AXIS BANK

DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES) FOR THE YEAR ENDED 31 March, 2012

I. SCOPE OF APPLICATION

Axis Bank Limited (the 'Bank') is a commercial bank, which was incorporated on 3 December, 1993. The Bank is the controlling entity for all group entities that include its six wholly owned subsidiaries.

The consolidated financial statements of the Bank comprise the financial statements of Axis Bank Limited and its subsidiaries that 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 table below lists Axis Bank's Subsidiaries/Associates/Joint ventures consolidated for accounting and their treatment for capital adequacy purpose.

Sr. No	Name of the entity	Nature of Business	Holding	Basis of Consolidation
1.	Axis Securities and Sales Ltd.	Marketing of credit cards and retail asset products and retail broking	100%	Fully consolidated
2.	Axis Private Equity Ltd.	Managing investments, venture capital funds and off shore funds	100%	Fully consolidated
3.	Axis Trustee Services Ltd.	Trusteeship services	100%	Fully consolidated
4.	Axis Mutual Fund Trustee Ltd.	Trusteeship	100%	Fully consolidated
5.	Axis Asset Management Company Ltd.	Asset Management	100%	Fully consolidated
6.	Bussan Auto Finance India Private Ltd.	Non-Banking Financial company	26%	Treated as an associate

The investment in Bussan Auto Finance India Private Ltd. is not deducted from the capital funds of the Bank but is assigned risk-weights as an investment.

On 7 March, 2011, the Bank has incorporated a new subsidiary, namely Axis U.K. Limited as a private limited company registered in the United Kingdom (UK) with the main purpose of filing an application with Financial Services Authority (FSA), UK for a banking licence in the UK and for the creation of necessary infrastructure for the subsidiary to commence banking business. As on 31 March, 2012, Axis U.K. Limited has not commenced any operations.

There is no deficiency in capital of any of the subsidiaries of the Bank as on 31 March, 2012. Axis Bank actively monitors all its subsidiaries through their respective Boards and regular updates to the Board of Directors of Axis Bank.

As on 31 March, 2012, the Bank has an investment of ₹76.6 crores in Max New York Life Insurance Company Limited which is not deducted from the capital funds of the Bank, but is assigned risk weights as an investment for the purpose of Basel II, the details of which are given below.

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Country of Incorporation : India
Ownership Interest : less than 4%

The quantitative impact on regulatory capital of using risk weighted investments method versus using the deduction method at 31 March, 2012 is set out in the following table.

(₹ in crores)

Method	Quantitative impact
Deduction method	76.60
Capital @ 9% of risk weighted assets	9.03

II. CAPITAL STRUCTURE

Summary

As per RBI's capital adequacy norms capital funds are classified into Tier-1 and Tier-2 capital. Tier-1 capital of the Bank consists of equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments eligible for inclusion in Tier-1 capital that complies with the requirement specified by RBI. The Tier-2 capital consists of general provision and loss reserves, upper Tier-2 instruments and subordinate debt instruments eligible for inclusion in Tier-2 capital. Axis Bank has issued debt instruments that form a part of Tier-1 and Tier-2 capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

Tier-1 bonds are non-cumulative and perpetual in nature with a call option after 10 years. Interest on Tier-1 bonds is payable either annually or semi-annually. Some of the Tier-1 bonds have a step-up clause on interest payment ranging up to 100 bps. The Upper Tier-2 bonds have an original maturity of 15 years with a call option after 10 years. The interest on Upper Tier-2 bonds is payable either annually or semi-annually. Some of the Upper Tier-2 debt instruments have a step-up clause on interest payment ranging up to 100 bps. The Lower Tier-2 bonds have an original maturity between 5 to 10 years. The interest on lower Tier-2 capital instruments is payable either semi-annually or annually.

Equity Capital

The Bank has authorized share capital of ₹ 500.00 crores comprising 500,000,000 equity shares of ₹ 10/- each. As on 31March, 2012 the Bank has issued, subscribed and paid-up equity capital of ₹413.20 crores, constituting41,32,03,952 number of shares of ₹ 10/- each. The Bank's shares are listed on the National Stock Exchange and the Bombay Stock Exchange. The GDRs issued by the Bank are listed on the London Stock Exchange (LSE).

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 eligible as Tier 1 Capital, the aggregate value of which as on 31 March, 2012 was ₹448.03 crores as stated below.

Date of Allotment	Rate of Interest	Period	Amount
30 September 2006	10.05%	Perpetual	₹ 214.00 crores
15 November 2006	7.167%	Perpetual	USD 46 million* (₹234.03 crores)
Total Perpetual Debt			**₹448.03 crores**

*Converted to INR @ ₹50.875 to a US Dollar (prevailing exchange rate as on 31.3.2012)

Upper Tier 2 Capital

The Bank has also raised Upper Tier 2 Capital, the aggregate value of which as on 31March, 2012 was ₹1,374.74crores as per the table below.

Date of Allotment	Date of Redemption	Rate of Interest	Amount
11 August 2006	10 August 2021	7.25%	USD 149.89million* (₹762.54crores)
24 November 2006	23 November 2021	9.35%	₹ 200.00 crores
6 February 2007	6 February 2022	9.50%	₹ 107.50 crores
28 June 2007	28 June 2022	7.125%	USD 59.89 million* (₹304.70crores)
Total Upper Tier 2 Capital			**₹1,374.74 crores**

*Converted to INR @ ₹50.875 to a US Dollar (prevailing exchange rate as on 31.3.2012)

Subordinated Debt

As on 31 March, 2012, the Bank had an outstanding Subordinated debt (unsecured redeemable non-convertible debentures) aggregating ₹8,751.30crores. Of this, ₹7,737.52 crores qualified as Lower Tier 2 capital, the details of which are stated below.

(₹ in crores)

Date of Allotment	Date of Redemption	Rate of Interest	Amount
20 September, 2002	20 June, 2012	9.30%	62.00
21 December, 2002	21 September, 2012	8.95%	60.00
26 July, 2003	26 April, 2013	7.00%	65.00
15 January, 2004	15 October, 2013	6.50%	50.00
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

Date of Allotment	Date of Redemption	Rate of Interest	Amount
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
7 November, 2008	7 November, 2018	11.75%	1,500.00
28 March, 2009	28 March, 2019	9.95%	200.00
16 June, 2009	16 June, 2019	9.15%	2,000.00
1 December, 2011	1 December, 2021	9.73%	1,500.00
20 March, 2012	20 March, 2022	9.30%	1,925.00
Total			**8,751.30**

During the year, subordinated debts (unsecured redeemable non-convertible subordinated debentures) of ₹ 3,425 crores were raised.

Capital Funds

(₹ in crores)

	Position as on 31 March, 2012	Amount
A	**Tier 1 Capital**	**21,886.11**
	Of which	
	- Paid-up Share Capital	413.20
	- Reserves and surplus (Excluding Foreign Currency Translation Reserve)	22,207.61
	- Innovative Perpetual Debt Instruments	448.03
	- Amount deducted from Tier 1 capital	
	- Investments in subsidiaries	(155.28)
	- Deferred Tax Assets	(1,027.45)
B	**Tier 2 Capital (net of deductions) (B.1+B.2+B.3-B.4)**	**9,758.84**
	Out of above	
B.1	Debt Capital Instruments eligible for inclusion as Upper Tier 2 Capital	
	- Total amount outstanding	1,374.74
	- Of which amount raised during the current year	
	- Amount eligible as capital funds	1,374.74
B.2	Subordinated debt eligible for inclusion in Lower Tier 2 Capital	
	- Total amount outstanding	8,751.30
	- Of which amount raised during the current year	3,425.00
	- Amount eligible as capital funds	7,737.52
B.3	Other Tier 2 Capital - General provisions and loss reserves	801.86
B.4	Deductions from Tier 2 Capital	
	- Investments in Subsidiaries	(155.28)
C	**Total Eligible Capital**	**31,644.95**

III. CAPITAL ADEQUACY

Axis Bank is subject to the capital adequacy guidelines stipulated by RBI, which are based on the framework of the Basel Committee on Banking Supervision. As per the capital adequacy guidelines under Basel I, the Bank is required to maintain a minimum ratio of total capital to risk weighted assets (CRAR) of 9.0%, at least half of which is required to be Tier 1 Capital. As per Basel II guidelines, Axis Bank is required to maintain

a minimum CRAR of 9.0%, with minimum Tier 1 Capital ratio of 6.0%. In terms of RBI guidelines for implementation of Basel II, capital charge for credit and market risk for the financial year ended 31 March, 2012 will be required to be maintained at the higher levels implied by Basel II or 80% of the minimum capital requirement computed as per the Basel I framework. For the year ended 31 March, 2012, the minimum capital required to be maintained by Axis Bank as per Basel II guidelines is higher than that required at 80% of the capital requirements under Basel I guidelines.

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 appropriate, technology-based risk management systems. As part of the Internal Capital Adequacy Assessment Process (ICAAP) the Bank also assesses the adequacy of capital under stress. A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31 March, 2012 is presented below.

(₹ in crores)

Capital Requirements for various Risks	**Amount**
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	17,815.22
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardized duration approach	1,749.29
- Interest rate risk	1,588.55
- Foreign exchange risk (including gold)	29.31
- Equity risk	131.43
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	1,289.52
Capital Adequacy Ratio of the Bank (%)	**13.66%**
Tier 1 CRAR (%)	**9.45%**

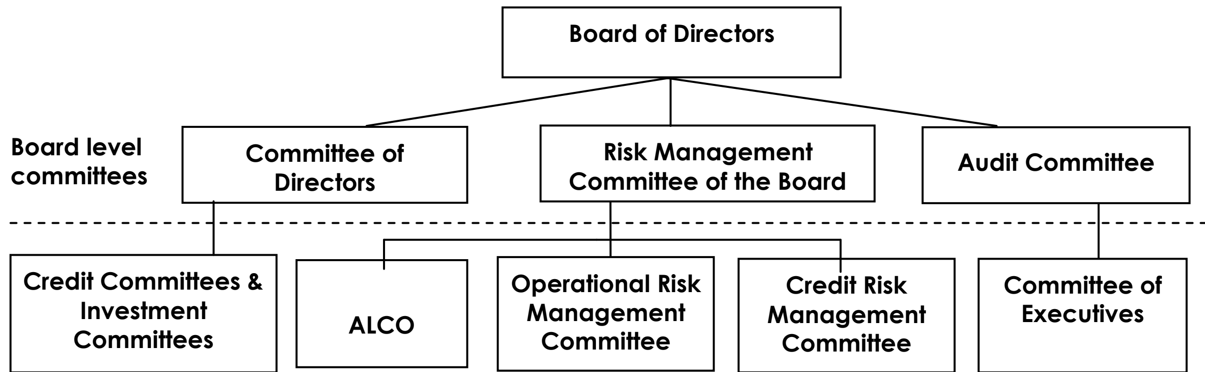
IV. RISK MANAGEMENT: OBJECTIVES AND ORGANIZATION STRUCTURE

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 operate within the broad policy framework as illustrated below.



The Bank has put in place policies relating to management of credit risk, market risk, operational risk and asset-liability both for the domestic as well as overseas operations. The overseas policies are drawn based on the risk perceptions of these 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

The Risk Department reports to the Executive Director and CFO and the Risk Management Committee of the Board oversees the functioning of the Department. The Department has three separate teams for Credit Risk, Market Risk and Operational Risk and the head of each team reports to the Chief Risk Officer.

V. CREDIT RISK

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

Credit Risk Management Policy

Credit Risk Management Policy lays down the roles and responsibilities, risk appetite, key processes and reporting framework. The Board of Directors establishes the parameters for risk appetite, which are defined quantitatively and qualitatively through strategic businesses plan as well as the Corporate Credit Policy. Corporate credit is managed through risk vetting of individual exposures at origination and through periodic review after sanctioning. Retail credit to individuals and small business is managed through definition of product criteria, appropriate credit filters and subsequent portfolio monitoring.

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Credit Rating System

The foundation of credit risk management rests on the internal rating system. Rating linked single borrower exposure norms, delegation of powers, review frequency have been adopted by the Bank. The Bank has developed rating tools specific to market segments such as large and mid-corporates, SME, financial companies, microfinance companies and project finance to objectively assess underlying risk associated with such exposures.

The credit rating tool uses a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the risk profile of counterparty. Each internal rating grade corresponds to a distinct probability of default over one year. Go/No-Go score cards are used for various SME schematic products and retail agri schemes. Statistical application and behavioral scorecards have been developed for all major retail portfolios.

The Bank recognizes cash margin, central/state government, bank and corporate guarantees, exclusive mortgage of properties and lease rental securitisation for the purpose of credit enhancement.

Model validation is carried out periodically by objectively assessing the discriminatory power, calibration accuracy and stability of ratings.

Credit Sanction and related processes

The guiding principles behind the credit sanction process are us under.

- ‘Know your Customer’ is a leading principle for all activities.
- 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.

Delegation of sanctioning powers is based on the size and rating of the exposures. The Bank has put in place the following hierarchical committee structure for credit sanction and review:

- Retail Agriculture Credit Committee (RACC)
- Central Agriculture Business Credit Committee (CABCC)
- Regional Credit Committee (RCC)
- Central Office Credit Committee (COCC)
- Committee of Executives (COE)
- Senior Management Committee (SMC)
- Committee of Directors (COD), a sub-committee of the Board.

All management level sanctioning committees require mandatory presence of a representative from Risk Department for quorum.

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 manages concentration risk by means of appropriate structural limits and borrower-wise limits based on creditworthiness. Credit concentration in the Banks' portfolios is monitored for the following:

- 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 which are continuously tracked and monitored.
- Geographic concentration on sensitive sectors.
- Residual maturity concentration of loans and advances.
- Concentration of unsecured loans to total loans and advances.
- Concentration by Industry: Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Industries are classified into various categories based on factors such as demand-supply, input related risks, government policy stance towards the sector and financial strength of the sector in general. Such categorization is used in determining the expansion strategy for the particular industry.

Portfolio Management

Portfolio level risk analytics and reporting to senior management examines optimal spread of risk across various rating classes, undue risk concentration across any particular industry segments and credit risk quality migration. The Bank periodically monitors its portfolios for any lead indicators of stress which includes potential delinquencies, external rating downgrades and credit concentration. Borrowers or portfolios are marked for early warning when signs of weakness or financial deterioration are envisaged in order that timely remedial actions may be initiated. In-depth sector specific studies are undertaken on portfolios vulnerable to extraneous shocks and the results are shared with the business departments. The Bank has a well-defined stress testing policy in place and at least on a quarterly basis, stress testing is undertaken on various portfolios to gauge the impact of stress situations on the health of portfolio, profitability and capital adequacy.

As regards retail lending, the focus has been on increasing lending to secured portfolios (mortgage, auto), while maintaining a cautious approach to unsecured lending (personal loans and credit card business). The Bank is continuously endeavoring to improve the quality of incremental origination through better credit underwriting standards using improved scorecards. Portfolio delinquency trends are monitored periodically.

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" for a period of more than 90 days 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.
6. In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Definition of Impairment
At each balance sheet date, the Bank ascertains if there is any impairment in its assets. If such impairment is detected, the Bank estimates the recoverable amount of the asset. If the recoverable amount of the asset or the cash-generating unit to which the asset belongs 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 – Position as on 31 March, 2012

(₹in crores)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	213,453.23	27,632.63	**241,085.86**
Non Fund Based *	81,009.14	9,739.10	**90,748.24**
Total	**294,462.37**	**37,371.73**	**331,834.10**

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

Distribution of Credit Risk Exposure by Industry Sector – Position as on 31 March, 2012

(₹in crores)

Sr. No.	Industry Classification	Amount	
		Fund Based (Outstanding)	Non-Fund Based (Outstanding)
1.	Power Generation & Distribution	7,979.39	18,913.59
2.	Infrastructure (excluding Power)	13,350.47	12,052.89
	- Of which Roads & ports	4,722.44	2,928.02
	- Of which Telecommunication	2,984.38	990.35
3.	Trade	8,723.04	5,600.70
4.	All Engineering	5,008.31	8,915.27
	- Of which Electronics	421.94	130.63
5.	Chemicals and chemical products	6,570.08	6,861.86
	- Of which Petro Chemicals	1,412.68	2,313.04
	- Of which Drugs & Pharmaceuticals	2,069.88	707.39
6.	Iron and Steel	5,472.98	5,464.43
7.	NBFCs	7,344.26	1,173.34
8.	Food Processing	5,178.28	342.50
9.	Edible Oils and Vanaspati	1,055.37	3,558.94

10.	Mining and quarrying (incl. Coal)	3,525.47	561.87
11.	Computer Software	2,576.90	1,208.25
12.	Vehicles, vehicle parts and transport equipments	2,866.07	531.52
13.	Other Metal and Metal products	1,156.08	2,217.86
14.	Cotton Textiles	2,682.46	426.96
15.	Cement and cement products	1,882.04	733.02
16.	Construction	742.53	1,563.02
17.	Other Textiles	1,713.59	329.47
18.	Gems and Jewellery	1,543.28	377.94
19.	Sugar	1,557.57	129.51
20.	Paper and Paper Products	1,067.77	276.10
21.	Rubber, Plastic and their products	697.33	162.75
22.	Petroleum, coal products and nuclear fuels	560.78	259.61
23.	Beverage & Tobacco	597.53	42.51
24.	Tea	245.53	41.83
25.	Leather and Leather products	66.81	24.94
26.	Jute Textiles	16.53	0.07
27.	Other Industries	41,289.99	16,304.76
	- Of which Banking and Finance	14,444.61	5,870.41
	- Of which Commercial real estate	6,801.44	586.97
	- Of which Shipping	2,942.71	934.42
	- Of which Professional services	3,120.75	2,470.31
28.	Residual exposures to balance the total exposure	1,15,615.42	2,672.73
	Total	**2,41,085.86**	**90,748.24**

As on 31 March, 2012, the Bank's exposure to the industries stated below was more than 5% of the total gross credit exposure:

Sr. No.	Industry Classification	Percentage of the total gross credit exposure
1.	Power Generation & Distribution	8%
2.	Infrastructure	8%
3.	Banking & Finance	6%

Residual Contractual Maturity breakdown of Assets – Position as on 31 March, 2012

(₹ in crores)

Maturity Bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1 day	4,238.48	1,815.57	2,707.12	35.03
2 to 7 days	1,479.54	4,967.79	1,219.95	283.38
8 to 14 days	367.88	3,691.25	1,152.06	131.45
15 to 28 days	516.80	5,874.62	1,532.15	950.04
29 days to 3 months	1,011.93	13,506.00	9,362.88	1,130.71
Over 3 months and upto 6 months	1,086.69	7,463.40	10,988.78	964.53
Over 6 months and upto 12 months	1,690.28	15,172.80	11,477.47	477.68
Over 1 year and upto 3 years	694.66	13,743.18	39,002.39	142.71
Over 3 years and upto 5 years	687.67	6,997.13	23,791.70	0.00
Over 5 years	2,159.98	19,960.35	68,525.04	4,626.73
Total	**13,933.91**	**93,192.09**	**169,759.54**	**8,742.26**

Movement of NPAs and Provision for NPAs (including NPIs) – Position as on 31 March, 2012

(₹in crores)

		Amount
A.	**Amount of NPAs (Gross)***	1,806.30
	- Substandard	561.18
	- Doubtful 1	147.64
	- Doubtful 2	146.69
	- Doubtful 3	20.67
	- Loss	930.12
B.	**Net NPAs**	472.64
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	1.06%
	- Net NPAs (including NPIs) to net advances (%)	0.28%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1.4.2011	1,599.42
	- Additions	1,841.94
	- Reductions	(1,635.06)
	- Closing balance as on 31.3.2012	1,806.30
E.	**Movement of Provision for NPAs**	
	- Opening balance as on 1.4.2011	1,186.74
	- Provision made in 2011-12	826.11
	- Transfer of restructuring provision	(1.38)
	- Write – offs / Write – back of excess provision	(687.55)
	- Closing balance as on 31.3.2012	1,323.92

* includes ₹6.61crores outstanding under Application Money classified as non-performing asset.

NPIs and Movement of Provision for Depreciation on NPIs – Position as on 31 March, 2012

(₹ in crores)

		Amount
A.	Amount of Non-Performing Investments	79.46
	Amount of Non-Performing Investments- Others*	6.61
B.	Amount of Provision held for Non- performing investments	63.52
	Amount of Provision held for Non- performing investments-Others*	5.49
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1.4.2011	269.45
	- Provision made in 2011-12	105.97
	- Write – offs	-
	- Write – back of excess provision	(47.87)
	- Closing balance as on 31.3.2012	327.55

* represents amount outstanding under Application Money classified as non- performing asset.

Credit Risk: Use of Rating Agency under the Standardized Approach

The RBI guidelines on Basel II require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely CRISIL, CARE, ICRA & Fitch (India) for domestic counterparties and Standard & Poor's, Moody's and Fitch for foreign counterparties.

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 is 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 directly used to assign risk-weight to unrated exposures of the same borrower.

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk-Weight – Position as on 31 March, 2012

(₹ in crores)

	Amount
Below 100% risk weight	178,311.27
100% risk weight	131,286.01
More than 100% risk weight	22,236.82
Deduction from capital funds	
- Investments in subsidiaries	310.55

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 and gold, 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),Credit Guarantee Fund Trust for Small Industries (CGTSI), Central Government and State Government.

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 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 revalues various financial collaterals at varied frequency depending on the type of collateral. The Bank has a valuation policy that covers processes for collateral valuation and empanelment of valuers.

Details of total credit exposure (after on or off balance sheet netting) as on 31 March, 2012

(₹ in crores)

	Amount
Covered by :	
- Eligible financial collaterals after application of haircuts	6,220.98
- Guarantees/credit derivatives	6,655.99

VII. 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 has not sponsored any special purpose vehicle which is required to be consolidated in the consolidated financial statements as per accounting norms.

Bank may also invest in securitised instruments which offer attractive risk adjusted returns. During FY 2012 no fresh investments in securitised instruments had been made. 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 subordination of cash flows to Senior PTC holders. The Bank however does not follow the originate to distribute model and pipeline and warehousing risk is not material to the Bank.

Valuation of securitised exposures is carried out in accordance with FIMMDA/RBI guidelines. 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 follows the standardized approach prescribed by the RBI for the securitisation activities. The Bank uses the ratings assigned by various external credit rating agencies viz. CRISIL, ICRA, Fitch and CARE for its securitisation exposures.

All transfers of assets under securitisation were effected on true sale basis. However in the financial year ended 31st March 2012, the Bank has not securitised any asset.

A. Banking Book

Details of Exposure Securitised by the Bank and subject to Securitisation Framework

(₹in crores)

Sr. No.	Type of Securitisation	Amount
1.	Total amount of exposures securitised	Nil
2.	Losses recognized by the Bank during the current period	Nil

3.	Amount of assets intended to be securitised within a year	Nil
	Of which	
	- Amount of assets originated within a year before securitisation	
4.	Amount of exposures securitised	Nil
	- Corporate Loans	
5.	Unrecognised gain or losses on sale	Nil
	- Corporate Loans	

Aggregate amount of Securitisation Exposures Retained or Purchased as on 31 March, 2012 is given below

(₹ in crores)

Sr. No.	Type of Securitisation	On Balance Sheet (Amount)	Off Balance Sheet (Amount)
1.	Retained	-	-
2.	Securities purchased	-	-
3.	Liquidity facility	-	-
4.	Credit enhancement (cash collateral)	-	-
5.	Other commitments	-	-

Risk-weight wise Bucket Details of the Securitisation Exposures on the Basis of Book-Value

(₹in crores)

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

B. Trading Book-

Details of Exposure Securitised by the Bank and subject to Securitisation Framework

(₹in crores)

Sr. No.	Type of Securitisation	Amount
1.	Aggregate amount of exposures securitised by the Bank for which the Bank has retained some exposures and which is subject to the market risk approach	NIL

Aggregate amount of Securitisation Exposures Retained or Purchased as on 31 March, 2012 is given below

(₹ in crores)

Sr. No.	Type of Securitisation	On Balance Sheet (Amount)	Off Balance Sheet (Amount)
1.	Retained	-	-
2.	Securities purchased		
	- Corporate Loans	33.54	-
	- Lease Rental	182.29	-
3.	Liquidity facility	-	-
4.	Credit enhancement (cash collateral)	-	-
5.	Other commitments	-	-

Risk-weight wise Bucket Details of the Securitisation Exposures on the Basis of Book-Value

(₹in crores)

		Amount	Capital charge
1.	Exposures subject to Comprehensive Risk Measure for specific risk		
	- Retained	-	-
	- Securities purchased	-	-
2.	Exposures subject to the securitisation framework for specific risk		
	Below 100% risk weight	215.83	11.44
	100% risk weight	-	-
	More than 100% risk weight	-	-
3.	Deductions		
	- Entirely from Tier I capital	-	-
	- Credit enhancing I/Os deducted from Total Capital	-	-
	- Credit enhancement (cash collateral)	-	-

VIII. MARKET RISK IN TRADING BOOK

Market risk is the risk of loss to the Bank's earnings and capital due to changes in the market level of interest rates, price of securities, foreign exchange rates and equities, as well as the volatilities of those changes. The Bank is exposed to market risk through its investment activities and also trading activities, which are undertaken for customers as well as on a proprietary basis. The Bank adopts a comprehensive approach to market risk management for its trading, investment and asset/liability portfolios. For market risk management, the Bank has:

- Well laid down policies and guidelines which are aligned to the regulatory norms and based on experiences gained over the years.
- Mechanism for periodic review of the market risk management policies.
- Process manual which are updated regularly to incorporate best practices.
- Market risk identification through elaborate mapping of the Bank's main businesses for various market risks.
- Statistical measures like Value at Risk (VaR), supplemented by stress tests, back tests and scenario analysis
- Non-statistical measures like position limits, marked-to-market (MTM), gaps and sensitivities (mark-to-market, position limits, duration, PVBP, option Greeks).

- Management Information System (MIS) for timely market risk reporting to senior management functionaries.

Risk limits such as position limits, stop-loss limits, alarm limits, gaps and sensitivities (duration, PVBP, option greeks) are set up, based on a number of criteria including regulatory guidelines, relevant market analysis, business strategy, management experience and the Bank's risk appetite. These limits are monitored on a daily basis and the exceptions are put up to ALCO and Risk Management Committee of the Board. As a prudent market risk management measure, risk limits are reviewed, at least, annually or more frequently, if deemed necessary, to align the limits with the Bank's risk appetite, market conditions and trading strategies.

The Bank uses Historical Simulation and its variants for computing VaR for its trading portfolio. VaR is calculated at a 99% confidence level for a one-day holding period. The model 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 250days of historical data or one year 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 supplemented by a series of stress tests and sensitivity analysis that estimates the likely behaviour of a portfolio under extreme but plausible conditions and its impact on earnings and capital. The Bank undertakes stress tests for market risks for its trading book, IRS, forex open position and forex gaps as well as for liquidity risk at the end of each quarter. The Bank is in the process of building its capabilities to migrate to advanced approach i.e. Internal Models Approach for assessment of market risk capital.

For this purpose, system capabilities are being strengthened, newer processes are being introduced and employee skills are being improved.

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 to monitor concentrations. Similarly, stop-loss limits and duration limits have been set up for different categories within a portfolio. Within the overall PV01 limit, a sub limit is set up which is not expected to be breached by trades linked to any individual benchmark.

Liquidity Risk

Liquidity Risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its current or future obligations on the due date. Liquidity risk is two-dimensional viz., risk of being unable to fund portfolio of assets at appropriate maturity and rates (liability dimension) and the risk of being unable to liquidate an asset in a timely manner at a reasonable price (asset dimension).

The goal of Liquidity Risk Management is to meet all commitments on the due date and also be able to fund new investment opportunities by raising sufficient funds in the form of increasing fresh liabilities or by expeditious asset sell-off without incurring unacceptable losses, both under normal and adverse conditions. These objectives are ensured by setting up policies, operational level committees, measurement tools and

monitoring and reporting mechanism using effective use of IT systems for availability of quality data.

The Bank manages its liquidity on a static as well as dynamic basis using various tools such as gap analysis, ratio analysis, dynamic liquidity statements and scenario analysis. The Bank's ALM policy defines the tolerance limits for its structural liquidity position. The Liquidity Policy for the domestic operations as well as for the overseas branches lay down the operational framework for prudent risk management in the Bank. The liquidity profile of the Bank is analyzed on a static basis by tracking all cash inflows and outflows in the maturity ladder based on the expected occurrence of cash flows. The liquidity profile of the Bank is also 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 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 drawdown of unavailed credit limits are also captured through behavioral studies. 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, liquidity 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.

Counterparty Risk

The Bank has a Counterparty Risk Management Policy incorporating well laid-down guidelines, processes and measures for counterparty risk management. The policy includes separate counterparty rating models for commercial banks, foreign banks and co-operative banks for determining maximum permissible limits for counterparties. Counterparty limits are monitored daily and internal triggers are put in place to guard against breach in limits. Credit exposures to issuer of bonds, advances, etc. are monitored separately under the prudential norms for exposure to a single borrower as per the Bank's Corporate Credit Risk Policy or Investment Policy, as applicable. The counterparty exposure limits are reviewed at periodic intervals based on financials of the counterparties, business need, past transaction experiences and market conditions. The Bank has also put in place the "Suitability & Appropriateness Policy" and Loan Equivalent Risk (LER) Policy to evaluate counterparty risk arising out of all customer derivatives contracts.

Country Risk

The Bank has a comprehensive policy for Country Risk Management. 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 categorization of countries are undertaken at monthly intervals or at more frequent intervals if the situation so warrants. 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. These limits are monitored at weekly intervals. In addition, exposures to high risk, very high risk, restricted and off-credit countries are approved on a case-to-case basis. As a proactive measure of Country Risk Management, Risk Department issues "Rating Watch" from time to time. On the basis of country-specific

developments, the concerned business departments are provided news with brief reviews of those countries which have a very high probability of a rating downgrade or there is any negative news or developments.

Risk Management Framework for Overseas Operations

The Bank has put in place separate risk management policies for its overseas branches in Singapore, Hong Kong, Dubai and Colombo. These country-specific risk policies are based on the host country regulators' guidelines and in line with the practices followed for the Indian operations. The Asset Liability Management and all the risk exposures for the overseas operations are monitored centrally at the Central Office.

Capital Requirement for Market Risk – Position as on 31 March, 2012

(₹in crores)

	Amount of Capital Required
Interest rate risk	1,588.55
Equity position risk	131.43
Foreign exchange risk (including gold)	29.31

IX. OPERATIONAL RISK

Strategies and Processes

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk management (ORM) framework, ORM policy, operational risk loss data collection methodology, risk & control self-assessment framework, key risk indicator framework, roles and responsibilities of ORM function have been approved by the Bank to ensure that operational risk within the Bank is properly identified, assessed, monitored, controlled/mitigated and reported in a structured manner.

Based on the above policy/ framework/ methodologies, the Bank has initiated several measures to manage operational risk. 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, Software Evaluation Committee and IT Security Committee. The functioning of these committees has stabilised. The Risk Department acts as the convenor of ORMC and Sub-ORMC and is a member in PMC, CMC, Outsourcing Committee, Software Evaluation Committee and IT Security Committee.

The Bank has further enhanced its capability for effective management of operational risk with the implementation of a software solution (OR Monitor) which creates 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. A sub-committee of ORMC (Sub-ORMC) has been constituted to assist the ORMC in discharging its functions by deliberating the operational risk issues in detail and escalating the critical issues to ORMC.

Scope and Nature of Operational Risk Reporting and Measurement Systems

A systematic process for reporting risks, losses and non-compliance issues relating to operational risks has been developed and implemented. The information gathered is being 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. Business units put in place basic internal controls as approved by the Product Management Committee to ensure appropriate controls in the operating environment throughout 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. Each new product or service introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. 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 also independently reviewed by the Internal 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 31March, 2012. The Bank has put in place a structure for identifying gaps in internal controls across the entire Bank. Simultaneously, the Bank is preparing itself for migration to the Advanced Measurement Approach.

X. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

The IRRBB is managed according to the guidelines of the Bank's ALM Policy. The Bank assesses its exposure to interest rate risk in the banking book at the end of each quarter considering a drop in the market value of investments due to 50 bps change in interest rates. 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. Cash flows are assumed to occur at the middle of the regulatory buckets. 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 Bank employs Earnings at Risk (EaR) measures to assess the sensitivity of its net interest income to parallel movement in interest rates on the entire balance sheet. The results of EAR measures are reported to the senior management on a weekly basis.

The findings of the various IRRBB measures are submitted to the ALCO, which is the apex committee for providing strategic guidance and direction for the ALM measures.

Details of increase (decline) in earnings and economic value for upward and downward rate shocks based on balance sheet as on 31 March, 2012 are given below:

Earnings Perspective

(₹in crores)

Country	Interest Rate Shock	
	0.50%	(-) 0.50%
India	(125.86)	125.86
Overseas	37.49	(37.49)
Total	**(88.37)**	**88.37**

Economic Value Perspective

(₹ in crores)

Country	Interest Rate Shock	
	0.50%	(-) 0.50%
India	359.71	(352.89)
Overseas	47.96	(50.35)
Total	**407.67**	**(403.24)**