

NEWS RELEASE

HDFC BANK LIMITED FINANCIAL RESULTS (INDIAN GAAP) FOR THE YEAR ENDED MARCH 31, 2004

The Board of Directors of HDFC Bank Limited approved the annual audited (Indian GAAP) accounts for the year ended March 31, 2004 at their meeting held in Mumbai on April 16, 2004. The Board also considered the unaudited US GAAP financial results for the year ended March 31, 2004.

Financial Performance (Indian GAAP):

Profit and Loss account – FY 2003-04:

The bank posted a strong performance during the financial year 2003-04 with total net revenues (net interest income plus other income) increasing by 41.2% to Rs.1817.9 crores from Rs.1287.2 crores in 2002-03. Net revenues excluding profit on sale of investments increased by 54.8% over the previous year. The revenue growth was driven principally by an increase of 62.8% in net interest income, as the average balance sheet size increased by 37.3 % and net interest margin increased by around 60 basis points to 3.8%.

The other income (non-interest revenue) has three main components: Commissions, Profit/Income on foreign exchange & derivatives and Profit on sale of investments. The first two are largely related to customer transactions while the last stream is linked primarily to the gains from trading and holding of government securities for statutory reserve requirements. In 2003-04, Commission income increased by 35.5% to Rs.320 crores with the main drivers being retail banking fees on debit/credit cards & point-of-sale (POS) terminals, transactional charges/fees on deposit and depository accounts and commissions from third party distribution. Commissions from cash management services also grew at a healthy pace due to higher volumes. Profits on sale of investments decreased from Rs.130.3 crores in 2002-03 to Rs.26.9 crores during 2003-04. The reduction is due to lower trading gains booked on government securities and is net of losses on debt mutual fund units post receipt of dividends. Foreign exchange and derivatives revenues increased by 35.1% to Rs.128.9 crores in 2003-04, driven primarily by higher trade flows and interest rate & currency risk hedging requirements of our customers.

Operating (non interest) expenses increased from Rs.577.1 crores in 2002-03 to Rs.810.0 crores in 2003-04. Despite a significant increase in investments relating to new branches, ATMs, geographical expansion of retail loan products, etc., operating expenses as a proportion of net revenues, declined from 44.8% in 2002-03 to 44.6% in 2003-04. Staff

expenses accounted for 25.2% of non interest expenses in 2003-04 as against 26.3% in the previous year, despite an increase in staff strength from 4791 to 5423. Loan loss provisions increased from Rs.88.4 crores to Rs.178.3 crores in 2003-04, primarily driven by an increase in general loan loss provisions for retail loan product programs and some increase in specific loan loss provisions as the bank moved from the “180 day overdue” norm to the “90 day overdue” norm for recognizing non-performing assets. Provisions for amortization of investments were Rs.93.2 crores, principally due to the amortization of premium for SLR (Statutory Liquidity Ratio) investments in the “held to maturity” category.

Net profit increased by 31.4 % from Rs. 387.6 crores in 2002-03 to Rs.509.5 crores in 2003-04. Return on average networth was 20.1%, up from the previous year figure of 18.1%. The bank’s basic earning per share increased from Rs. 13.75 to Rs. 17.95 per equity share.

Balance Sheet – March 31, 2004:

The Bank registered strong growth in balance sheet parameters as well. Total Deposits increased by 35.9% from Rs. 22376 crores (March 31, 2003) to Rs.30409 crores (March 31, 2004). These deposits as at March 31, 2004 included around Rs 2000 crores of collections held as a banker to various initial public offerings. Savings account deposits, which are core to the Bank’s strategy for building stable, low cost sources of funds and reflect the strength of the retail liabilities franchise, increased by 67.4% from Rs. 4663 crores to Rs.7804 crores as of March 31, 2004. During 2003-04, total Advances grew by 51.0% to Rs. 17745 crores, driven by a growth of 112.9% in total retail advances (including car loans, personal loans, commercial vehicle loans, etc. but excluding investment in securitised retail loans) to Rs. 7325 crores, and an increase of 25.7% in wholesale advances to Rs. 10819 crores. The mix of the bank’s total advances as of March 31, 2004 is therefore, 60% wholesale and 40% retail. The bank’s core customer assets (advances and credit substitutes like commercial paper, corporate debentures, preference shares, etc.) increased from Rs.14450 crores in March 2003 to Rs.18858 crores in March 2004. In addition, the bank held Rs.3522 crores of investments and loans brought in through the securitisation route where the underlying assets were commercial vehicle, car loan and mortgage receivables and collateralised loan obligations. Total customer assets (including securitisation) were therefore Rs. 22379 crores as of March 31, 2004. Total balance sheet size grew by 39.1% to Rs.42307 crores as of March 31, 2004.

Quarterly Performance:

For the quarter ended March 31, 2004, net revenues were Rs.501.1 crores, up by 37.6% from Rs. 364.1 crores in the corresponding quarter ended March 31, 2003. Net interest income increased by 49.0% to Rs. 360.6 crores, driven by balance sheet growth and a continued marginal improvement in spreads. Other income grew by 15.1% to Rs. 140.5 crores, primarily consisting of commissions of Rs. 100 crores, loss on sale of investments of Rs. 8.2 crores and foreign exchange & derivatives revenues of Rs. 48.0 crores, as against Rs 59.1 crores, Rs. 34.5 crores (profits) and Rs. 28.3 crores respectively for the corresponding quarter ended March 31, 2003. Operating expenses increased from Rs. 164.4 crores (2002-03) to Rs. 216.7 crores (2003-04). After providing for loan loss provisions of Rs. 42.0 crores,

provisions for mark-to-market of investments & amortisation of premia of Rs. 30.4 crores and tax of Rs. 57.7 crores, net profit for the quarter was Rs. 154.7 crores. This represents a 32.7% increase over the corresponding quarter ended March 31, 2003 and a 18.7% increase over the immediate preceding quarter ended December, 2003.

USGAAP:

Net Profit computed in accordance with US GAAP (unaudited) for year ended March 31, 2004 showed a healthy growth of 35.3% from Rs. 351.4 crores in 2002-03 to Rs. 475.5 crores in 2003-04. The net difference between profits computed in accordance with Indian GAAP and US GAAP is primarily due to differences in accounting treatment for amortisation of premia on investments held in the “Available for Sale” category, loan loss provisions, deferred stock compensation expense and amortisation of acquisition costs on retail loans.

Dividend:

The Board of Directors recommended an enhanced dividend of 35% for the year ended March 31, 2004 as against 30% for the previous year. This would be subject to approval from the Reserve Bank of India.

Capital Adequacy Ratio:

In February 2004, the Bank issued Unsecured Redeemable Non-Convertible Subordinated Bonds of Rs 400 crores to augment the Tier-II Capital for strengthening Capital Adequacy and enhancing long term resources of the Bank.

As at March 31, 2004, the bank's total capital adequacy ratio (CAR) stood at a healthy 11.7%, well above the regulatory minimum of 9%. Tier I CAR was 8.0 %

Business Update:

With an improving macro economic environment in 2003-04 and its strong positioning in its major business lines, the bank has been able to achieve healthy growth across various operating and financial parameters. This performance reflects the strength and diversity of the bank's three primary business franchises – Retail Banking, Wholesale Banking and Treasury, as well as a disciplined approach to risk – reward management.

During FY 2003-04, growth in the wholesale banking business continued to be driven by new customer acquisition and higher cross sell with a focus on optimising yields and increasing product penetration rather than on volume growth. The bank's customized supply chain management solutions which combine electronic banking, cash management and vendor & distributor finance products continued to be an important contributor to the growth in the corporate banking business.

The Retail Banking business has been the fastest growing of the bank's businesses in 2003-04. There was a significant expansion in the distribution network with the number of branches (including extension counters) increasing from 231 (in 122 cities) to 312 (in 163 cities) and the size of the bank's ATM network expanding from 732 to 910. The over 100% growth in the retail loan portfolio to Rs. 7325 crores was driven primarily by the geographical expansion and extension of product range and was achieved without compromising asset quality. The bank's credit card business is a little over 2 years old now and total number of cards issued have crossed the half a million mark. The bank expanded its presence in the "merchant acquiring" business with the total number of point-of-sale (POS) terminals installed by the bank at over 26000, up from 21800 in the previous year. The bank also achieved healthy growth in its third party distribution business with insurance sales, for the first time, supplementing third party product sales of mutual funds and RBI Bonds. The bank further consolidated 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 and Portfolio Quality:

The bank's portfolio quality remains amongst the best in the Indian banking industry with net non-performing assets (NPAs net of specific loan loss provision, interest in suspense and ECGC claims received) at 0.2% of advances and 0.1% of total customer assets. The bank's policies on both specific and general loan loss provisions continue to be more conservative than the regulatory requirements. As on March 31, 2004, total general loan loss provisions were about 0.9% of standard advances as against the regulatory requirement of 0.25%. The general provisions amounted to about 0.7% of standard customer assets.

Note: (i) Rs. = Indian Rupees
(ii) 1 crore = 10 million
(iii) All figures and ratios are in accordance with Indian GAAP except where specifically mentioned.

Certain statements in this release which contains words or phrases such as "will", "remains", "should", "continue" etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and manage our rapid growth, the market acceptance of and demand for various banking services, volatility of interest rates, future levels of non-performing loans, the adequacy of our allowances for investment and credit losses, technological changes, volatility in income from treasury operations, concentrations of funded exposures, our exposure to market and operational risks, as well as other risks detailed in the reports filed with the United State Securities and Exchange Commission. The bank may, from time to time, make additional written and oral forward looking statements, including statements contained in the bank's filings with the Securities and Exchange Commission and our reports to shareholders. The bank does not undertake to update any forward looking statements that may be made from time to time by or on behalf of the bank.