

The Managing Director & Chief Executive Officer
HDFC Bank Ltd.
HDFC Bank House
Senapati Bapat Marg
Mumbai -- 400013
Maharashtra

Dear Sir,

Violations of RBI instructions – Imposition of Penalty u/s 47A (1) (b) of BR Act, 1949

Please refer to our letter No. DBS. CO.IPC. No.10934/12.01.001/2005-06 dated January 31, 2006 and your response letter dated February 10, 2006 in connection with imposition of penalty under Section 47A (1) (b) of the Banking Regulation Act, 1949.

2. After examining the bank's reply and the oral submission made on February 21, 2006, the Reserve Bank of India held, inter-alia, that the bank had committed the following irregularities:

- (i) Not displaying prudence while opening 217 saving bank accounts with one common name and multiple unconnected names. This was used for opening 1142 demat and 24 loan against share accounts, which were in turn used to make multiple applications for several IPOs.
- (ii) Non compliance with KYC norms
- (iii) Non adherence to the extant guidelines in regard to monitoring of large value transactions in customer accounts
- (iv) Violation of RBI directions with regard to Advances Against Shares
- (v) issue of bulk cheques (around 4000 cheques books totaling about one lakh cheque leaves) to one individual who effectively controlled operations in 24 loan against share accounts.

3. In view of the above, and considering the magnitude and enormity of the violations, the Reserve Bank of India has imposed a penalty of Rs.25.00 lakh (Rupees twenty five lakh only) on the bank. This imposition of penalty is without prejudice to any other action as the RBI may consider necessary.

4. You may note to disclose the particulars of the above penalty in the "Notes on Accounts" to the Balance sheet in the Annual Report in terms of RBI Circular No. DBOD.BP. BC .49/21.04.018/2004-05 dated October 19, 2004.

Yours faithfully,

(G. Gopalakrishna)
Chief General Manager-In-Charge