DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES) FOR THE YEAR ENDED 31 MARCH 2008

I. SCOPE OF APPLICATION

Axis Bank Limited (the 'Bank') is a commercial bank, which was incorporated on 3rd December 1993. The Bank is the controlling entity for all group entities that include its two wholly-owned subsidiaries namely Axis Sales Limited and Axis Private Equity limited.

The consolidated financial statements comprise the financial statements of Axis Bank limited and two subsidiaries which together constitute the 'Group'. The Bank consolidates its subsidiaries in accordance with Accounting Standard 21 (AS 21) 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India on a line-by-line basis by adding together the like items of assets, liabilities, income and expenditure. While computing the consolidated Bank's Capital to Risk-weighted Assets Ratio (CRAR), the Bank's investment in the equity capital of the wholly-owned subsidiaries is deducted, 50% from Tier 1 Capital and 50% from Tier 2 Capital. The subsidiaries of the Bank are not required to maintain any regulatory capital.

The Bank has also entered into a joint venture agreement and holds an equity investment to the extent of 26% in Bussan Auto Finance India Private Limited, a non-banking financial company. The financials of the joint venture company are not consolidated with the balance sheet of the Bank. The investment in the joint venture is not deducted from the capital funds of the Bank but is assigned risk-weights as an investment.

The Bank does not have any interest in any insurance entity.

II. CAPITAL STRUCTURE

Equity Capital

The Bank has authorized share capital of Rs. 500.00 crores comprising 50,00,00,000 equity shares of Rs. 10/- each. As on 31st March 2008 the Bank has issued, subscribed and paid-up equity capital of Rs. 357.71 crores, constituting 35,77,09,669 number of shares of Rs. 10/- each. The Bank's shares are listed on the National Stock Exchange, the Bombay Stock Exchange, the Ahmedabad Stock Exchange and the Over-The-Counter Exchange of India. The GDRs issued by the Bank are listed on the London Stock Exchange (LSE).

During the year the Bank has raised capital in the form of equity shares through simultaneous offerings in a mix of an overseas offering of follow-on Global Depository Receipts (GDRs), offering by way of Qualified Institutional Placement (QIP) and a preferential allotment of equity shares to the promoters of the Bank. The GDR was priced at nominal discount to the closing price of the Bank's listed GDR on the LSE. Each GDR represents one equity share of the Bank. The QIP and preferential allotment offerings were priced equivalent to the price offered under the GDR offering.

During the year the bank has also allotted equity shares to employees under its Employee Stock Option Plan.

The provisions of the Companies Act, 1956 and other applicable laws and regulations govern the rights and obligations of the equity share capital of the Bank.

Debt Capital Instruments

The Bank has raised capital through Innovative Perpetual Debt Instrument (IPDI) eligible as Tier 1 Capital and Tier 2 Capital in the form of Upper Tier 2 and subordinated bonds (unsecured redeemable non-convertible debentures), details of which are given below.

Perpetual Debt Instrument

The Bank has raised Perpetual Debt Instruments, the aggregate value of which as on 31st March 2008 was Rs. 398.55 crores as stated below.

Date of Allotment	Rate of Interest	Period	Amount
30 September 2006	10.05%	Perpetual	Rs. 214.00 crores
15 November 2006	7.167%	Perpetual	USD 46 million* (Rs. 184.55 crores)
Total Perpetual Debt			**Rs. 398.55 crores**

*Converted to INR @ Rs. 40.12 to a US Dollar (prevailing exchange rate as on 31.3.2008)

Upper Tier 2 Capital

The Bank has also raised Upper Tier 2 capital, the aggregate value of which as on 31st March 2008 was Rs. 1,148.38 crores as per the table below.

Date of Allotment	Date of Redemption	Rate of Interest	Amount
11 August 2006	11 August 2021	7.25%	USD 149.80 million* (Rs. 600.99 crores)
24 November 2006	24 November 2021	9.35%	Rs. 200.00 crores
6 February 2007	6 February 2022	9.50%	Rs. 107.50 crores
28 June 2007	28 June 2022	7.125%	USD 59.79 million* (Rs. 239.89 crores)
Total Upper Tier 2 Capital			**Rs. 1,148.38 crores**

*Converted to INR @ Rs. 40.12 to a US Dollar (prevailing exchange rate as on 31.3.2008)

Subordinated Debt

As on 31st March 2008, the Bank had an outstanding subordinated debt (unsecured redeemable non-convertible debentures) aggregating Rs. 1,882.40 crores. Of this, Rs. 1,572.90 crores qualified as Tier 2 capital, the details of which are stated below.

(Rs. in crores)

Date of Allotment	Date of Redemption	Rate of Interest	Amount
20 September 2002	20 June 2008	8.80%	33.00
20 September 2002	20 June 2010	9.05%	5.00
20 September 2002	20 June 2012	9.30%	62.00
21 December 2002	21 September 2008	8.40%	33.10
21 December 2002	21 September 2012	8.95%	60.00
26 July 2003	26 April 2009	6.50%	30.00
26 July 2003	26 April 2011	6.70%	5.00
26 July 2003	26 April 2013	7.00%	65.00

15 January 2004	15 October 2013	6.50%	50.00
4 June 2004	4 June 2010	One-year G-sec. semi-annual yield plus a margin of 85 basis points to be reset at semi-annual intervals.	150.00
25 July 2005	25 July 2012	Simple average of Mid of Bid and offer yield of the 1-year GOI bench mark (i.e. INBMK) plus a margin of 65 basis points to be reset at semi annual intervals.	500.00
22 March 2006	22 June 2013	8.50%	125.00
22 March 2006	22 June 2013	8.32%	5.00
22 March 2006	22 March 2016	8.75%	360.00
22 March 2006	22 March 2016	8.56%	10.00
28 June 2006	28 September 2013	8.95%	33.50
28 June 2006	28 June 2016	9.10%	104.90
30 March 2007	30 March 2017	10.10%	250.90
Total			**1,882.40**

Capital Funds

(Rs. in crores)

		Amount
A	**Tier 1 Capital**	**8,826.99**
	Of which	
	- Paid-up Share Capital	357.71
	- Reserves and surplus	8,409.11
	- Innovative Perpetual Debt Instruments	398.55
	- Amount deducted from Tier 1 capital	
	- Investments in subsidiaries	(12.50)
	- Deferred Tax Assets	(319.05)
	- Cash Collaterals against securitisation	(6.83)
B	**Tier 2 Capital (net of deductions) (B.1+B.2+B.3-B.4)**	**3,063.90**
	Of which	
B.1	Debt Capital Instruments eligible for inclusion as Upper Tier 2 capital	
	- Total amount outstanding	1,148.38
	- Of which amount raised during the current year	239.89
	- Amount eligible as capital funds	1,148.38
B.2	Subordinated debt eligible for inclusion in Lower Tier 2 capital	
	- Total amount outstanding	1,882.40
	- Of which amount raised during the current year	-
	- Amount eligible as capital funds	1,572.90

B.3	Other Tier 2 Capital - Provision for Standard Assets	361.95
B.4	Deductions from Tier 2 Capital	
	- Investments in subsidiaries	(12.50)
	- Cash Collaterals against securitisation	(6.83)
C	**Total Eligible Capital**	**11,890.89**

III. CAPITAL ADEQUACY

An assessment of the capital requirement of the Bank is carried out through a comprehensive projection of future businesses that takes cognizance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology-based risk management systems.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st March 2008 is presented below.

(Rs. in crores)

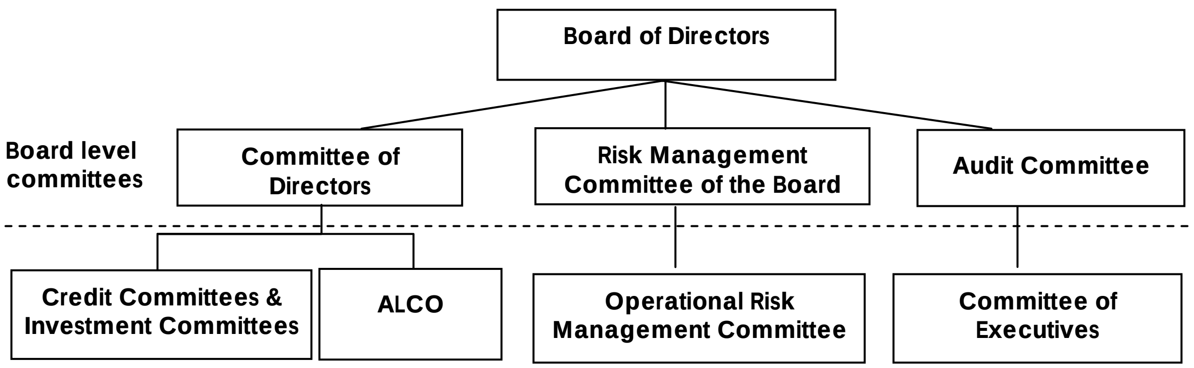
		Amount
A	Capital requirements for Credit Risk	
	- Portfolios subject to standardized approach	6433.96
	- Securitisation exposures	10.41
B	Capital requirements for Market Risk	934.43
	- Standardized duration approach	
	- Interest rate risk	831.10
	- Foreign exchange risk (including gold)	19.95
	- Equity risk	83.38
C	Capital requirements for Operational risk	
	- Basic indicator approach	270.31
D	Capital Adequacy Ratio of the Bank (%)	13.99
E	Tier 1 CRAR (%)	10.39

RISK MANAGEMENT: OBJECTIVES AND ORGANIZATION STRUCTURE

The wide variety of businesses undertaken by the Bank requires it to identify, measure, control, monitor and report risks effectively. The key components of the Bank's risk management rely on the risk governance architecture, comprehensive processes and internal control mechanism. The Bank's risk governance architecture focuses attention on key areas of risk such as credit, market and operational risk and quantification of these risks wherever possible for effective and continuous monitoring.

Objectives and Policies

The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Board sets the overall risk appetite and philosophy for the Bank. The Committee of Directors, the Risk Management Committee and the Audit Committee of the Board, which are sub-committees of the Board, review various aspects of risk arising from the businesses of the Bank. Various senior management committees, Asset-Liability Committee (ALCO) and Operational Risk Management Committee (ORMC) operate within the broad policy framework as illustrated below.

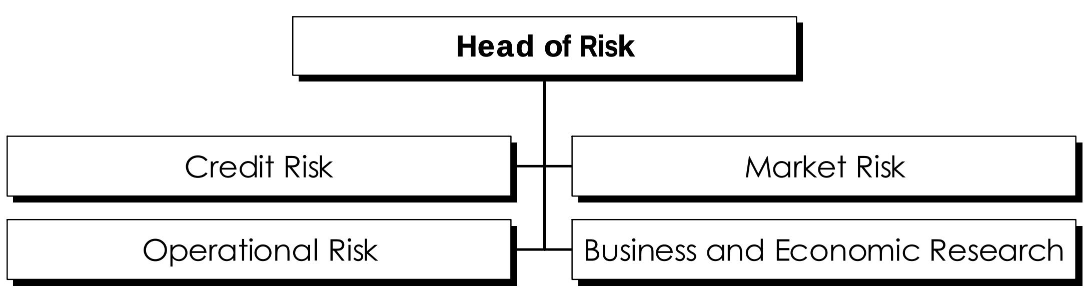


The Bank has also formulated a global risk policy for overseas operations and a country specific risk policy for its Singapore, Hong Kong and Dubai branches. The policies were drawn based on the risk dimensions of dynamic economies and the Bank's risk appetite.

The Bank has formulated a comprehensive Stress Testing policy to measure impact of adverse stress scenarios on the adequacy of capital.

Structure and Organization

Risk Management Department reports to the Executive Director (Corporate Strategy) and Risk Management Committee of the Board oversees the functioning of the Department. The Department has four separate teams for Credit Risk, Market Risk, Operational Risk and Business and Economic Research and the head of each team reports to the head of the department.



IV. CREDIT RISK

Credit Risk Management Policy

Credit risk covers the inability of a borrower or counter-party to honour commitments under an agreement and any such failure has an adverse impact on the financial performance of the Bank. The Bank is exposed to credit risk through lending and capital market activities.

The Bank's credit risk management process integrates risk management into the business management processes, while preserving the independence and integrity of risk assessment. The Board of Directors establishes the parameters for risk appetite, which is defined quantitatively and qualitatively in accordance with the laid-down strategic business plan. This is dovetailed in the process through a combination of governance structures and credit risk policies, control processes and credit systems embedded in a Credit Risk Management Framework (CRMF). The foundation of CRMF rests on the rating tool.

Scope and Nature of Risk Reporting and Measurement Systems

The Bank has put in place the following hierarchical committee structure for credit sanction and review:

- Zonal Office Credit Committee (ZOCC)
- Central Office Credit Committee (COCC)
- Committee of Executives (COE)
- Senior Management Committee (SMC)
- Committee of Directors (COD)

Credit risk in respect of exposures on corporate and micro and small and medium enterprises (MSME) is measured and managed at individual transaction level as well as portfolio level. In the case of schematic SME exposures, the credit risk is measured and managed at the portfolio level, as the products are scorecard driven. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and the Bank has developed different rating models for each segment that has distinct risk characteristics viz. Large corporates, MSME, small traders, financial companies, micro-finance institutions, project finance etc.

The Bank's continuing aggressive foray in retail banking has resulted in a sharp build-up in the retail asset portfolio. The key challenge for a healthy retail asset portfolio is to ensure stable risk adjusted earnings stream by maintaining customer defaults within acceptable levels. The Bank periodically carries out a comprehensive portfolio level analysis of retail asset portfolio with a risk-return perspective. Risk measurement for the retail exposures is done on basis of credit scoring models. During the year, the Bank has initiated a project to revamp its existing credit scoring models for retail assets with external support from a reputed international vendor and has initiated designing of application, behavioural and collection scorecards.

Credit Rating System

Internal reporting and oversight of assets is principally differentiated by the credit ratings applied. The Bank has developed rating tools specific to market segment such as large corporates, mid-corporates, SME, financial companies and microfinance companies to objectively assess underlying risk associated with such exposures. For retail and schematic SME exposures, scorecards and borrower-scoring templates are used for application screening.

The credit rating tool uses a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. The monitoring tool developed by the Bank helps in objectively assessing the credit quality of the borrower taking into cognizance the actual behaviour post-disbursement. The output of the rating model is primarily to assess the chances of delinquency over a one-year time horizon. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically by objectively assessing its calibration accuracy and stability of ratings.

The other guiding principles behind Credit Risk Management Framework are stated below.

Credit Sanction and related processes

- ‘Know your Customer’ is a leading principle for all activities.
- Sound credit approval process with well laid credit-granting criteria.
- The acceptability of credit exposure is primarily based on the sustainability and adequacy of borrower’s normal business operations and not based solely on the availability of security.
- Portfolio level risk analytics and reporting to ensure optimal spread of risk across various rating classes prevent undue risk concentration across any particular industry segments and monitor credit risk quality migration.
- Sector specific studies are periodically undertaken to highlight risk and opportunities in those sectors.
- Rating linked exposure norms have been adopted by the Bank.
- Industry-wise exposure ceilings are based on the industry performance, prospects and the competitiveness of the sector.
- Separate risk limits are set up for credit portfolios like advances to NBFC and unsecured loans that require special monitoring.
- With heightened activity in the real estate sector, the Bank has strengthened its risk management systems to ensure that its advances are to borrowers having a good track record and satisfying the criterion of minimum acceptable credit rating. Appropriate covenants are stipulated for risk containment and monitoring.

Review and Monitoring

- All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews.
- Credit audit involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.
- Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Bank.

Concentration Risk

The Bank controls and limits concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. These include:

Large exposures to individual clients or group

The Bank has individual borrower-wise exposure ceilings based on the internal rating of the borrower as well as group-wise borrowing limits. The Bank monitors the level of credit risk (Low/Moderate/High/Very High) and direction of change in credit risk (increasing /decreasing/stable) at the portfolio level based on the following six parameters that capture concentration risk.

- Highest geographic concentration in a region.
- Exposure to Top 20 accounts as a percentage of Credit Risk Exposure (CRE).
- Percentage of term loans with residual maturity more than 3 years to total loans and advance.
- Percentage of unsecured loans to total loan and advances.
- Number of single borrower exposures exceeding 15% of capital funds.
- Number of group exposures exceeding 40% of capital funds.

While determining level and direction of credit risk, parameters like percentage of low- risk credit (investment grade and above) to credit risk exposure and migration from investment to non-investment grade (quantum as percentage of credit risk exposure) are also considered. The Bank also monitors the rating-wise distribution of its borrowers.

Industries

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Bank believes there is a high degree of risk or potential for volatility in the future. The Bank has fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

Policies for Hedging and Mitigating Credit Risk

Credit Risk Mitigants (CRM) like financial collateral, non-financial collateral and guarantees are used to mitigate credit risk exposure. Availability of CRM either reduces effective exposure on the borrower (in case of collaterals) or transfers the risk to the more creditworthy party (in case of guarantees). The Bank has formulated a Collateral Management Policy as required under Basel II guidelines.

Credit Risk Asset Quality

Distribution of Credit Risk by Asset Quality

Rating scale for large and mid corporates is a 14-point granular scale that ranges from AB-AAA to AB-D. The rating tool for SME has an 8-point rating scale, which ranges from SME 1 to SME 8. The Bank has separate rating tools for financial companies and schematic SME exposures.

Definitions of Non-Performing Assets

Advances are classified into performing and non-performing advances (NPAs) as per RBI guidelines. NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank.

An NPA is a loan or an advance where:

1. interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan;
2. the account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC);
3. the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted;
4. A loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons; and
5. a loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season.

The Bank classifies an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter.

Definition of Impairment

At each balance sheet date, the Bank ascertains if there is any impairment in its assets. If such an indication is detected, the Bank estimates the recoverable amount of the asset. If the recoverable amount of the asset or the cash-generating unit, which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account.

CREDIT RISK EXPOSURES

Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure

(Rs. in crores)

	Domestic	Overseas	Total
Fund Based	86,783.69	6,139.99	92,923.68
Non Fund Based *	19,952.61	265.86	20,218.47
Total	**106,736.30**	**6,405.85**	**113,142.15**

* Non-fund based exposures are guarantees given on behalf of constituents and acceptances and endorsements.

Distribution of credit risk exposure by industry sector

(Rs. in crores)

S. No.	Industry Classification	Amount	
		Fund Based	**Non Fund Based**
1.	Mining	1,35.91	97.82
2.	Iron and Steel	1,397.20	700.83
3.	Other Metal and Metal Products	409.63	281.62
4.	All Engineering	1,032.99	572.43
5.	Electricity	935.90	561.16
6.	Cotton Textiles	2,124.88	189.74
7.	Jute Textiles	6.79	2.15
8.	Other Textiles	652.38	42.43
9.	Sugar	704.64	23.91
10.	Tea	141.79	2.91
11.	Food Processing	801.26	41.17
12.	Vegetable Oil and Vanspati	506.48	749.71
13.	Tobacco and Tobacco Products	343.56	5.61
14.	Paper and Paper Products	372.75	35.27
15.	Rubber and Rubber Products	53.29	17.13
16.	Chemicals, Dyes, Paints etc.	1,337.32	498.69
17.	Cement	881.89	231.02
18.	Leather and Leather Products	90.83	5.77
19.	Gems and Jewellary	816.23	7,990.35
20.	Construction	3,491.91	106.46
21.	Petroleum	624.34	678.39
22.	Automobiles including trucks	1,217.08	156.57
23.	Computer Software	757.42	175.60
24.	Infrastructure	4,178.13	2,638.03
25.	NBFCs & Trading	12,619.95	2,002.62
26.	Other Industries	13,277.32	2,399.41
27.	Residual exposures to balance the total exposure	44,011.81	11.67
	Total	**92,923.68**	**20,218.47**

As on 31st March 2008 the Bank's exposure to the industries stated below was more than 5% of the total gross credit exposure:

S. No.	Industry classification	Percentage of the total gross credit exposure
1.	Infrastructure	6%
2.	Gems and Jewellery	8%
3.	NBFCs and Trading	13%

Residual Contractual Maturity breakdown of Assets

(Rs. in crores)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1day	2,166.21	564.39	745.63	-
2 to 7 days	1,299.85	1,692.28	1,518.74	230.47
8 to 14 days	488.31	1,200.48	550.81	173.90
15 to 28 days	649.87	2,821.79	713.04	851.19
29 days to 3 months	1,799.22	4,884.78	2,963.36	-
3 to 6 months	976.10	3,157.22	2,709.54	-
6 to 12 months	1,312.78	4,913.26	6,218.47	-
1 to 3 years	2,023.83	5,176.20	7,698.98	-
3 to 5 years	80.72	2,254.81	8,944.38	-
Over 5 years	1,707.35	7,039.89	27,598.19	2,451.80
Total	**12,504.24**	**33,705.10**	**59,661.14**	**3,707.36**

Movement of NPAs and Provision for NPAs

(Rs. in crores)

		Amount
A	Amount of NPAs (Gross)	494.61
	- Substandard	309.68
	- Doubtful 1	75.77
	- Doubtful 2	56.22
	- Doubtful 3	5.72
	- Loss	47.22
B	Net NPAs	248.29
C	NPA Ratios	
	- Gross NPAs to gross advances (%)	0.83
	- Net NPAs to net advances (%)	0.42
D	Movement of NPAs (Gross)	
	- Opening balance as on 1.4.2007	418.67
	- Additions	384.21
	- Reductions	(308.27)
	- Closing balance as on 31.3.2008	494.61
E	Movement of Provision for NPAs	
	- Opening balance as on 1.4.2007	152.34
	- Provision made in 2007-08	248.43
	- Write – offs	(154.45)
	- Write – back of excess provision	-
	- Closing balance as on 31.3.2008	246.32

NPIs and movement of provision for depreciations on NPIs

(Rs. in crores)

		Amount
A	Amount of Non-Performing Investments	8.96
B	Amount of provision held for non- performing investments	8.96
C	Movement of provision for depreciation on investments	
	- Opening balance as on 1.4.2007	85.66
	- Provision made in 2007-08	6.54
	- Write – offs	-
	- Write – back of excess provision	-
	- Closing balance as on 31.3.2008	92.20

V. Credit Risk: Use of Rating Agency under the Standardized Approach

The Bank is using issuer ratings and short-term and long-term instrument/bank facilities' ratings which are assigned by the accredited rating agencies viz. CRISIL, ICRA, Fitch and CARE and published in the public domain to assign risk-weights in terms of RBI guidelines. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch are used. For exposures with contractual maturity of less than one year, a short-term rating is used. For cash credit facilities and exposures with contractual maturity of more than one year, long-term rating is used.

Issue ratings would be used if the Bank has an exposure in the rated issue and this would include fund-based and non-fund based working capital facilities as well as loans and investments. In case the Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. Structured Obligation (SO) ratings are not used unless the Bank has a direct exposure in the 'SO' rated issue. If an issuer has a long-term or short-term exposure with an external rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short-term or long-term, also receive 150% risk weight, unless the Bank uses recognized credit risk mitigation techniques for such claims.

Issuer ratings provide an opinion on the general credit worthiness of the rated entities in relation to their senior unsecured obligations. Therefore, issuer ratings would be used to assign risk-weight to unrated exposures provided that the unrated exposures are senior or pari-passu as compared to senior unsecured obligations of the same borrower.

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk-Weight:

(Rs. in crores)

	Amount
Below 100% risk weight	60,713.14
100% risk weight	42,076.33
More than 100% risk weight	10,352.68
Deductions	
- Investments in subsidiaries	(25)

VI. CREDIT RISK MITIGATION

The Bank uses various collaterals both financial as well as non-financial, guarantees and credit insurance as credit risk mitigants. The main financial collaterals include bank deposits, NSC/KVP/LIP, gold and equity shares, while main non-financial collaterals include land and building, plant and machinery, residential and commercial mortgages. The guarantees include guarantees given by corporate, bank and personal guarantees. This also includes loan and advances guaranteed by Export Credit & Guarantee Corporation Limited (ECGC).

The Bank has in place a collateral management policy, which underlines the eligibility requirements for credit risk mitigants (CRM) for capital computation as per Basel II guidelines. The Bank reduces its credit exposure to a counterparty with the value of eligible financial collateral to take account of the risk mitigating effect of the collateral. To account for the volatility in the value of collateral, haircut is applied based on the type, issuer, maturity, rating and remargining/revaluation frequency of the collateral. The Bank has a valuation policy that covers processes for collateral valuation and empanelment of valuers.

Under the Standardised Approach, the total credit exposure covered by eligible financial collaterals after application of haircuts as on 31st March 2008 were Rs. 7,802.63 crores.

VI. SECURITISATION

The primary objectives for undertaking securitisation activity by the Bank are enhancing liquidity, optimization of usage of capital and churning of the assets as part of risk management strategy.

The securitisation of assets generally being undertaken by the Bank is on the basis of "True Sale", which provides 100% protection to the Bank from default. All risks in the securitised portfolio are transferred to a Special Purpose Vehicle (SPV), except where the Bank provides sub-ordination of cash flows to Senior Pass-Through Certificate (PTC) holders by retaining the junior tranche of the securitised pool.

The Bank enters into purchase/sale of corporate and retail loans through direct assignment/SPV. In most cases, post securitisation, the Bank continues to service the loans transferred to the assignee/SPV. The Bank also provides credit enhancement in the form of cash collaterals and/or by sub-ordination of cash flows to Senior PTC holders.

The Bank follows the standardized approach prescribed by the RBI for the securitisation activities.

Gain on securitisation is recognized over the period of the underlying securities issued by the SPV. Loss on securitisation is immediately debited to profit and loss account. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Bank, appropriate provision/disclosure is made at the time of sale in accordance with AS 29 'Provisions, contingent liabilities and contingent assets'.

The Bank uses the ratings assigned by various external credit rating agencies viz. CRISIL, ICRA, Fitch and CARE for its securitisation exposures.

The Bank has no retained exposure on securitisation transactions originated by it during the year. All transfers of assets under securitisation were effected on true sale basis. In the financial year ended 31st March 2008, the Bank has securitised Rs. 3,201.95 crores as an originator.

Details of exposure securitised by the Bank and subject to securitisation framework

(Rs. in crores)

S.No.	Type of Securitisation	Amount
1.	Impaired/past due assets securitised	-
2.	Losses recognized by the Bank during the current period	-
	- Personal Loan portfolio	1.26
	- Commercial Vehicle portfolio	4.18

Aggregate amount of securitisation exposures retained or purchased as on 31st March 2008 is given below

(Rs. in crores)

S.No.	Type of Securitisation	Amount
1.	Retained	
	- Personal Loans	0.84
2.	Securities purchased	
	- Corporate Loans	49.96
	- Retail Auto Loans	479.86
3.	Liquidity facility	-
4.	Credit enhancement (cash collateral)	13.66
5.	Other commitments	-

Risk weight wise bucket details of the securitisation exposures on the basis of book value

(Rs. in crores)

	Amount
Below 100% risk weight	530.66
100% risk weight	-
More than 100% risk weight	-
Deductions	
- Entirely from Tier I capital	-
- Credit enchasing I/Os deducted from Total Capital	-
- Credit enhancement (cash collateral)	13.66

Comparative position of two years of the portfolio securitised by the Bank is given below

(Rs. in crores)

S.No.	Type of Securitisation	2008	2007
1.	Total number of loan assets securitised		
	- Corporate Loans	19	2
2.	Total book value of loan assets securitised		
	- Corporate Loans	3,201.95	547.16
3.	Sale consideration received for securitised assets	3,209.79	550.09

4.	Gain / loss on sale on account of securitisation	7.84	2.93
5.	Form and quantum (outstanding value) of service provided		
	- Credit enhancement	13.66	15.51
	- Outstanding servicing liability	0.54	0.54
	- Liquidity support	-	-

VIII. MARKET RISK IN TRADING BOOK

Market risk is the risk to the Bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The Bank adopts a comprehensive approach to market risk management for its trading, investment and asset/liability portfolios. The Bank uses various risk metrics, both statistical and non-statistical, including:

- Non-statistical measures like position, gaps and sensitivities (duration, PVBP, option greeks)
- Value at risk (VaR)

The VaR methodology adopted by the Bank for its VaR calculation is Historical Simulation and variants thereof, and is calculated at a 99% confidence level for a one-day holding period. The model as with many other VaR models assumes that the risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by the relevance of the historical data used. The Bank typically uses 500 days of historical data or two years of relative changes in historical rates and prices. The method, however, does not make any assumption about the nature or type of the loss distribution. The VaR models for different portfolios are back-tested at regular intervals and the results are used to maintain and improve the efficacy of the model. The VaR is computed on a daily basis for the trading portfolio and reported to the senior management of the Bank. The VaR measure is also supplemented by a series of stress scenarios and sensitivity tests that shed light on the behaviour of a portfolio and the impact of extreme market movements. Expected Tail Loss (ETL) or Conditional Value at Risk (CVaR) is one of the concepts used to devise stress scenarios.

Risk limits such as position, gaps and sensitivities (duration, PVBP, option greeks) are set up according to a number of criteria including relevant market analysis, business strategy, management experience and the Bank's risk appetite for each of the market risk exposures i.e. interest rate, exchange rate and equity price risk. These limits are monitored on a daily basis and the exceptions are put up to ALCO. Risk limits are reviewed, at least, annually or more frequently, if deemed necessary, to maintain consistency with trading strategies and material developments in market conditions.

Concentration Risk

The Bank has allocated the internal risk limits in order to avoid concentrations, wherever relevant. For example, the Aggregate Gap Limit is allocated to various currencies and maturities as Individual Gap Limits. Similarly PV01 for interest rate swaps have been allocated to various benchmarks. Where such allocation may not have been undertaken, the Bank continues to monitor the position closely for any possible concentrations.

Liquidity Risk

Liquidity risk arises in any bank's general funding of its activities. As part of the liquidity management contingency planning, the Bank assesses potential trends, demands, events and uncertainties that could reasonably result in adverse liquidity condition. The Bank considers the impact of these potential changes on its sources of short term funding and long term liquidity planning. The Bank's ALM policy defines the gap limits for the structural liquidity and the liquidity profile of the Bank is analyzed on a static basis as well as on a dynamic basis by tracking all cash inflows and outflows in the maturity ladder based on the expected occurrence of cash flows. The Bank undertakes behavioral analysis of the non-maturity products viz. savings and current deposits and cash credit / overdraft accounts on a periodic basis to ascertain the volatility of residual balances in those accounts. The renewal pattern and premature withdrawals of term deposits and draw-down of unavailed credit limits are also captured through behavioral studies. The liquidity profile of the Bank is estimated on a dynamic basis by considering the growth in deposits and loans, investment obligations, etc. for a short-term period of three months. The concentration of large deposits is monitored on a periodic basis. The Bank's ability to meet its obligations and fund itself in a crisis scenario is critical and accordingly, stress tests are conducted under different scenarios at periodical intervals to assess the impact on liquidity to withstand stressed conditions.

The liquidity positions of overseas branches are managed in line with the Bank's internal policies and host country regulations. Such positions are also reviewed centrally by the Bank's ALCO along with domestic positions.

Country Risk

The Bank has put in place a risk monitoring system for the management of country risk. The Bank uses the seven-category classification i.e. insignificant, low, moderate, high, very high, restricted and off-credit followed by the Export Credit Guarantee Corporation Ltd. (ECGC) and ratings of international rating agency Dun & Bradstreet for monitoring the country exposures. The ratings of countries are being undertaken at monthly intervals or at more frequent intervals if the situation so warrant i.e. in case of a significant change in the condition of a country involving sharp deterioration of its ratings. Exposure to a country includes all credit-related lending, trading and investment activities, whether cross border or locally funded. The Bank has set up exposure limits for each risk category as also per country exposure limits and the exposure limits are monitored at weekly intervals except for those on high, very high categories through approval from appropriate authorities at the transaction level.

Risk Management framework for overseas operations

The Bank has opened branches in Singapore, Hong Kong, and Dubai. The Bank has put in place a comprehensive Risk Management Policy for its global operations and has also formulated country-specific risk policy for these operations based on the host country regulators' guidelines. The Asset Liability Management and all the risk exposures for the overseas operations are monitored centrally by implementing sound systems and controls, and also by adopting the norms as specified by the regulators in the host country.

Capital Requirement for Market Risk

(Rs. in crores)

	Amount of Capital Required
- Interest rate risk	831.10
- Equity position risk	83.38
- Foreign exchange risk (including gold)	19.95

IX. OPERATIONAL RISK

Strategies and Processes

The Bank has initiated several measures to manage operational risk through identification, assessment and monitoring. Simultaneously, a framework has been laid to capture loss data which can be mapped to operational risk events to measure the impact quantitatively. The Bank has put in place a hierarchical structure to effectively manage operational risk through the formation of several internal committees viz., Operational Risk Management Committee (ORMC), Product Management Committee (PMC), Change Management Committee (CMC), Outsourcing Committee and IT Security Committee. The functioning of these committees has stabilised. The Risk Department acts as the convenor of ORMC, PMC and CMC and is a member in Outsourcing Committee and IT Security Committee.

The Bank is further enhancing its capability for effective management of operational risk with the implementation of a software solution (OR Monitor) which will create a database on loss events experienced by the different business lines of the Bank, identify areas which show manifestation of weak controls through Risk & Control Self Assessment (RCSA) and Key Risk Indicator (KRI) modules, and over a period would enable the Bank to adopt sophisticated approaches for the computation of capital for operational risk

Structure and Organization

The Risk Management Committee (RMC) of the Board at the apex level is the policy making body. RMC is supported by the Operational Risk Management Committee (ORMC), consisting of Senior Management personnel, which is responsible for implementation of the Operational Risk policies of the Bank.
This internal committee supervises effective monitoring of operational risk and the implementation of software driven framework for enhanced capability to manage operational risk.

Scope and Nature of Operational Risk Reporting and Measurement Systems

A systematic process for reporting risks, losses, "near misses" and non-compliance issues relating to operational risks has been developed and implemented. The information gathered shall be used to develop triggers to initiate corrective actions to improve controls. . All critical risks and potential loss events would be reported to the Senior Management/ORMC/RMC as appropriate, for their directions and suggestions.

Policies for Hedging and Mitigating Operational risk

An Operational Risk Management Policy approved by the Risk Management Committee of the Board details the framework for hedging and/or mitigating operational risk in the Bank. As per the policy, all new products are being vetted by the Product Management Committee to identify and assess potential operational risks involved and suggest control measures to mitigate the risks. Similarly, any changes to the existing products/ processes are being vetted by the Change Management Committee. In addition to the above, the business departments submit Action Taken Reports, after implementation of the product, to the Product Management Committee for their review. The product is then independently reviewed by the Inspection & Audit Department of the Bank.

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, the Bank has followed the Basic Indicator Approach for the year ending 31st March 2008. The Bank is also ready for compilation of capital charge for operational risk under the Standardised Approach. However, the Bank is in the process of putting in place the structure for identifying gaps in internal controls across the entire Bank. A model for the same has been developed using the OR software and tested on Retail Liabilities. Simultaneously, the Bank is preparing itself for migration to the Advanced Measurement Approach.

X. INTEREST RATE RISK IN THE BANKING BOOK

Calculation of interest rate risk in the banking book (IRRBB) is based on a present value perspective with cash flows discounted at zero coupon yields published by National Stock Exchange (NSE) for domestic balance sheet and USD LIBOR for overseas balance sheet. Other currencies are taken in equivalent base currencies (INR for domestic books and USD for overseas branches) as the Bank does not have material exposures to other currencies as a percentage of the balance sheet. While basis risk is presently ignored, it will be incorporated in future analyses. Cash flows would be assumed to occur at the middle of the regulatory buckets (as specified by RBI for DSB9) for the interest rate sensitive gap statements. Non-interest sensitive products like cash, current account, capital, volatile portion of savings bank deposits, etc. are excluded from the computation. The Bank does not run a position on interest rate options that might result in non-linear pay-off. Future interest cash flows from outstanding balances are included in the analysis.

The Earnings at Risk (EaR) measures the sensitivity of net interest income to parallel movement in interest rates on the entire balance sheet, is reported to the senior management on a weekly basis.

Details of increase (decline) in earnings and economic value for upward and downward rate shocks are given below:

Earnings Perspective

(Rs. in crores)

Country	Interest Rate Shock	
	0.50%	**(-) 0.50%**
India	(15.41)	15.41
Overseas	7.34	(7.34)
Total	**(8.07)**	**8.07**

Economic Value Perspective

(Rs. in crores)

Country	Interest Rate Shock	
	0.50%	**(-) 0.50%**
India	(508.12)	525.01
Overseas	14.11	(14.73)
Total	**(494.01)**	**510.28**