

**DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES)
FOR THE YEAR ENDED 31ST March 2009**

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 five 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 Sales Ltd.	Marketing of credit cards and retail asset products	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 investment

The Bank has entered into a joint venture agreement and holds an equity investment to the extent of 26% in Bussan Auto Finance India Private Ltd., a non-banking financial company. The financials of the joint venture company are not consolidated with the balance sheet of the Bank as such investment does not fall within the definition of a joint venture as per Accounting Standard 27 (AS 27), Financial Reporting of Interest in Joint Ventures, issued by the Institute of Chartered Accountants of India. The investment in the joint venture is not deducted from the capital funds of the Bank but is assigned risk-weights as an investment.

There is no deficiency in capital of any of the subsidiaries of the Bank as on 31st March 2009. Axis Bank actively monitors all its subsidiaries through their respective Boards and regular updates to the Board of Axis Bank.

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

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 requirement specified by RBI. The Tier II 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 semi-annually or annually.

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 2009 the Bank has issued, subscribed and paid-up equity capital of Rs. 359.01 crores, constituting 35,90,05,118 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 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 Sub-ordinated 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 31st March 2009 was Rs. 447.31 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. 233.31 crores)
Total Perpetual Debt			Rs. 447.31 crores

*Converted to INR @ Rs. 50.72 to a US Dollar (prevailing exchange rate as on 31.3.2009)

Upper Tier 2 Capital

The Bank has also raised Upper Tier 2 Capital, the aggregate value of which as on 31st March 2009 was Rs. 1,370.78 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 149.82 million* (Rs. 759.89 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 59.82 million* (Rs. 303.39 crores)
Total Upper Tier 2 Capital			Rs. 1,370.78 crores

*Converted to INR @ Rs 50.72 to a US Dollar (prevailing exchange rate as on 31.3.2009)

Subordinated Debt

As on 31st March 2009, the Bank had an outstanding Subordinated debt (unsecured redeemable non-convertible debentures) aggregating Rs. 3,516.30 crores. Of this, Rs. 3,054.80 crores qualified as Lower 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 2010	9.05%	5.00
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 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

Date of Allotment	Date of Redemption	Rate of Interest	Amount
25 July 2005	25 July 2012	Simple average of Mid of Bid and offer yield of the 1-year GOI benchmark (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
7 November 2008	7 November 2018	11.75%	1,500.00
28 March 2009	28 March 2019	9.95%	200.00
Total			3,516.30

During the year, subordinated debt (unsecured redeemable non-convertible debentures) of Rs 1,700 crores was raised.

Capital Funds

(Rs. in crores)

	Position as on 31 st March 2009	Amount
	Tier 1 Capital	10,162.98
	Of which	
	- Paid-up Share Capital	359.01
	- Reserves and surplus	9,842.10
	- Innovative Perpetual Debt Instruments	447.31
	- Amount deducted from Tier 1 capital	
	- Investments in subsidiaries	(29.30)
	- Deferred Tax Assets	(456.14)
B	Tier 2 Capital (net of deductions) (B.1+B.2+B.3-B.4)	4,864.66
	Out of above	
B.1	Debt Capital Instruments eligible for inclusion as Upper Tier 2 Capital	
	- Total amount outstanding	1,370.78
	- Of which amount raised during the current year	-
	- Amount eligible as capital funds	1,370.78

	Position as on 31st March 2009	Amount
B.2	Subordinated debt eligible for inclusion in Lower Tier 2 Capital	
	- Total amount outstanding	3,516.30
	- Of which amount raised during the current year	1,700.00
	- Amount eligible as capital funds	3,054.80
B.3	Other Tier 2 Capital - Provision for Standard Assets	468.38
B.4	Deductions from Tier 2 Capital	
	- Investments in Subsidiaries	(29.30)
C	Total Eligible Capital	15,027.64

III. CAPITAL ADEQUACY

Axis Bank is subjected 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. In June 2008, RBI issued the Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline on Basel II. 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 31st March 2009 will be required to be maintained at the higher levels implied by Basel II or 90% of the minimum capital requirement computed as per the Basel I framework. For the year ended 31st March 2009, the minimum capital required to be maintained by Axis Bank as per Basel II guidelines is higher than that 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 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 2009 is presented below.

(Rs. in crores)	
Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	8,398.51
- Securitisation exposures	0.00
MARKET RISK	
Capital requirements for Market Risk	
- Standardized duration approach	1,050.90
- Interest rate risk	988.19

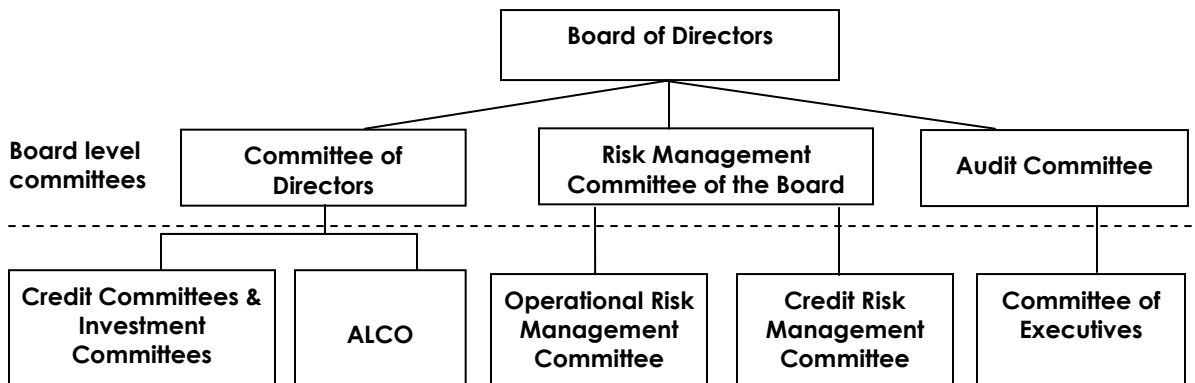
Capital Requirements for various Risks	Amount
- Foreign exchange risk (including gold)	13.50
- Equity risk	49.21
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	431.46
Capital Adequacy Ratio of the Bank (%)	13.69%
Tier 1 CRAR (%)	9.26%

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.

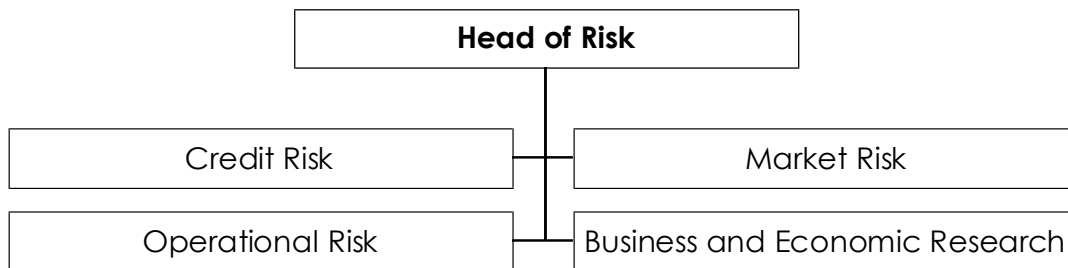


The Bank has also formulated a global risk policy for overseas operations and a country specific risk policy for its Singapore, Hong Kong and Dubai branches. The policies were drawn based on the risk dimensions of dynamic economies and the Bank's risk appetite.

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 (Technology and Business Process) 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 goal of credit risk management during the year has been to maintain a healthy credit portfolio by managing risk at the portfolio level as well as at the individual transaction level. 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 retail asset portfolio has also shown matching growth. 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. 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). A major part of the eligible financial collaterals is in the form of cash, the most liquid of assets and thus free from any market and liquidity risks. 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, ranging from SME 1 to SME 8. There are 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.
6. The regular/ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/date of ad hoc sanction.

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 – Position as on 31st March 2009

	(Rs. in crores)		
	Domestic	Overseas	Total
Fund Based	116,920.04	11,011.31	127,931.35
Non Fund Based *	34,572.77	1,457.01	36,029.78
Total	151,492.81	12,468.32	163,961.13

* 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 31st March 2009

Sr. No.	Industry Classification	(Rs. in crores)	
		Fund Based	Non-Fund Based
1.	Coal	45.10	152.43
2.	Mining	515.95	86.96
3.	Iron and Steel	3,539.17	2,262.48
4.	Other Metal and Metal Products	612.31	1,164.96
5.	All Engineering	1,820.79	1,334.78
	- Of which Electronics	88.12	24.32
6.	Electricity (Power Generation & Distribution)	1,701.26	1,328.23
7.	Cotton Textiles	2,425.52	281.85
8.	Jute Textiles	8.33	0.87
9.	Other Textiles	910.07	351.53
10.	Sugar	671.87	184.98
11.	Tea	306.56	5.45
12.	Food Processing	1,312.47	712.50
13.	Vegetable Oil and Vanspati	526.72	992.06
14.	Tobacco and Tobacco Products	348.81	18.31
15.	Paper and Paper Products	612.00	70.33
16.	Rubber and Rubber Products	181.90	20.55
17.	Chemicals, Dyes, Paints etc.	3,047.79	2,187.67
	- Of which Drugs & Pharmaceuticals	1,028.70	198.51
18.	Cement	1,250.79	427.09
19.	Leather and Leather Products	128.56	16.25
20.	Gems and Jewellery	1,518.00	4,538.87
21.	Construction	4,643.53	250.24
22.	Petrochemicals and Petroleum Products	674.52	996.94
23.	Automobiles including trucks	1,876.51	301.63
24.	Computer Software	1,272.88	235.28
25.	Infrastructure	9,760.65	9,276.20
	- Of which Infrastructure construction Roads	1,166.32	831.60
	- Of which Infrastructure construction Ports	862.17	960.85
	- Of which Telecommunication	2,142.56	1,945.08
26.	NBFCs & Trading	11,278.90	2,298.15
27.	Other Industries	17,812.73	4,226.46

Sr. No.	Industry Classification	Amount	
		Fund Based	Non-Fund Based
	- Of which Banks	6,534.35	1,442.53
	- Of which Entertainment Media	968.61	395.96
	- Of which Logistics	960.13	450.70
28.	Residual exposures to balance the total exposure	59,127.66	2,306.73
	Total	127,931.35	36,029.78

As on 31st March 2009, 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.	Infrastructure	12%
2.	NBFCs & Trading	8%

Residual Contractual Maturity breakdown of Assets – Position as on 31st March 2009

(Rs. in crores)

Maturity Bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1 day	2,163.81	826.11	403.82	-
2 to 7 days	1,756.88	1,376.29	2,088.92	128.99
8 to 14 days	1,252.68	2,543.36	763.81	12.06
15 to 28 days	2,180.47	4,917.41	1,741.44	1,204.95
29 days to 3 months	3,366.15	7,984.60	4,386.71	-
3 to 6 months	715.74	4,564.47	3,105.11	-
6 to 12 months	687.42	5,453.27	7,819.28	-
1 to 3 years	1,849.09	6,745.69	14,748.19	-
3 to 5 years	27.41	3,990.64	11,214.96	-
Over 5 years	1,017.25	7,928.51	35,284.53	3,472.04
Total	15,016.90	46,330.35	81,556.77	4,818.04

Movement of NPAs and Provision for NPAs – Position as on 31st March 2009

(Rs. in crores)

	Amount
	Amount of NPAs (Gross)
A.	- Substandard
	465.16
	- Doubtful 1
	122.50
	- Doubtful 2
	17.50
	- Doubtful 3
	9.64
	- Loss
	282.97
B.	Net NPAs
	327.13
C.	NPA Ratios

		Amount
	- Gross NPAs to gross advances (%)	1.09%
	- Net NPAs to net advances (%)	0.40%
	Movement of NPAs (Gross)	
D.	- Opening balance as on 1.4.2008	494.61
	- Additions	892.62
	- Reductions	(489.46)
	- Closing balance as on 31.3.2009	897.77
	Movement of Provision for NPAs	
E.	- Opening balance as on 1.4.2008	246.32
	- Provision made in 2008-09	690.32
	- Write – offs / Utilization	(344.27)
	- Write – back of excess provision	(21.73)
	- Closing balance as on 31.3.2009	570.64

NPIs and Movement of Provision for Depreciation on NPIs – Position as on 31st March 2009

		(Rs. in crores)
		Amount
A.	Amount of Non-Performing Investments	7.29
B.	Amount of Provision held for Non- performing investments	7.29
	Movement of provision for depreciation on investments	
C.	- Opening balance as on 1.4.2008	92.20
	- Provision made in 2008-09	182.76
	- Write – offs	-
	- Write – back of excess provision	(74.96)
	- Closing balance as on 31.3.2009	200.00

V. 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 (ECAAs) 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 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 – Position as on 31st March 2009

(Rs. in crores)	
	Amount
Below 100% risk weight	96,604.16
100% risk weight	60,398.72
More than 100% risk weight	6,958.25
Deductions	
- Investments in subsidiaries	58.60

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), 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.

Under the Standardised Approach, the total credit exposure covered by eligible financial collaterals after application of haircuts, as on 31st March 2009 was Rs. 7,554.22 crores.

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 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 not 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 2009, the Bank has securitised Rs. 5,627.05 crores as an originator.

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

(Rs. in crores)		
Sr. No.	Type of Securitisation	Amount
1.	Impaired/past due assets securitised	NIL
2.	Losses recognized by the Bank during the current period	
	- Personal Loan portfolio	NIL
	- Commercial Vehicle portfolio	NIL
	- Corporate Loans	NIL

Aggregate amount of Securitisation Exposures Retained or Purchased as on 31st March 2009 is given below

(Rs. in crores)

Sr. No.	Type of Securitisation	Amount
1.	Retained	NIL
2.	Securities purchased	943.95
	- Corporate Loans	805.65
	- Retail Auto Loans	138.30
3.	Liquidity facility	NIL
4.	Credit enhancement (cash collateral)	NIL
5.	Other commitments	NIL

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

(Rs. in crores)

	Amount
Below 100% risk weight	943.95
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)	-

Comparative Position of the Portfolio Securitised by the Bank is given below

(Rs. in crores)

Sr. No.	Type of Securitisation	31 st March	
		2009	2008
1.	Total number of loan assets securitised		
	- Corporate Loans	16	19
2.	Total book value of loan assets securitized		
	- Corporate Loans	5,627.05	3,201.95
3.	Sale consideration received for securitised assets	5,637.42	3,209.79
4.	Gain / loss on sale on account of securitisation	10.37	7.84
5.	Form and quantum (outstanding value) of service provided		
	- Credit enhancement	-	13.66
	- Outstanding servicing liability	-	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, 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. For market risk management, the Bank uses:

- Non-statistical measures like position, gaps and sensitivities (duration, PVBP, option greeks)
- Statistical measures like Value at risk (VaR), supplemented by Stress Tests and Scenario Analysis

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. 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.

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 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 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.

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 PV01 for interest rate swaps have been allocated to various benchmarks. Where such allocations have not been undertaken, the Bank continues to monitor the position closely for any possible concentrations.

Liquidity Risk

Liquidity Risk is defined as 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 Bank's ALM policy defines the gap limits for its structural liquidity position. 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 put in place appropriate guidelines to monitor counterparty risk covering all counterparty exposures on banks, primary dealers and financial institutions arising out of movement in market variables. 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. Rating of counterparty Banks, Primary Dealers and NBFCs and sanctioning of limits are done as per suitable rating Model laid down by the Bank. 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. The Bank uses the current exposure method for setting up the LER limits.

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 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 and 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

Risk Management Framework for Overseas Operations

The Bank has put in place a comprehensive Risk Management Policy for its global operations, which presently includes branches in Singapore, Hong Kong, and Dubai. It has also formulated country-specific risk policy based on the host country regulators' guidelines. 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 31st March 2009

	(Rs. in crores)
	Amount of Capital Required
- Interest rate risk	988.19
- Equity position risk	49.21
- Foreign exchange risk (including gold)	13.50

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. A policy on management of operational risk has been approved by the Bank to ensure that operational risk within the Bank is properly identified, monitored and reported in a structured manner.

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 convener 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. Business units put in place baseline 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 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 2009. 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

The Bank assesses its exposure to interest rate risk in the banking book at the end of each quarter considering a drop in market value of investments with 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 Earnings at Risk (EaR) measures the sensitivity of net interest income to parallel movement in interest rates on the entire balance sheet, and 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 based on balance sheet as on 31st March 2009 are given below:

Earnings Perspective
(Rs. in crores)

Country	Interest Rate Shock	
	0.50%	(-) 0.50%
India	(65.92)	65.92
Overseas	8.10	(8.10)
Total	(57.82)	57.82

Economic Value Perspective
(Rs. in crores)

Country	Interest Rate Shock	
	0.50%	(-) 0.50%
India	(1,812.38)	(1,529.90)
Overseas	130.78	97.18
Total	(1,681.60)	(1,432.72)