)** |
| April, 2002 | 15.85 | 14.49 |
| May, 2002 | 15.31 | 14.41 |
| June, 2002 | 15.00 | 12.90 |
| July,2002 | 14.00 | 12.85 |
| August,2002 | 14.52 | 13.75 |
| September,2002 | 15.20 | 14.19 |
| October,2002 | 14.20 | 12.71 |
| November,2002 | 13.50 | 12.21 |
| December,2002 | 13.90 | 12.12 |
| January,2003 | 15.20 | 13.45 |
| February,2003 | 16.21 | 15.26 |
| March,2003 | 15.75 | 14.92 |