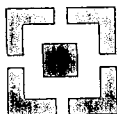


ANNUAL REPORT 1997-98

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HDFC BANK

HDFC BANK LIMITED

4th ANNUAL GENERAL MEETING

Date : 13th July, 1998
Day : Monday
Time : 3.30 p.m.
Place : Birla Matushri Sabhagar,
 19, New Marine Lines,
 Mumbai 400 020
Book Closure : 26th June to 13th July 1998
Dates (both days inclusive)

BOARD OF DIRECTORS

Mr. Shobha Singh Thakur, *Chairman*
 Mr. Deepak M. Satwalekar
 Mr. Jagdish S. Baijal
 Mr. Nasser M. Munjee
 Mr. Keki M. Mistry
 Dr. (Mrs.) Amla Samanta
 Mr. Philip W. Deer (Upto 16th January, 1998)
 Mr. Christopher FitzGerald (From 30th March, 1998)
 Mr. John Howland-Jackson (Upto to 14th May, 1998)
 Mr. Roderick Richards (From 15th May, 1998)
 Mr. Aditya Puri, *Managing Director*

ASSISTANT VICE PRESIDENT-LEGAL & COMPANY SECRETARY

Mr. Sanjay B. Dongre

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AUDITORS

Bharat S Raut & Co.
 (A member firm of KPMG)

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REGISTRARS & SHARE TRANSFER AGENTS

MCS Limited

Sri Venkatesh Bhawan,
 Plot No. 27, Road No. 11,
 MIDC Area, Andheri (East),
 Mumbai 400 093.
 Tel No. 8215235/6/7
 Fax No. 8350456

REGISTERED OFFICE

Novartis House,
 Dr. Annie Besant Road,
 Worli, Mumbai 400 018
 Tel No. 4951616
 Fax No. 4951771

Notice



NOTICE is hereby given that the Fourth Annual General Meeting of the members of HDFC Bank Limited will be held at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020 on Monday, 13th July, 1998 at 3.30 p.m. to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the audited Balance Sheet as at 31st March, 1998 and Profit and Loss Account for the year ended on that date and Reports of the Directors and Auditors.
2. To declare dividend.
3. To appoint a Director in place of Dr. (Mrs.) Amla Samanta who retires by rotation and being eligible offers herself for re-appointment.

remuneration to be fixed by the Board of Directors for audit of the Bank's accounts for its Head Office and all its branches."

By Order of the Board

SANJAY B. DONGRE
Asst. Vice President-Legal
& Company Secretary

Mumbai, 14th May, 1998

NOTES:

SPECIAL BUSINESS

4. To consider, and if thought fit, to pass, with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT Mr. Christopher FitzGerald be and is hereby appointed a Director of the Bank, liable to retire by rotation."

5. To consider, and if thought fit, to pass, with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT Mr. Roderick Richards be and is hereby appointed a Director of the Bank, liable to retire by rotation."

6. To consider, and if thought fit, to pass, with or without modifications, the following resolution as an ordinary resolution:

"RESOLVED THAT S. B. Billimoria & Co., Chartered Accountants, in respect of whom the Bank has received a special notice pursuant to section 225 of the Companies Act, 1956 be and are hereby appointed Auditors of the Bank to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting on a

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE BANK. The proxy form should be lodged with the Bank at its Registered Office at least 48 hours before the Meeting.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to special business is annexed hereto.
3. The Register of Members and Share Transfer Books of the Bank will remain closed from 26th June to 13th July, 1998 both days inclusive.
4. Dividend, if declared, will be paid to the members whose names appear in the Register of Members of the Bank on 13th July, 1998.
5. Members are requested to promptly notify any change in their address to the Bank's Registrars MCS Limited, Sri Venkatesh Bhavan, Plot No.27, Road No.11, MIDC Area, Andheri (East), Mumbai 400 093.
6. All documents referred to in the Notice are open for inspection at the Registered Office of the Bank on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Meeting.

Annexure to the Notice

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

ITEM NOS. 4 & 5

Mr. Christopher FitzGerald and Mr. Roderick Richards were appointed as Directors of the Bank under section 260 of the Act, and would hold office till the date of the ensuing Annual General Meeting. Subject to the approval of Members of the Bank, NatWest Group has nominated Mr. FitzGerald and Mr. Richards as Directors of the Bank. Mr. FitzGerald is the General Counsel of NatWest Group and Mr. Richards is the Chief Representative of NatWest Markets Ltd. in India. The Bank has received notices from members signifying their intention to propose Mr. FitzGerald and Mr. Richards as candidates for the office of Director. The Bank has also received a deposit for Rs.500/- each as required under the Act.

The Board recommends their appointment as Directors. None of the Directors other than Mr. FitzGerald and Mr. Richards are concerned or interested in the respective resolutions.

ITEM NO. 6

Bharat S. Raut & Co. have been the statutory auditors of the Bank since 1994. As per the regulations of the Reserve Bank of India (RBI) the same auditors cannot be re-appointed for a period beyond four years. Accordingly, it is proposed to appoint S. B. Billimoria & Co., Chartered Accountants as the new statutory auditors of the Bank. Necessary approval of RBI under the Banking Regulation Act, 1949 has already been obtained in this regard.

The Board recommends the appointment of S. B. Billimoria & Co. as the Bank's statutory auditors. None of the Directors are concerned or interested in the said resolution.

By Order of the Board

SANJAY B. DONGRE

*Asst. Vice President - Legal
& Company Secretary.*

Mumbai, 14th May, 1998

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Directors' Report



To the Members,

Your Directors have pleasure in presenting the Fourth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended 31st March, 1998.

FINANCIAL PERFORMANCE

	(Rs. in Crores)	
	For the year ended	
	31st March, 1998	31st March, 1997
Deposits and other borrowings	2246.44	1478.35
Advances	841.98	575.26
Total Income	302.81	193.33
Profit before depreciation and tax	105.04	64.31
Net Profit	63.15	40.50
Appropriations :		
Transfer to Statutory Reserve	15.79	10.13
Proposed Dividend	20.00	16.00
Tax on Dividend	2.00	1.60
Balance carried over to Balance Sheet	25.36	12.77

Overall financial performance during the year under review was strong with total net revenues increasing by 55.7 % from Rs.106.15 crores in 1996-97 to Rs. 165.26 crores in 1997-98. Net revenues from fund based and non-fund based activities represent a healthy 63:37 ratio. The expense to revenue ratio improved marginally from 21.8% to 20.7%. Despite a higher effective tax rate, net profit was Rs. 63.15 crores, up 55.9 % from Rs.40.50 crores in the previous year. Return on average equity (RoE) was 23.87 % in 1997-98 as against 17.42 % in 1996-97.

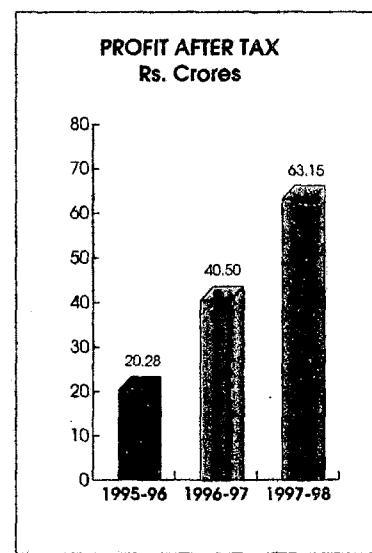
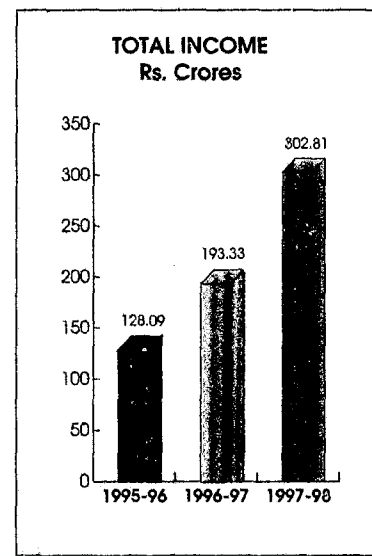
The gross income and profit before tax exceeded significantly the projections set out in the Prospectus issued at the time of your bank's public issue of shares in March 1995. The gross income was Rs. 302.81 crores against the projected Rs.202.4 crores and the profit before tax was Rs. 94.35 crores against the projected Rs.79.4 crores. The profit after tax was however lower at Rs. 63.15 crores against the projected Rs. 70 crores due to a much higher effective tax rate than assumed in the Prospectus.

DIVIDEND

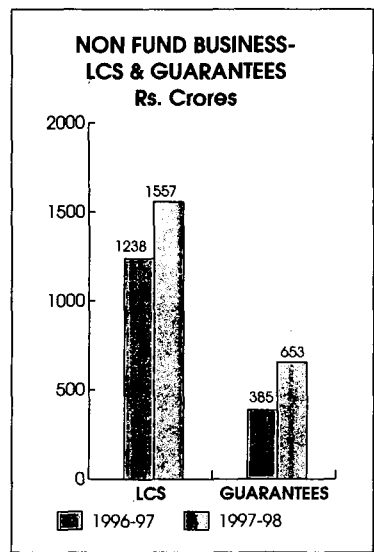
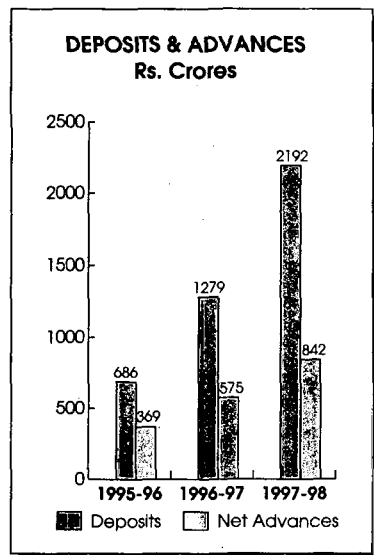
For a bank, capital is a key element which drives growth, both in terms of its ability to increase its risk assets (as reflected in the capital adequacy ratio) and its ability to continue to make investments in branch expansion and other infrastructure to sustain business growth. Healthy retentions are therefore extremely important to support the ambitious growth track that your bank has positioned itself for. Nonetheless, in recognition of the improved financial results, your Directors are happy to recommend a dividend of 10% for the year ended March 31, 1998, as against 8 % for the previous year.

ISSUE OF TIER-II CAPITAL

During the year under review, your bank has issued and allotted unsecured, redeemable, subordinated bonds aggregating to Rs. 100 crores, qualifying as Tier II Capital. These bonds carry interest @ 13 % p.a. and are redeemable after six and half years. The overall capital adequacy ratio (CAR) of your bank improved from 13% as of March 31, 1997 to 13.92 % as of March 31, 1998. The Tier I CAR as of March 31, 1998 stood at 10.21%.



Directors' Report (Contd.)



GROWTH IN DEPOSITS AND ADVANCES

Your bank's total deposits have increased by 71.3% to Rs. 2191.74 crores during 1997-98. Even excluding Certificates of Deposit (CDs), deposits increased by 61.7% over the previous year. More importantly, savings account deposits increased by 158.2%, reflecting the bank's focus on building a stable, low-cost, retail deposit base. Some of the bank's franchises like cash management and stock exchange clearing businesses also generate volatile but low cost deposits which enable the bank to tap opportunities in the money and debt securities markets.

Total advances increased from Rs. 575 crores to Rs. 842 crores, a growth of 46.43%. In addition, your bank's investments in corporate debt (commercial paper, debentures etc.) increased from Rs. 22.09 crores to Rs. 199.8 crores. As a prudent funding strategy the bank funds its advances and corporate debt portfolio only from its core deposits, after excluding transient float funds and netting out reserve requirements.

BUSINESS DEVELOPMENTS

Your bank has continued to focus itself on its four core business areas and has made significant strides in each of these during 1997-98 :

CORPORATE BANKING

Almost the entire loan portfolio of your bank comes from the corporate banking business where the bank provides a wide range of commercial and investment banking services to corporate customers. The total outlay of funds to the corporate sector registered a growth of 74% during 1997-98. This was possible due to geographic expansion, new customer acquisitions and increased penetration into existing customer relationships. Apart from meeting the funding requirements of corporate customers, the bank achieved an extremely healthy growth in volumes in its letters of credits, guarantees and cash management businesses. We believe that given its product range and superior service levels as well as the ability to respond proactively to meeting customer needs, your bank is well positioned to sustain a high growth rate in those segments of the corporate banking business which it decides to participate in.

The bank's credit portfolio is well diversified and continues to perform well although it was impacted during the year under review particularly due to some specific leasing transactions. Given the security held as well as the level of provisions made, the bank does not expect any further material financial impact of these transactions. The bank continues to have a conservative policy relating to provisioning for its non-performing assets as reflected in the fact that as of March 31, 1998, specific provisions were Rs. 9.5 crores, 58% higher than Rs. 6.0 crores as would be required as per RBI guidelines. In addition, the bank holds a general loan loss provision of Rs. 3.2 crores. Net non-performing assets as of March 31, 1998 were 1.24 %.

TREASURY

During the year under review your bank performed well in each of the three treasury businesses - Foreign Exchange & Derivatives, Money Markets & Debt Securities and Equities Investments & Advisory. In the foreign exchange business, customer flows have increased substantially with the widening of the customer base as well as through capturing a larger share of the flows of existing customers. A large number of

Directors' Report (Contd.)

corporate customers, both from the public and private sector, deal with the bank for foreign exchange and related products based on competitive rates and superior service. On the local currency side as well, your bank has been increasing its presence in the short and medium term debt market instruments including treasury bills, CPs, CDs, debentures, etc. Apart from maintaining the bank's statutory reserve requirements, the debt securities desk also tries to tap funding and gapping and trading opportunities, within approved limits. Despite the adverse impact of the sudden aberration in interest rates and investment yields in January, 1998 when the Reserve Bank of India launched a series of measures to protect the Rupee, your bank's debt securities desk put in a strong performance on a full year basis. The equities desk commenced advisory services to high networth Individual customers and also made a positive trading contribution in a market which for the larger part of the year, was plagued by political and economic uncertainty.

RETAIL BANKING

During the year under review, significant progress was made by your bank in expanding its retail banking franchise. Total branches and extension counters increased from 20 in March, 1997 to 37 in March, 1998. In addition to the branch expansion and the 25 strong ATM network the bank has also introduced full scale telephone banking in Mumbai and Delhi. The bank also launched a unique savings account offering, the "Freedom Account", with all the conveniences of a savings account including multi-branch access, phone banking, ATM cards, etc., without any minimum balance requirement, for a nominal monthly fee. Towards the end of the financial year the bank also launched its first retail lending product - Loan Against Shares. To support the higher volumes and wider product range, the bank implemented a new dedicated retail banking software which is expected to adequately support its retail business plans over the next few years.

CAPITAL MARKETS INFRASTRUCTURE

The custodial and depository participant (DP) services business witnessed steady growth during the year with assets under custody at over Rs.2000 crores. During the year, your bank was appointed as a sub-custodian by Lloyds Bank, U.K. The bank has also been aggressively marketing its DP services and promoting the dematerialisation of shares by participating with NSDL in investor awareness programmes, extending introductory offers with fee waivers, and even lowering interest costs for loans against dematerialised shares. While the Depository Participant services were initially introduced in Mumbai, the bank is now geared to provide these services to retail investors at select outstation branches as well. As a clearing bank to the National Stock Exchange, your bank increased its share in the settlement volumes and introduced a comprehensive package of services for the NSE members, on a product programme basis. The bank has also entered into a MOU with Ahmedabad Stock Exchange to provide clearing bank services to the Exchange.

STATUTORY DISCLOSURES

The information required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is given in the Annexure appended hereto and forms part of this Report. As per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the shareholders of the Bank, excluding the

