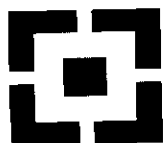


ANNUAL REPORT 1998-99

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HDFC BANK

HDFC BANK LIMITED

5th ANNUAL GENERAL MEETING

Date	: 1st June, 1999
Day	: Tuesday
Time	: 3.30 p.m.
Place	: Patkar Hall, SNDT Women's University, 1, Nathibai Thackersey Rd, New Marine Lines, Mumbai 400 020
Book Closure Dates	: 4th May to 1st June, 1999 (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. Christopher FitzGerald
Mr. Roderick Richards (Upto 30th September, 1998)
Mr. Christian Jervis Read (From 16th October, 1998)
Dr. Venkat Rao Gadwal (From 15th March, 1999)
Mr. Aditya Puri, *Managing Director*

ASSISTANT VICE PRESIDENT - LEGAL & COMPANY SECRETARY

Mr. Sanjay B. Dongre

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AUDITORS

S. B. Billimoria & Co.

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REGISTRARS & SHARE TRANSFER AGENTS

MCS LIMITED

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

REGISTERED OFFICE

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

Notice



NOTICE is hereby given that the Fifth Annual General Meeting of the Members of HDFC Bank Limited will be held at Patkar Hall, S.N.D.T. Women's University, 1, Nathibai Thackersey Road, New Marine Lines, Mumbai 400 020 on Tuesday, 1st June, 1999 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, 1999 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 Mr. N. M. Munjee who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. M. Mistry who retires by rotation and being eligible offers himself for re-appointment.
5. To re-appoint Auditors and in this connection, to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT S. B. Billimoria & Co., Chartered Accountants, be and are hereby re-appointed Auditors of the Bank to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting, on a remuneration of such sum as may be fixed by the Board of Directors in the best interest of the Bank, for the purpose of audit of the Bank's accounts at its Head Office and all its branch offices."

SPECIAL BUSINESS

6. To consider, and if thought fit, to pass, with or without modifications, the following resolution as an ordinary resolution :
"RESOLVED THAT Mr. Christian Jervis Read be and is hereby appointed as a Director of

the Bank, liable to retire by rotation."

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

"RESOLVED THAT Dr. Venkat Rao Gadwal be and is hereby appointed as a Director of the Bank, liable to retire by rotation."

By Order of the Board

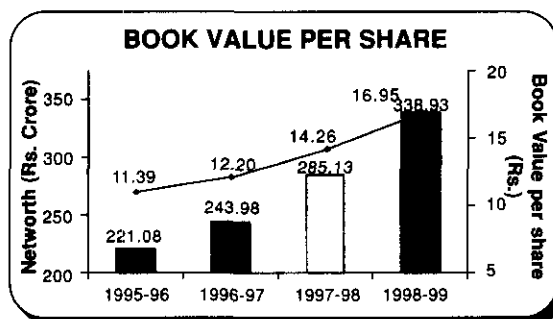
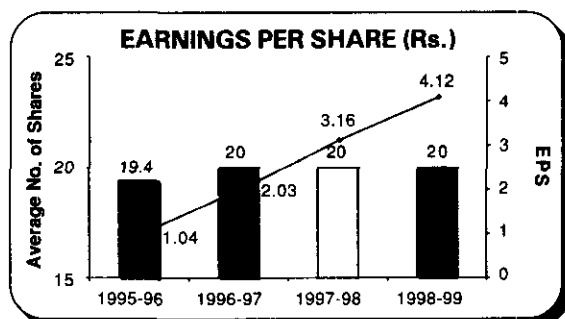
SANJAY B. DONGRE

Asst. Vice President - Legal
& Company Secretary

Mumbai, 21st April, 1999

NOTES :

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 atleast 48 hours before the time of the Meeting .
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business is annexed hereto.
3. The Register of Members and Share Transfer Books of the Bank will remain closed from 4th May, 1999 to 1st June, 1999 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 1st June, 1999. (The dividend warrants will be posted on or after 2nd June, 1999).
5. Members are requested to promptly notify any change in their addresses and ECS Mandates/Bank Account particulars, to the Bank's Registrars MCS Limited, Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, M.I.D.C. 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 Annual General Meeting.



Annexure to the Notice

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

ITEM NOS. 6 & 7

Mr. C. J. Read was appointed as a Director of the Bank under section 260 of the Companies Act, 1956 to represent the NatWest Group on the Board of the Bank and would hold office till the date of the ensuing Annual General Meeting. Subject to the approval of the Members, it is proposed to appoint Mr. C. J. Read as a Director of the Bank.

Dr. Venkat Rao Gadwal was appointed as a Director of the Bank under section 260 of the said Act to represent the agricultural sector on the Board and comply with the requirement of Section 10-A of the Banking Regulation Act, 1949. Dr. Gadwal holds Ph.D. degree in Cytogenetics, Plant Breeding and Virology and has about 40 years of professional experience in areas relating to agriculture.

As required under section 257, the Bank has received notices from members signifying their intention to propose Mr. C. J. Read and Dr. V. R. Gadwal as candidates for the office of Director. The Bank has also received deposit for Rs. 500/- each as required under the Act.

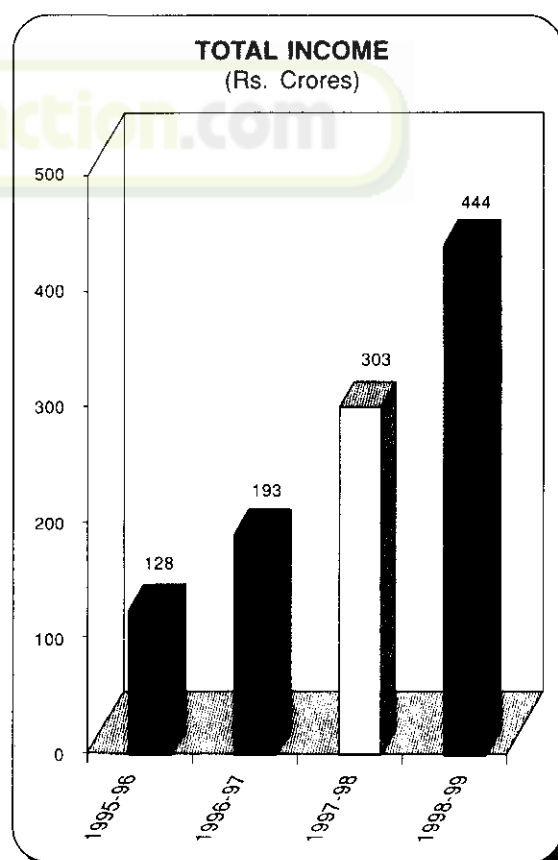
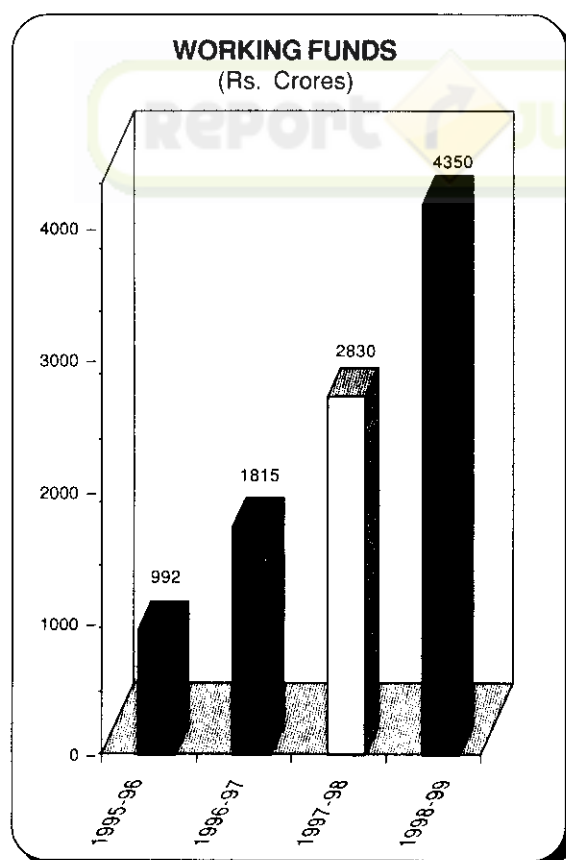
The Board of Directors recommend the appointment of Mr. Read and Dr. Gadwal as Directors. None of the Directors other than Mr. Read and Dr. Gadwal are in any way, concerned or interested in the said resolution.

By Order of the Board

SANJAY B. DONGRE

Asst. Vice President - Legal
& Company Secretary

Mumbai, 21st April, 1999.



Directors' Report



To the Members,

Your Directors have pleasure in presenting the fifth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended 31st March, 1999.

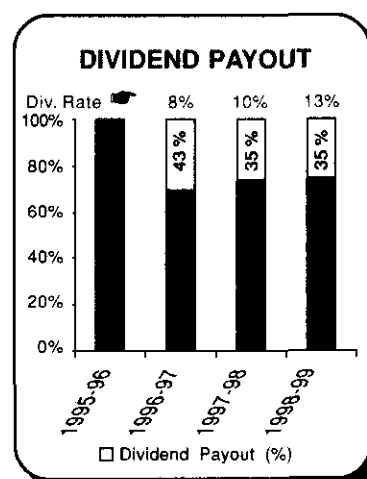
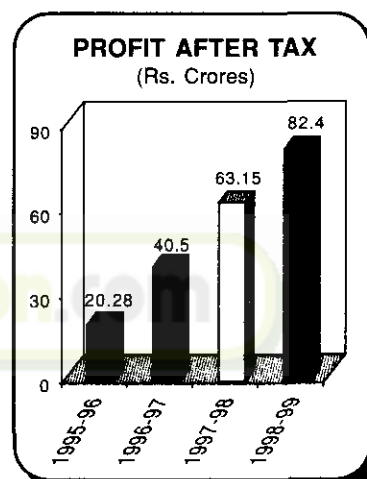
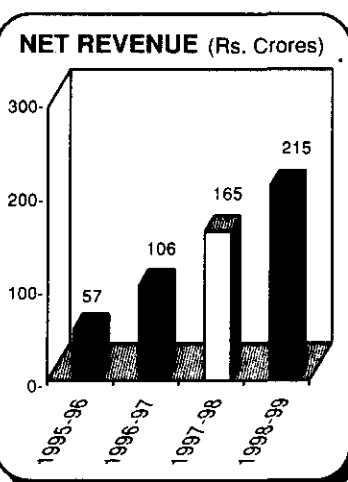
FINANCIAL PERFORMANCE

	(Rs. in Crores) For the year ended	
	31st March, 1999	31st March, 1998
Deposits and other borrowings	3362.99	2246.44
Advances	1400.56	841.98
Total Income	444.15	302.81
Profit before depreciation and tax	131.87	105.04
Net Profit	82.40	63.15
Appropriations :		
Transfer to Statutory Reserve	20.60	15.79
Proposed Dividend	26.00	20.00
Tax on Dividend	2.60	2.00
Balance carried over to Balance Sheet	33.20	25.36

During the year under review, your Bank recorded all round improvement in financial performance across both Profit & Loss Account and Balance Sheet parameters. Total net revenues (net interest income plus other income) increased by 30.1% from Rs. 165.26 crores in 1997-98 to Rs. 214.97 crores in 1998-99. The mix of fund based and non-fund based revenues remained healthy at 68:32. The proportion of market sensitive revenues (profit on sale of investments and foreign exchange profits) decreased from 19% to 13% of the total net revenues. Despite the substantial investments in the branch expansion, new product introductions, etc. the operating expenses to total income ratio improved from 20.7% in 1997-98 to 20% in 1998-99. Net Profit increased by 30.5% from Rs. 63.2 crores to Rs. 82.4 crores for the year under review. Return on Average Net Worth (RONW) was also a healthy 26.41% in 1998-99 as against 23.87% in 1997-98.

DIVIDEND

Your Bank continues to grow at a rapid pace. For sustaining the growth momentum, healthy retentions are invaluable, both to strengthen Tier I Capital ratio as well as to fund investments in branch and other infrastructure. Besides, with a higher RONW of over 26%, these retentions will enhance shareholder value. However, as a reflection of the optimism with which we view your Bank's future,

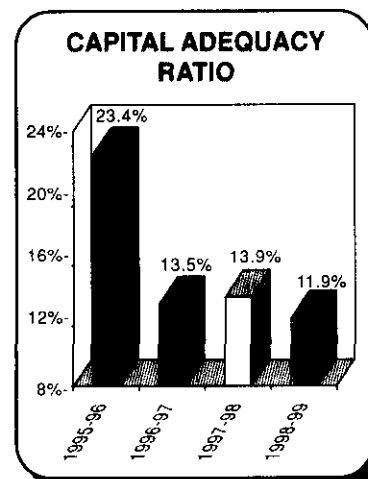


Directors' Report - (Contd.)

your Directors are happy to recommend a dividend of 13% for the year ended 31st March, 1999 as against 10% for the previous year.

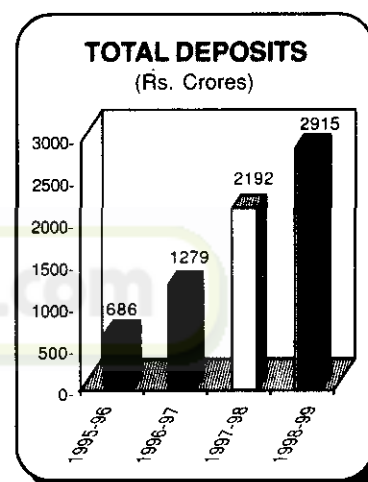
CAPITAL ADEQUACY

Your Bank's overall Capital Adequacy Ratio (CAR) declined from 13.92% as of 31st March, 1998 to 11.86% as of 31st March, 1999. Tier I CAR as of 31st March, 1999 stood at 8.34%. During the year under review the Bank issued and allotted unsecured, subordinated bonds aggregating to Rs. 35 crores, redeemable after 87 months, increasing the total bonds qualifying as Tier II Capital to Rs. 135 crores.



GROWTH IN DEPOSITS AND ADVANCES

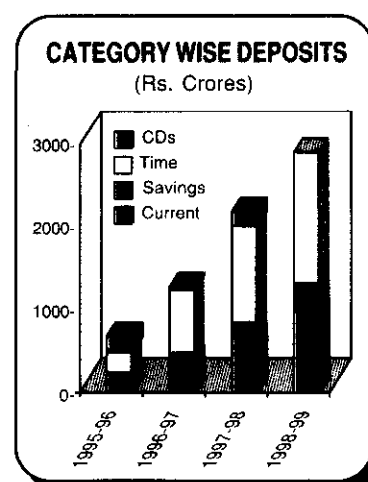
Deposits in the year under review increased by 33% from Rs. 2191.74 crores to Rs. 2915.11 crores. Your Bank's efforts at increasing the proportion of low cost savings and current account deposits continued to bear fruit. Savings accounts, in particular, increased by 95% from Rs. 177.35 crores as of March 31, 1998 to Rs. 346.51 crores as of March 31, 1999. While total borrowings (including refinance from Reserve Bank of India and borrowings in the call money market) were higher at Rs. 426.49 crores, the Bank uses treasury sources mainly for financing short term money market and treasury assets. The Bank's core advances and corporate debt portfolios continue to be funded primarily from core customer deposits. Total advances increased from Rs. 841.98 crores to Rs. 1400.56 crores, a growth of 66%. In addition, the Bank's corporate debt (including Commercial Paper, Debentures, etc.) increased from Rs. 199.8 crores to Rs. 569.5 crores during the year under review.



STRATEGIC BUSINESS COLLABORATION

Over the past 18 months or so, NatWest had been gradually pulling back on its international operations, particularly in Asia, and consolidating its business in UK and the rest of Europe. As part of this restructuring and consolidation exercise, NatWest had indicated their willingness and desire to sell their stake in your Bank, particularly if the proposed change would enable the Bank to derive value from the new strategic relationship. In this regard your Bank's efforts to enter into a new association with an international bank of stature culminated in the signing of a Memorandum of Understanding for Strategic Business Collaboration with The Chase Manhattan Bank on 2nd February, 1999.

The new strategic business collaboration brings together Chase's global network and product capabilities with your Bank's extensive presence and expertise in the Indian market. The collaboration will be client driven and contemplates progressive co-operation along product lines over time. Initial areas of collaboration will focus on



Directors' Report - (Contd.)



trade finance, cash management, corporate finance/advisory, foreign exchange & derivatives. The collaboration would therefore provide each bank's customers broader access to global and Indian products and services and enable each bank to access incremental business opportunities. Your Directors look forward to the Bank's relationship with Chase with tremendous optimism and firmly believe that with this strategic collaboration, your Bank has taken some very meaningful strides in its efforts towards building a world class Indian bank.

Concurrently, the NatWest Group is in the process of selling its 20% equity stake in the Bank and the sale is expected to be completed in the next few weeks on completion of the remaining regulatory and related formalities. 5% of the Bank's equity is proposed to be sold to HDFC Investments Ltd., a fully owned subsidiary of Housing Development Finance Corporation (HDFC). The Indian Private Equity Fund, Mauritius (IPEF) and Indocean Financial Holdings Ltd., Mauritius (IFHL), both funds advised by Indocean Chase Capital Advisors, the Indian affiliate of Chase Capital Partners, will be purchasing 10% and just under 5% of your Bank's equity respectively.

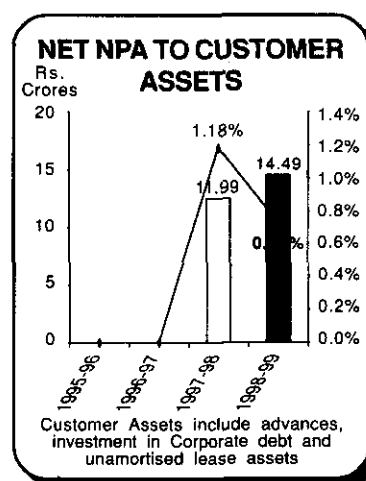
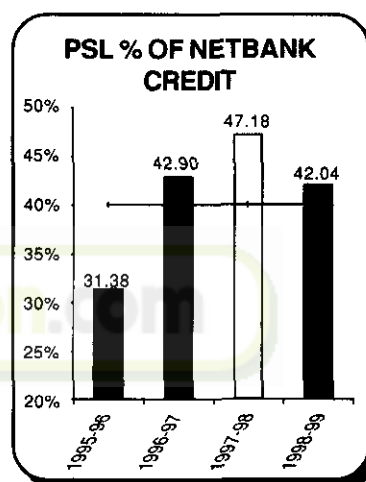
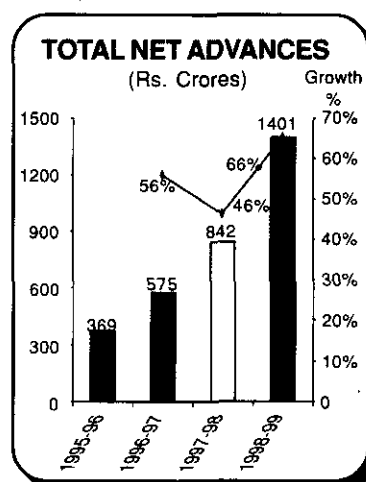
BUSINESS DEVELOPMENTS

Your Bank's strong performance was achieved during one of the most challenging periods for the banking industry in recent years. Driving these results were the strength and diversity of the Bank's business franchises and a disciplined approach to risk and expense management. During 1998-99 the Bank made significant progress in consolidating its position in each of its four major businesses and continues to experience a strong growth momentum.

Corporate Banking :

The Corporate Banking business entails meeting the financial needs of corporates on a relationship managed basis by providing a wide range of commercial and investment banking products and services. This business remains a major contributor to your Bank's revenues, both from funded and non-funded activities. During the year under review, significant progress was made in adding new corporate relationships, both in existing markets and through geographic expansion. Increased penetration of existing relationships remained a key focus area, which helped increase the Bank's share in the customers' business. Apart from higher volumes in the domestic and international trade business, the Bank achieved exponential growth in its cash management services, leveraging its expanded branch network and the on-line, real-time connectivity between its branches.

In an extremely difficult credit environment, your Bank's portfolio quality remained stable with ratio of gross NPAs to Customer assets and net NPAs to Customer assets at just 1.75% and 0.73% respectively. The Bank continues to have a conservative policy



Directors' Report - (Contd.)

relating to creating specific provisions well in excess of the regulatory requirements. The Bank also holds a general loan loss provision of Rs. 7.01 crores which is about 35 basis points of the Bank's customer assets as of 31st March, 1999. The focus in corporate banking remains towards the top end of the credit spectrum with less than a fifth of the portfolio in the middle-market segment. The exposure is mainly short-term, working-capital related and is well diversified across over twenty-three major industries.

Treasury :

The Treasury Division continued to ably perform its multiple roles of managing your Bank's funding and reserve requirements and its interest rate and liquidity risks, besides generating revenues through various products including Foreign Exchange, Derivatives, Debt Securities and Money Markets, etc. Customer based volumes and revenues continued to grow in both the foreign exchange and local currency debt securities businesses.

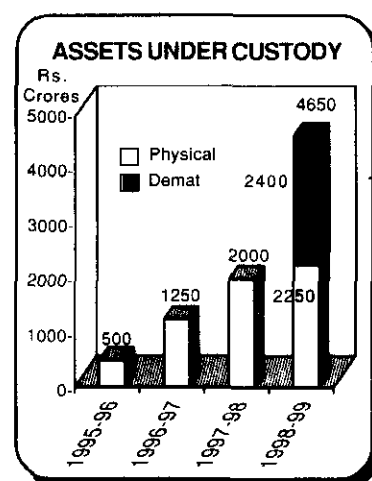
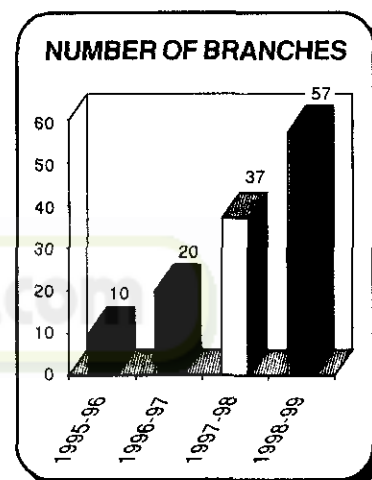
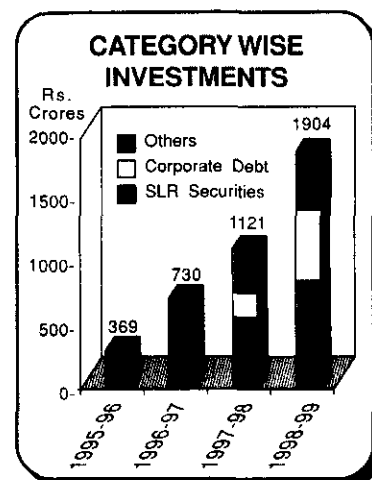
The Treasury division also achieved a significant growth in its Investment Advisory services which seek to guide high network clients of the Bank in managing their investments in line with their long term risk return objectives. The number of clients for these services more than tripled in the year under review. This will continue to be a major thrust into 1999-2000.

Retail Banking :

During the year under review, rapid strides were made by your Bank in its Retail Banking franchise, both in terms of increasing the customer base as well as in expanding the product range. Apart from a wide range of deposit products the Bank now offers loan products including loans against shares and car loans to its retail customers. To provide greater convenience as well as to manage volumes in a cost-effective manner, the Bank has expanded its customer base and presently it services about 345,000 retail accounts through multiple channels - branches, ATMs, telephone banking and direct sales. The growth in the retail franchise has been well supported by the expansion in branch network from 37 in March 1998 to 57 in March 1999. During the year under review, your Bank became part of the Mastercard/Cirrus ATM network and also tied up with American Express to provide ATM cash access to its card members. Leveraging its unique brand equity, investments in technology/expanding branch network and growing product range, the Bank views its retail franchise as a strong engine to drive future growth.

Capital Markets Infrastructure :

The year under review witnessed a phenomenal growth in your Bank's Depository Participant business with the total number of investor



Directors' Report - (Contd.)



accounts touching 50,000 by 31st March, 1999. Total value of assets under Custody and Depository Services crossed Rs. 4,500 crores. Based on its technological superiority and product expertise, the Bank has also become the country's leading provider of cash clearing and settlement services to Stock Exchanges. Your Bank is now a clearing bank for the Mumbai Stock Exchange, Ahmedabad Stock Exchange and Calcutta Stock Exchange, in addition to the National Stock Exchange and OTCEI where it has been a clearing bank since 1997. The Bank is ideally positioned to grow its depository business with strong synergies with its retail loans against shares business and stock exchange clearing services.

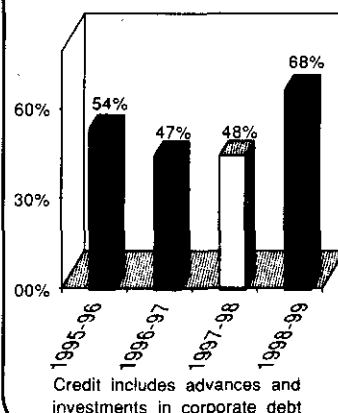
YEAR 2000

To manage the Year 2000 (Y2K) problem effectively, your Bank has put in place a comprehensive programme which has been and continues to be tracked against a defined set of milestones. Of the twenty-eight software systems which will be in use in your Bank on January 1, 2000, twenty-seven have been tested and are Y2K compliant. The vendor-certified Y2K compliant version of the remaining software system has also been delivered to the Bank and the Bank's testing of this system is expected to be completed shortly. LAN Servers, data centre equipment and telecom/network hardware in all the Bank's locations are fully Y2K compliant. 80% of personal computers/workstations are already Y2K compliant while the remaining are being replaced for which new equipment has already been purchased by the Bank. The costs of remediation and other efforts relating to the Y2K problem including depreciation on assets which have been or are being replaced are around Rs. 3.5 crores. The Bank continues to track and manage Y2K risks relating to third party providers as well as the potential Y2K impact on its major customers. The Bank has also put in place plans in relation to manual processing, incremental cash requirements, vendor support etc. for possible Y2K related contingencies. Throughout the remainder of 1999, your Bank will continue to focus on ensuring that software and hardware systems that have been tested and certified as Y2K compliant remain compliant and on continually updating its risk management process and contingency plans for Y2K related risks.

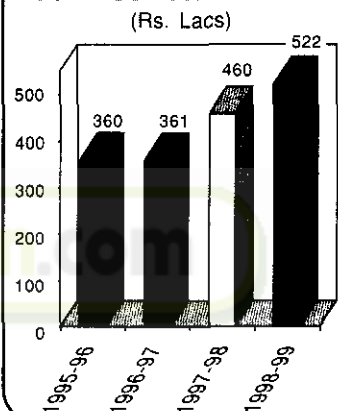
STATUTORY DISCLOSURE

The information required under section 217(2A) of the Companies Act, 1956 and the rules made thereunder, is given in the annexure appended hereto and forms part of this report. In terms of Section 219 (1) (b)(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 984 employees as on 31st March, 1999 and 44 employees employed throughout/part of the year, were in receipt of remuneration

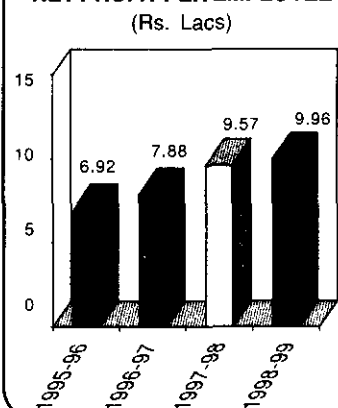
CREDIT DEPOSIT RATIO



BUSINESS PER EMPLOYEE



NET PROFIT PER EMPLOYEE



Directors' Report - (Contd.)

of Rs. 6,00,000/- per annum or Rs. 50,000/- or more per month as the case may be.

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.

DIRECTORS

Mr. Keki M. Mistry and Mr. Nasser Munjee retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment. Mr. Roderick Richards resigned as a Director of the Bank on 30th September, 1998. The Board of Directors places on record its appreciation for the valuable services rendered by him during his tenure as a Director.

Dr. Venkat Rao Gadwal was appointed as an additional Director with effect from 15th March, 1999, pursuant to section 260 of the Companies Act, 1956. Dr. Gadwal holds office upto the ensuing Annual General Meeting. The Bank has received from members a notice pursuant to section 257 of the Companies Act, 1956, signifying their intention to propose the candidature of Dr. Gadwal.

AUDITORS

The auditors S. B. Billimoria & Co., Chartered Accountants retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. Members are requested to consider their re-appointment for the financial year ending 31st March, 2000, on a remuneration to be decided by the Board of Directors.

ACKNOWLEDGEMENT

Your Directors would like to place on record their sincere gratitude for the support received from the Reserve Bank of India and other government and regulatory agencies and look forward to their continued guidance. We also greatly appreciate the commitment and dedicated efforts of our employees.

On behalf of the Board of Directors

S. S. Thakur
Chairman

Mumbai, 21st April, 1999

