

HDFC BANK LTD
Form 20-F
July 10, 2007
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As filed with the Securities and Exchange Commission on July 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended March 31, 2007

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 001-15216

HDFC BANK LIMITED

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

India

(Jurisdiction of incorporation or organization)

HDFC Bank House,

Senapati Bapat Marg, Lower Parel, Mumbai- 400 013, India

(Address of principal executive offices)

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

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

equity shares, par value Rs.10 per share

Securities registered pursuant to Section 12(g) of the Act.

Not Applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable

(Title of Class)

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

319,389,608 Equity Shares

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

Yes No

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

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Yes No

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

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

Yes No

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

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

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

From 1980 until fiscal 2003, the rupee consistently depreciated against the dollar. In fiscal 2004 and 2005 the Indian rupee appreciated compared to fiscal 2003. However, in 2006 the rupee depreciated against the U.S. dollar. During fiscal 2007 and fiscal 2008 (through June 30, 2007), the rupee again appreciated against the U.S. dollar.

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

Fiscal Year	Period End⁽¹⁾	Average⁽¹⁾⁽²⁾	High	Low
2003	47.53	48.36	49.07	47.53
2004	43.40	45.78	47.46	43.40
2005	43.62	44.87	46.45	43.27
2006	44.48	44.17	46.26	43.05
2007	43.10	45.11	46.83	42.78

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

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

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

Month	Period End	Average	High	Low
January 2007	44.07	44.21	44.49	44.07
February 2007	44.08	44.00	44.21	43.87
March 2007	43.10	43.81	44.43	42.78
April 2007	41.04	42.02	43.05	40.56
May 2007	40.36	40.54	41.04	40.14
June 2007	40.58	40.58	40.90	40.27

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US\$1.00 = Rs.43.10 on March 30, 2007. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on June 29, 2007 was Rs.40.58 per US\$1.00.

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FORWARD LOOKING STATEMENTS

We have included statements in this report which contain words or phrases such as will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, objective, goal, project, should, will pursue and similar expressions, that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy successfully, the market acceptance of and demand for various banking services, future levels of our non-performing loans, our growth and expansion, the adequacy of our allowance for credit and investment losses, technological changes, volatility in investment income, our ability to market new products, cash flow projections, the outcome of any legal, tax or regulatory proceedings in India and in other jurisdictions we are or become a party to, the future impact of new accounting standards, our ability to pay dividends, the impact of changes in banking regulations and other regulatory changes in India and other jurisdictions on us, our ability to roll over our short-term funding sources and our exposure to market and operational risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what may actually occur in the future. As a result, actual future gains, losses or impact on net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions, instability or uncertainty in India and the other countries which have an impact on our business activities or investments, caused by any factor including terrorist attacks in India, the United States or elsewhere, anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, tensions between India and Pakistan related to the Kashmir region, military armament or social unrest in any part of India, the monetary and interest rate policies of the government of India, natural calamities, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in Indian and foreign laws and regulations, including tax, accounting and banking regulations, changes in competition and the pricing environment in India, and regional or general changes in asset valuations. For further discussion on the factors that could cause actual results to differ, see Risk Factors.

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BUSINESS

Overview

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

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2007, we expanded our operations from 171 branches and 479 ATMs in 77 cities to 684 branches and 1,605 ATMs in 316 cities. During the same five years, our customer base grew from 2.1 million customers to 10.0 million customers. As our geographical reach and market penetration have expanded, so too have our assets, which grew from Rs.243.0 billion as of March 31, 2002 to Rs.1,013.2 billion as of March 31, 2007. Our net income has increased from Rs.3.0 billion for fiscal 2002 to Rs.11.0 billion for fiscal 2007 at a compounded annual growth rate of 30.1%.

Notwithstanding our pace of growth, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2007, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.4% of net customer assets as per Indian generally accepted accounting principles, or Indian GAAP. In addition, our net customer assets represented 79.6% of our deposits and customer deposits represented 67.3% of our total liabilities and shareholders' equity. The average non-interest bearing current accounts and low-interest savings accounts represented 52.7% of total deposits for fiscal 2007. These low-cost deposits, which include the cash float associated with our transactional services, led to an average cost of funds including equity (calculated under Indian GAAP) for fiscal 2007 of 3.7%. Our cost of funds of 3.1% for fiscal 2006 was one of the lowest for all domestic banks in India (such comparative data is not yet available for 2007).

We are part of the HDFC group of companies founded by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a public limited company established under the laws of India. HDFC Limited and its subsidiaries owned approximately 24.74% of our outstanding equity shares as of June 30, 2007. See also **Principal Shareholders**.

We currently have one subsidiary, HDFC Securities Limited (HSL) which provides brokerage services through the Internet and other channels. We intend to acquire a majority stake in our affiliate, Atlas Documentary Facilitators Company Private Ltd. (ADFC) which provides back office transaction processing services, subject to obtaining the necessary approval from the Reserve Bank of India, or RBI. We have consolidated the accounts of ADFC in our U.S. GAAP financial statements for fiscal 2007. In addition, we recently received RBI approval to set up a non-banking financial subsidiary.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States is Depository Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022.

Our Competitive Strengths

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

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

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

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We deliver high quality service with superior execution

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

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

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

We have an experienced management team

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

Our Business Strategy

Our business strategy emphasizes the following elements:

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

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

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, a comprehensive risk assessment process and diligent risk monitoring and remediation procedures. Our ratio of gross non-performing assets to customer assets was 1.2% as of March 31, 2007 and our net non-performing assets amounted to 0.4% of net customer assets as per Indian GAAP. We believe we can maintain strong asset quality appropriate to the loan portfolio composition, while achieving growth.

Maintain a low cost of funds

As of March 31, 2007, our average cost of funds excluding equity was 4.0%. We believe we can maintain a relatively low-cost funding base as compared to our competitors, by expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing.

Focus on high earnings growth with low volatility

Our aggregate earnings have grown at a compound average rate of 30.1% per year during the five-year period ending March 31, 2007 and our basic earnings per share grew from Rs.29.45 for fiscal 2006 to Rs.35.10 for fiscal 2007. We intend to maintain our focus on steady earnings growth through conservative risk management techniques and low cost funding. In addition, we aim not to rely heavily on revenue derived from trading so as to limit earnings volatility.

Table of Contents**Our Principal Business Activities**

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

	2005	Year ended March 31		2007
		2006	2007	
		(in millions, except percentages)		
Retail banking	Rs. 13,037.0	Rs. 23,293.2	Rs. 30,542.1	69.9%
Wholesale banking	7,192.4	8,256.0	11,808.1	27.1%
Treasury operations	919.6	(527.1)	1,315.7	3.0%
Net revenue	Rs. 21,149.0	Rs. 31,022.1	Rs. 43,665.9	100.0%

Retail Banking*Overview*

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

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

As of March 31, 2007, we had 684 branches, including 22 extension counters, and 1,605 ATMs in 316 cities. We also provide telephone banking in 217 cities as well as Internet and mobile banking. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to receiving regulatory approvals.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two wheeler loans, credit cards and loans against securities. Our retail loans were 58.5% of our gross loans as of March 31, 2007. Apart from our branches we use our ATM screens and the Internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analyses of the borrowers and the value of the collateral. See Risk Management Credit Risk Retail Credit Risk. We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain irrevocable instructions to debit the customer's account directly for the making of payments.

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

	Number of Loans (in thousands)	As of March 31, 2007		% of Total Value
		Value (in millions)		
Retail Loans:				
Auto loans (1)	333	Rs. 87,701.2	US\$ 2,034.8	24.8%
Personal loans	617	57,370.6	1,331.1	16.2%
Retail business banking	22	54,374.4	1,261.6	15.4%
Commercial vehicles and construction equipment finance (1)	125	52,070.6	1,208.1	14.7%
Two wheeler loans	1,057	22,340.1	518.3	6.3%
Credit cards	2,913(2)	20,104.9	466.5	5.7%
Loans against securities	28	12,720.3	295.1	3.6%
Other retail loans	268	11,924.0	276.8	3.4%
Total retail loans	5,364	318,606.1	7,392.2	90.1%
Mortgage-backed securities (home loans) (3)		14,714.4	341.4	4.2%
Asset-backed securities (3)		20,138.9	467.3	5.7%
Total retail assets		Rs. 353,459.4	US\$ 8,200.9	100.0%

(1) Net of receivables securitized.

(2) Number of cards in force.

(3) Reflected at fair value.

Auto Loans

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

Personal Loans

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

Retail Business Banking

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

Commercial Vehicles and Construction Equipment Finance

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

Two Wheeler Loans

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

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Credit Cards

We offer credit cards from the VISA and MasterCard stable including gold, silver, corporate, platinum and titanium credit cards. We had approximately 2.9 million cards outstanding as of March 31, 2007 as against 2.4 million as of March 31, 2006.

Loans against Securities

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

Other Retail Loans

Such loans primarily include overdrafts against time deposits, health care equipment financing loans, loans against gold and ornaments and small loans to farmers.

Mortgage-backed Securities (Home Loans)

In fiscal 2003 we entered the home loan business through an arrangement with HDFC Limited. Under this arrangement, we sell home loans provided by HDFC Limited, which approves and disburses the loans. The loans are booked in the books of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, HDFC Limited is obligated to offer us up to 70% of the fully disbursed home loans sourced under the arrangement through the issue of mortgage-backed pass-through certificates (PTCs). We have the option to purchase the mortgage-backed PTCs at the underlying home loan yields less a spread of 1.25% payable towards the administration and servicing of the loans. A part of the home loans also qualifies for our directed lending requirement. In fiscal 2006 and 2007 we waived the requirement for HDFC Limited to offer us up to 70% of the fully disbursed home loans. Instead, HDFC Limited paid us an additional sourcing commission for those periods.

We also invest in mortgage-backed securities of other originators. Most of these securities also qualify toward our directed lending obligations.

Asset-backed Securities

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

Loan Assignments

We purchase loan portfolios from other banks, financial institutions and financial companies, which are similar to asset-backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations. Such loans are included within the categories described above based on underlying exposures.

Sale/Transfer of Receivables

We securitize our retail loan receivables through independent special purpose vehicles (SPVs) from time to time. In respect of these transactions, we provide credit enhancements generally in the form of cash collaterals/guarantees/interest spreads and/or by subordination of cash flows to senior PTCs. We also enter into sale transactions, which are similar to asset-backed securitization transactions through the SPV structure, except that such portfolios of retail loan receivables are assigned directly to the purchaser and are not represented by PTCs. During fiscal 2006 and 2007, we securitized retail loans with carrying values of Rs.19.8 billion and Rs.6.5 billion, respectively. Until January 2006, in respect of some of the PTCs, we provided options to investors, exercisable within a limited time frame, to sell them to us at par. As of March 31, 2007, the principal outstanding on these PTCs was Rs.21.2 million.

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Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented 64.2% of our total deposits as of March 31, 2007. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

At March 31, 2007			
Value (in millions)	% of total	Number of accounts (in thousands)	% of total