

Basel II - Pillar 3 Disclosures

1. Scope of Application :

- a) The name of the top bank in the group to which the framework applies :

The New Capital Adequacy Framework (Basel II) is applicable to HDFC Bank Limited (hereinafter referred to as the Bank) and its two subsidiaries (HDFC Securities Limited and HDB Financial Services Limited) which together constitute the group in line with Reserve Bank of India (RBI) guidelines on preparation of consolidated prudential reports issued vide circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003.

- b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group :

For financial reporting, the Bank consolidates its subsidiaries in accordance with AS-21, Consolidated Financial Statements on a line-by-line basis by adding together like items of assets, liabilities, income and expenditure. Investments in associates are accounted for by the equity method in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements.

For the purpose of consolidated prudential regulatory reports, the consolidated Bank includes all group entities under its control, except group companies which are engaged in insurance business and businesses not pertaining to financial services.

Details of subsidiaries and associates of the Bank along with the consolidation status for accounting and regulatory purposes are given below :

Name of entity	Brief description and consolidation status
HDFC Securities Limited (HSL)	HSL is a subsidiary engaged in stock broking and is consolidated in accordance with AS-21, Consolidated Financial Statements.
HDB Financial Services Limited (HDBFS)	HDBFS is a subsidiary engaged in retail asset financing and is consolidated in accordance with AS-21, Consolidated Financial Statements.
HDB Employee Welfare Trust (HDBEWT)	HDBEWT is a trust established for providing general welfare measures such as medical relief and educational assistance to the employees of the Bank and their dependants. It is consolidated in accordance with AS-21, Consolidated Financial Statements. It is not consolidated for capital adequacy purpose.
Atlas Documentary Facilitators Company Private Limited (ADFC)	ADFC is an associate engaged in back-office processing and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose.
HBL Global Private Limited (HBL)	HBL is an associate engaged in providing the Bank with direct sales support for certain products of the Bank and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose.
Centillion Solutions & Services (P) Limited (Centillion)*	Centillion is an associate engaged in back-office processing services and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose.
International Asset Reconstruction Company Private Limited (IARCL)	IARCL is an associate engaged in securitisation and asset reconstruction and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose.

*Centillion ceased to be an associate of the Bank from December 31, 2011.

For the purpose of standalone regulatory capital computation, the Bank's investment in its subsidiaries is deducted from Tier I capital and Tier II capital in equal proportion, whilst the investment in associate entities is risk weighted.

- c) There is no capital deficiency in the subsidiaries of the Bank as of March 31, 2012.
d) As of March 31, 2012, the Bank does not have investment in any insurance entity.

2. Capital Structure :

- a) Summary information on the main features of all capital instruments eligible for inclusion under Tier I and Tier II capital :

Capital funds are classified into Tier I and Tier II capital under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments (Tier I bonds) eligible for inclusion in Tier I capital that comply with the requirements specified by RBI.

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Elements of Tier II capital include revaluation reserve, if any, general provision for standard assets, floating provisions, upper Tier II instruments and subordinated debt instruments (lower Tier II bonds) eligible for inclusion in Tier II capital.

The Bank has issued debt instruments that form part of Tier I and Tier II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

Tier I bonds are perpetual in nature with a call option after 10 years from the date of allotment. Interest on Tier I bonds is payable semi-annually and is not cumulative. There is a step-up clause on interest payment of 100 basis points (bps) in conjunction with call option.

The upper Tier II bonds have an original maturity of minimum 15 years with call option after 10 years from the date of allotment. These Tier II bonds have a step up clause on interest payment ranging from 50 bps to 100 bps in conjunction with call option. The interest on upper Tier II bonds is payable either annually or semi-annually.

The lower Tier II bonds have an original maturity upto 15 years. Bonds issued in May 2011 amounting to ₹ 3,650,00 lacs have a call option at the end of 10th year from the date of allotment. The interest on lower Tier II capital instruments is payable annually.

The details of outstanding debt instruments as on March 31, 2012 are given below : (₹ lacs)

Type of instrument	Currency	Year of issue	Year of maturity	Year of call	Amount
Perpetual Debt	INR	2006-07	-	2016-17	200,00
Upper Tier II	INR	2006-07	2021-22	2016-17	300,00
Upper Tier II	INR	2006-07	2021-22	2016-17	300,00
Upper Tier II	INR	2006-07	2021-22	2016-17	35,90
Upper Tier II	USD	2006-07	2021-22	2016-17	508,75
Upper Tier II	INR	2008-09	2023-24	2018-19	578,00
Upper Tier II	INR	2008-09	2023-24	2018-19	200,00
Upper Tier II	INR	2008-09	2023-24	2018-19	797,00
Upper Tier II	INR	2007-08	2022-23	2017-18	100,00
Upper Tier II	INR	2010-11	2025-26	2020-21	1,105,00
Lower Tier II	INR	2003-04	2014-15	-	395,00
Lower Tier II	INR	2003-04	2017-18	-	5,00
Lower Tier II	INR	2004-05	2014-15	-	15,00
Lower Tier II	INR	2004-05	2014-15	-	4,00
Lower Tier II	INR	2005-06	2015-16	-	414,00
Lower Tier II	INR	2005-06	2015-16	-	231,00
Lower Tier II	INR	2005-06	2015-16	-	257,00
Lower Tier II	INR	2005-06	2015-16	-	300,00
Lower Tier II	INR	2006-07	2016-17	-	169,00
Lower Tier II	INR	2006-07	2016-17	-	241,00
Lower Tier II	INR	2008-09	2018-19	-	1,150,00
Lower Tier II	INR	2008-09	2018-19	-	150,00
Lower Tier II	INR	2011-12	2026-27	2021-22	3,650,00
Total					11,105,65

b) The details of Tier I capital of the Bank are given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
- Paid-up share capital	469,34	465,23
- Reserves	29,692,93	25,054,02
- Innovative perpetual debt	200,00	200,00
(a) Gross Tier I	30,362,27	25,719,25
Deductions :		
- Deferred tax asset	(1,465,34)	(1,189,29)
- Securitisation exposures*	(179,49)	(223,18)
- Market risk charge on account of valuation adjustment for illiquid positions of derivatives and non derivative portfolio.	(46,07)	(52,06)
(b) Total deductions	(1,690,90)	(1,464,53)
(c) Total Tier I capital (net of deductions) (a-b)	28,671,37	24,254,72

* Principally comprises credit enhancements

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c) The details of Tier II capital of the Bank are given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Upper Tier II capital	3,924,65	3,861,85
Lower Tier II capital	6,169,80	2,925,00
Provision for standard assets	920,79	763,45
Floating provision	1435,03	735,03
Investment reserve account	-	41,69
Securitisation exposures*	(179,49)	(223,18)
Total Tier II capital (net of deductions)	12,270,78	8,103,84

* Principally comprises credit enhancements

d) Debt capital instruments eligible for inclusion in Upper Tier II capital are given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total amount outstanding	3,924,65	3,861,85
Of which amounts raised during the year	-	1,105,00
Amount eligible to be reckoned as capital funds	3,924,65	3,861,85

e) Subordinated debt eligible for inclusion in Lower Tier II capital is given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total amount outstanding	6,981,00	3,331,20
Of which amounts raised during the year	3,650,00	-
Amount eligible to be reckoned as capital funds	6,169,80	2,925,00

f) Other deductions from capital : Nil (previous year : Nil).

g) The total eligible capital of the Bank outstanding as of March 31, 2012 amounts to ₹ 40,942,15 lacs (previous year : ₹ 32,358,56 lacs).

3. Capital Adequacy :

a) Summary discussion of the Bank's approach to assess the adequacy of capital to support current and future activities :

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks in its business and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future activities / risks and a report on the capital projections for a period of 2 to 3 years.

The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have an adverse material impact on its financial position. The Bank considers the following as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital :

- Credit risk, including residual risks
- Market risk
- Operational risk
- Interest rate risk in the banking book
- Liquidity risk
- Intraday risk
- Credit concentration risk
- Business risk
- Strategic risk
- Compliance risk
- Reputation risk
- Technology risk

The Bank has implemented a Board approved stress testing framework which forms an integral part of the Bank's ICAAP. Stress testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the level of credit risk, market risk,

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liquidity risk and Interest Rate Risk in the Banking Book (IRRBB), in the on and off balance sheet positions of the Bank, is assessed under assumed “stress” scenarios. Typically, this relates, among other things, to the impact on the Bank’s profitability and capital adequacy. Stress Tests are conducted on a quarterly basis and the stress test results are put up to the Risk Policy & Monitoring Committee (RPMC) on a half yearly basis and to the Board annually, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank’s business plans for the purpose of capital planning in the ICAAP.

b) Capital requirements for credit risk : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Portfolios subject to standardised approach	18,764,98	14,338,09
Securitisation exposures	995,38	924,00
Total	19,760,36	15,262,09

c) Capital requirements for market risk : Standardised duration approach : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Interest rate risk	390,44	863,87
Equity risk	60,12	37,25
Foreign exchange risk (including gold)	9,00	27,00
Total	459,56	928,12

d) Capital requirements for operational risk : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Basic indicator approach	1,892,68	1,514,23

e) Total and Tier I capital ratio :

Particulars	Standalone		Consolidated	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Tier I capital ratio	11.60%	12.23%	11.67%	12.33%
Total capital ratio	16.52%	16.22%	16.66%	16.45%

4. Credit risk :

a) **Credit risk management :**

Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank’s portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

Architecture

The Bank has comprehensive credit risk management architecture. The board of directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank’s risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The board oversees the credit risk management functions of the Bank. The RPMC, which is a committee of the board, guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. RPMC ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank.

The Bank’s credit & market risk group drives credit risk management centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the board, developing procedures and systems for managing risk,

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carrying out an independent assessment of credit and market risk, approving individual credit exposures and monitoring portfolio composition and quality. Within the credit & market risk group and independent of the credit approval process, there is a framework for review and approval of credit ratings. With regard to the wholesale banking business, the Bank's risk management functions are centralised. In respect of the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralised, the underwriting function is distributed across various geographies within the country. The risk management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank. The risk management function is not assigned any business targets.

Credit process

The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. Credit exposures are managed through target market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures.

There are two different credit management models within which the credit process operates - the retail credit model and the wholesale credit model. The retail credit model is geared towards high volume, small transaction size businesses where credit appraisals of fresh exposures are guided by statistical models, and are managed on the basis of aggregate product portfolios. The wholesale credit model on the other hand, is relevant to lower volume, larger transaction size, customised products and relies on a judgemental process for the origination, approval and maintenance of credit exposures.

The credit models have two alternatives for managing the credit process - product programs and credit transactions. In product programs, the Bank approves maximum levels of credit exposure to a set of customers with similar characteristics, profiles and / or product needs, under clearly defined standard terms and conditions. This is a cost-effective approach to managing credit where credit risks and expected returns lend themselves to a templated approach or predictable portfolio behavior in terms of yield, delinquency and write-off. Given the high volume environment, automated tracking and reporting mechanisms are important here to identify trends in portfolio behavior early and to initiate timely adjustments. In the case of credit transactions, the risk process focuses on individual customers or borrower relationships. The approval process in such cases is based on detailed analysis and the individual judgement of credit officials, often involving complex products or risks, multiple facilities / structures and types of securities.

The Bank's credit policies & procedures manual and credit programs, where applicable, form the core to controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The policies / programs generally address such areas as target markets / customer segmentation, qualitative-quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms, etc. They take cognisance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics etc.

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of :

- Borrower / business group
- Industry
- Risk grading

The RPMC sets concentration ceilings and the credit & market risk group monitors exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Board. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

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As an integral part of the credit process, the Bank has a fairly sophisticated credit rating model appropriate to each market segment in wholesale credit. The models follow principles similar to those of international rating agencies. In retail credit, score cards have been introduced in the smaller ticket, higher volume products like credit cards, two wheeler loans and auto loans. For the other retail products which are typically less granular or have higher ticket sizes, loans are underwritten based on the credit policies, which are in turn governed by the respective Board approved product programs. All retail portfolios are monitored regularly at a highly segmented level.

Top management monitors overall portfolio quality and high-risk exposures periodically, including the weighted risk grade of the portfolio and industry diversification. Additional to, and independent of, the internal grading system and the RBI norms on asset classification, the Bank has a labeling system, where individual credits are labeled based on the degree of risk perceived in them by the Bank. Remedial strategies are developed once a loan is identified as an adversely labeled credit.

Definition of non-performing assets

The Bank follows the current guidelines of RBI on income recognition, asset classification and provisioning. A Non-Performing Asset (NPA) is a loan or an advance where :

- (i) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan. Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.
- (ii) The account remains 'out of order', in respect of an Overdraft / Cash Credit (OD / CC). An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power or where there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period.
- (iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- (iv) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- (v) The installment of principal or interest thereon remains overdue for one crop season for long duration crops.
- (vi) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- (vii) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of RBI's guidelines on securitisation dated February 1, 2006.
- (viii) 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.

The Bank will classify an account as NPA if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

When a particular facility of a borrower has turned a NPA, the facilities granted by a Bank to a borrower (whether a wholesale or retail borrower) will be classified as NPA and not the particular facility alone which triggered the NPA classification for that borrower.

Advances against term deposits, national savings certificates eligible for surrender, indira vikas patras, kisan vikas patras and life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts. Credit facilities backed by the central government though overdue may be treated as NPA only when the government repudiates its guarantee when invoked. State government guaranteed advances and investments in state government guaranteed securities would attract asset classification and provisioning norms if interest and / or principal or any other amount due to the Bank remains overdue for more than 90 days.

A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes

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eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines. A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original Date of Commencement of Commercial Operations (DCCO), even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines.

A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines. A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines.

Non-performing assets are classified into the following three categories :

- (i) Substandard assets - A substandard asset is one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.
- (ii) Doubtful assets - A doubtful asset is one, which remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- (iii) Loss assets - A loss asset is one where loss has been identified by the Bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Interest on NPAs is not recognised in the Statement of Profit and Loss until received. Specific provision for NPAs is made based on management's assessment of their degree of impairment subject to the minimum provisioning level prescribed by RBI.

Definition of 'Overdue'

Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

b) Total gross credit risk exposures : (₹ lacs)

Category	March 31, 2012	March 31, 2011
Fund based*	215,587,45	174,757,06
Non-fund based**	34,278,85	26,743,31
Total	249,866,30	201,500,37

* Fund based exposures comprise investments and loans & advances including bills re-discounted.

** Non-fund based exposures comprise guarantees, acceptances, endorsements and letters of credit.

c) Geographic distribution of exposures : (₹ lacs)

Category	March 31, 2012		March 31, 2011	
	Fund based	Non-fund based	Fund based	Non-fund based
Domestic	209,665,88	34,233,84	170,015,69	26,664,56
Overseas	5,921,57	45,01	4,741,37	78,75
Total	215,587,45	34,278,85	174,757,06	26,743,31

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d) Industry-wise distribution of exposures :

(₹ lacs)

Industry	March 31, 2012	
	Fund based	Non-fund based
Agriculture and allied activities	4,559,18	63,65
Automobile and auto ancillary	7,117,29	1,366,76
Banks and financial institutions	16,597,72	392,27
Capital market intermediaries	1,534,99	1,782,84
Cement and cement products	788,33	387,78
Chemical and chemical products	1,862,55	429,09
Coal and petroleum products	2,394,83	6,331,01
Infrastructure (construction and development)	2,646,08	1,007,19
Consumer durables	632,42	240,91
Drugs and pharmaceuticals	1,300,57	255,19
Engineering	3,348,70	3,525,72
Fertilisers and pesticides	1,876,41	1,215,98
Food and beverage	4,644,41	470,56
Gems and jewellery	2,899,24	155,93
Housing finance companies	1,246,78	-
Information technology	1,100,40	305,09
Iron and steel	4,085,17	1,872,91
Mining and minerals	1,386,50	488,94
NBFC / financial intermediaries	5,528,23	39,45
Non-ferrous metals and products	972,20	3,586,44
Paper, printing and stationery	823,53	197,04
Plastic and products	549,97	193,58
Power	4,738,59	1,020,20
Real estate and property services *	2,547,99	605,26
Retail assets **	98,981,40	1,126,68
Road transport ***	13,040,72	140,78
Services	3,971,70	1,097,36
Telecom	2,050,87	613,66
Textiles and garments	1,962,23	1,034,83
Wholesale and retail trade	16,322,65	3,433,56
Other industries ****	4,075,80	898,19
Total	215,587,45	34,278,85

* Classification of exposure to real estate sector under "Exposures in sensitive sector", as disclosed in the notes to the financial statements in the Balance Sheet of the Bank, is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitisation, etc.

** Comprises auto loans, consumer loans, credit cards, home loans, personal loans, two wheeler loans, business loans except where otherwise classified.

*** Includes retail commercial vehicle financing.

**** Covers other industries such as glass and products, leather and products, media and entertainment, other non metallic mineral products, railways, rubber and products, shipping, tobacco and products, wood and products, airlines and fishing, FMCG and personal care each of which is less than 0.25% of the total exposure.

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e) Residual contractual maturity breakdown of assets :

As on March 31, 2012

(₹ lacs)

Maturity buckets	Cash and balances with RBI	Balances with banks and money at call and short notice	Investments	Advances*	Fixed assets	Other assets	Grand total
1 to 14 days	3,198,67	3,746,57	23,430,01	11,986,19	-	4,525,62	46,887,06
15 to 28 days	282,87	75,53	2,120,47	5,606,52	-	4,225,06	12,310,45
29 days to 3 months	775,38	599,47	4,589,17	21,779,27	-	-	27,743,29
3 to 6 months	1,289,87	638,16	6,118,01	15,826,26	-	-	23,872,30
6 months to 1 year	476,27	944,22	5,404,05	21,419,89	-	-	28,244,43
1 to 3 years	5,598,91	168,62	30,283,24	88,968,32	-	13,118,62	138,137,71
3 to 5 years	25,96	-	3,822,34	15,809,59	-	-	19,657,89
Above 5 years	3,343,70	10,96	21,027,82	17,441,49	2,377,91	-	44,201,88
Total	14,991,63	6,183,53	96,795,11	198,837,53	2,377,91	21,869,30	341,055,01

As on March 31, 2011

(₹ lacs)

Maturity buckets	Cash and balances with RBI	Balances with banks and money at call and short notice	Investments	Advances*	Fixed assets	Other assets	Grand total
1 to 14 days	13,164,19	3,538,45	7,766,08	8,104,64	-	3,044,40	35,617,76
15 to 28 days	404,08	180,54	2,233,43	5,367,87	-	2,293,03	10,478,95
29 days to 3 months	859,94	501,66	5,232,50	21,696,30	-	-	28,290,40
3 to 6 months	923,91	196,81	4,136,80	15,243,42	-	-	20,500,94
6 months to 1 year	459,64	244,08	4,249,41	19,570,62	-	-	24,523,75
1 to 3 years	6,516,46	65,70	28,325,86	64,588,51	-	9,478,20	108,974,73
3 to 5 years	1,423,21	-	7,360,95	12,149,45	-	-	20,933,61
Above 5 years	1,349,46	10,15	10,971,64	14,110,61	2,200,94	-	28,642,80
Total	25,100,89	4,737,39	70,276,67	160,831,42	2,200,94	14,815,63	277,962,94

* Excludes exposure under bills re-discounted.

f) Amount of gross NPAs :

(₹ lacs)

NPA classification	March 31, 2012	March 31, 2011
Sub Standard	969,28	743,96
Doubtful *		
- Doubtful 1	353,51	360,24
- Doubtful 2	185,48	89,67
- Doubtful 3	36,55	27,86
Loss	458,35	476,75
Total	2,003,17	1,698,48

* Doubtful 1, 2 and 3 categories correspond to the period for which asset has been doubtful - Up to one year (Doubtful 1), One to three years (Doubtful 2) and More than three years (Doubtful 3).

g) Amount of net NPAs :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Gross NPAs	2,003,17	1,698,48
Less : Provisions	1,648,98	1,399,86
Net NPAs	354,19	298,62

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h) NPA ratios :		(₹ lacs)	
Particulars	March 31, 2012	March 31, 2011	
Gross NPAs as a ratio to gross advances	1.00%	1.05%	
Net NPAs as a ratio to net advances	0.18%	0.19%	

i) Movement of NPAs (Gross) :		(₹ lacs)	
Particulars	March 31, 2012	March 31, 2011	
Opening balance	1,698,48	1,821,89	
Additions during the year	1,578,02	1,437,75	
Reductions	(1,273,33)	(1,561,16)	
Closing balance	2,003,17	1,698,48	

NPAs include all assets that are classified as non-performing by the Bank. Till the year ended March 31, 2011, additions, upgradations or recoveries in retail NPAs were computed at a portfolio level. From the year ended March 31, 2012, these movements are computed at an account / contract level by comparing non-performing accounts outstanding at the beginning and at the end of the year. Previous year's figures have been reclassified accordingly.

j) Movement of provisions for NPAs :		(₹ lacs)	
Particulars	March 31, 2012	March 31, 2011	
Opening balance	1,399,86	1,427,26	
Provisions made during the year	1,400,12	1,448,15	
Write-off	(943,03)	(1,184,13)	
Write-back of excess provisions	(207,98)	(291,42)	
Closing balance	1,648,97	1,399,86	

k) Amount of Non performing investments :		(₹ lacs)	
Particulars	March 31, 2012	March 31, 2011	
Gross non-performing investments	112,39	17,87	
Provisions held for non-performing investments	(112,09)	(17,34)	
Net non-performing investments	30	53	

l) Movement of provisions for depreciation on investments :		(₹ lacs)	
Particulars	March 31, 2012	March 31, 2011	
Opening balance	42,46	58,41	
Provisions made during the year	184,51	15,12	
Write-off	-	-	
Write-back of excess provisions	(4)	(31,07)	
Closing balance	226,93	42,46	

5. Credit Risk : Portfolios subject to the standardised approach

a) The Bank has used the standardised approach for the entire credit portfolio.

Name of credit rating agencies used :

- The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by RBI, for risk weighting claims on domestic entities
 - 1) Credit Analysis and Research Limited (CARE)
 - 2) Credit Rating Information Services of India Limited (CRISIL)
 - 3) Fitch India
 - 4) ICRA Limited (ICRA)
- The Bank is using the ratings assigned by the following international credit rating agencies, approved by RBI, for risk weighting claims on overseas entities

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- 1) Fitch
- 2) Moodys
- 3) Standard & Poor's

Types of exposures for which each agency is used :

The Bank has used the solicited ratings assigned by the above approved credit rating agencies for all eligible exposures, both on balance sheet and off balance sheet, whether short term or long term, in the manner permitted in the RBI guidelines on the New Capital Adequacy Framework (NCAF). The Bank has not made any discrimination among ratings assigned by these agencies nor restricted their usage to any particular type of exposure.

Process used to transfer public issue ratings onto comparable assets in the banking book :

The Bank has, in accordance with RBI guidelines on the NCAF, transferred public ratings on to comparable assets in the banking books in the following manner :

Issue Specific Ratings

- All long term and short term ratings assigned by the credit rating agencies specifically to the Bank's long term and short term exposures respectively are considered by the Bank as issue specific ratings.
- For assets in the Bank's portfolio that have contractual maturity less than or equal to one year, short term ratings accorded by the chosen credit rating agencies are considered relevant. For other assets, which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies are considered relevant.
- Long term ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the Standardised approach under the NCAF. The rating to risk weight mapping furnished below was adopted for domestic corporate exposures, as per RBI guidelines :

Long term rating	AAA	AA	A	BBB	BB & Below	Unrated
Risk weight	20%	30%	50%	100%	150%	100%

- In respect of the issue specific short term ratings the following risk weight mapping has been adopted by the Bank, as provided in the NCAF :

Short term rating (eqv.)	P1+	P1	P2	P3	P4 / P5	Unrated
Risk weight	20%	30%	50%	100%	150%	100%

- Where multiple issue specific ratings are assigned to the Bank's exposure by the various credit rating agencies, the risk weight is determined as follows :
 - (i) If there is only one rating by a chosen credit rating agency for a particular claim, that rating is used to determine the risk weight of the claim.
 - (ii) If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, the higher risk weight is applied.
 - (iii) If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.

Inferred ratings

- The specific rating assigned by a credit rating agency to a debt or issue of a borrower or counterparty (which the Bank may or may not have extended / invested in), which the Bank applies to an un-assessed claim of the Bank on such borrower or counterparty is considered by the Bank as Inferred ratings.
- In terms of NCAF guidelines, the Bank uses a long term rating as an Inferred rating for an unassessed long term claim on the borrower, where the following conditions are met.
 - (i) Where the Bank's claim ranks pari passu or senior to the specific rated debt in all respects.
 - (ii) The maturity of the Bank's claim is not later than the maturity of the rated claim.
- The unassessed long term claim is assigned the risk weight corresponding to a inferred long term rating as given in the table under issue specific ratings.

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- For an unassessed short term claim, the Bank uses a long term or short term rating as an inferred rating, where the Bank's claim ranks pari passu to the specified rated debt.
- Where a long term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred long term rating as given in the table under issue specific rating is considered by the Bank.
- Where a short term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred short term rating as given in the table under issue specific rating is considered, however with notch up of the risk weight. Notwithstanding the restriction on using an issue specific short term rating for other short term exposures, an unrated short term claim on a counterparty is given a risk weight of at least one level higher than the risk weight applicable to the rated short term claim on that counter party. If a short term rated facility to a counterparty attracts a 20% or a 50% risk weight, the unrated short term claims to the same counter party will get a risk weight not lower than 30% or 100% respectively.
- If long term ratings corresponding to different risk weights are applicable for a long term exposure, the highest of the risk weight is considered by the Bank. Similarly, if short term ratings corresponding to different risk weights are applicable for a short term exposure, the highest of the risk weight is considered. However, where both long term and short term corresponding to different risk weights are applicable to a short term exposure, the highest of the risk weight is considered by the Bank for determination of capital charge.
- If counterparty has a long term exposure with an external long term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short term or long term, receives a 150% risk weight, unless recognised credit risk mitigation techniques have been used for such claims. Similarly, if counterparty has a short term exposure with an external short term rating that warrants a risk weight of 150%, all unrated claims on the same counter party, whether long term or short term, receives a 150% risk weight.

Issuer ratings

- Ratings assigned by the credit rating agencies to an entity conveying an opinion on the general creditworthiness of the rated entity are considered as issuer ratings.
 - Where multiple issuer ratings are assigned to an entity by various credit rating agencies, the risk weight for the Bank's claims are as follows :
 - (i) If there is only one rating by a chosen credit rating agency for a particular claim, that rating is used to determine the risk weight of the claim.
 - (ii) If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, the higher risk weight is applied.
 - (iii) If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.
 - The risk weight assigned to claims on counterparty based on issuer ratings are as those mentioned under issue specific ratings.
- b) For exposure amounts after risk mitigation subject to the standardised approach (including exposures under bills re-discounting transactions, if any), the Bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted :

Particulars	March 31, 2012	March 31, 2011
Below 100% risk weight	104,730,86	83,038,55
100% risk weight	79,932,69	67,929,47
More than 100% risk weight	65,202,75	50,532,35
Deducted	-	-
Total	249,866,30	201,500,37

Includes exposure under bills re-discounting transactions of ₹ Nil (previous year : ₹ 746,00 lacs)

6. Credit risk mitigation : Disclosures for standardised approaches

a) Policies and process :

The Bank's credit policies & procedures manual and product programs include the risk mitigation and collateral management policy of the Bank. The policy covers aspects on the nature of risk mitigants / collaterals acceptable

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to the Bank, the documentation and custodial arrangement of the collateral, the manner and periodicity of valuation etc.

For purposes of computation of capital requirement for credit risk, the Bank recognises only those collaterals that are considered as eligible for risk mitigation in RBI guidelines, which are :

- Cash deposit with the Bank
- Gold, including bullion and jewellery
- Securities issued by central and state governments
- Kisan vikas patra and national savings certificates (Kisan vikas patra is a safe and long term investment option backed by the Government of India and provides interest income similar to bonds; National savings certificates are certificates issued by the department of post, Government of India - it is a long term safe savings option for the investor and combines growth in money with reductions in tax liability as per the provisions of the Indian Income Tax Act, 1961)
- Life insurance policies with a declared surrender value of an insurance company which is regulated by the insurance sector regulator
- Debt securities rated at least BBB (-) / PR3 / P3 / F3 / A3
- Units of mutual funds, where the investment is in instruments mentioned above

The Bank uses the comprehensive approach in capital assessment. In the comprehensive approach, when taking collateral, the Bank calculates the adjusted exposure to a counterparty for capital adequacy purposes by netting off the effects of that collateral. The Bank adjusts the value of any collateral by a haircut to take account of possible future fluctuations in the value of the security occasioned by market movements.

For purposes of capital calculation and risk based pricing, the Bank recognises the credit protection given by the following entities, considered eligible as per RBI guidelines :

- Sovereign, entities including Bank for International Settlements (BIS), International Monetary Fund (IMF), European central bank and european community as well as multilateral development banks approved by RBI for the purpose, Export Credit Guarantee Corporation of India (ECGC) and Credit Guarantee Fund Trust for Small Industries (CGTSI), banks and primary dealers with a lower risk weight than the counterparty.
- Other entities externally rated AA(-) or better or equivalent. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

The credit risk mitigation taken is largely in the form of cash deposit with the Bank and thus the risk (credit and market) concentration of the mitigants is low.

b) Total exposure covered by eligible financial collateral after the application of haircuts : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total exposure covered by eligible financial collateral	13,495,21	11,968,12

c) The total exposure for each separately disclosed credit risk portfolio that is covered by guarantees / credit derivatives : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total exposure covered by guarantees	1,909,71	1,095,58

7. Securitisation exposures: Disclosure for standardised approach

a) Objectives, Policies, Monitoring :

The Bank undertakes securitisation / loan assignment transactions with the objective of maximising return on capital employed, managing liquidity, meeting priority sector lending requirements and maximising yield on asset opportunities.

The Bank undertakes both 'purchase' and 'sale', transactions through the securitisation route from time to time. For this purpose, the Bank has put in place a Board approved policy which lays down the overall framework for undertaking securitisation transactions. The policy is in line with the extant RBI guidelines on securitisation of standard assets.

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The Bank also regularly undertakes 'purchase' and 'sale' transactions through the direct assignment route. Such transactions are similar to securitisation transactions undertaken through the Special Purpose Vehicles (SPV) route, without the issuance of any securities and / or formation of any SPV. For this purpose, the Bank has a separate Board approved policy which lays down the overall framework for undertaking loan assignment transactions.

The Bank participates in securitisation and loan assignment transactions in any or all of the following roles :

- (i) Originator - Sources / underwrites / acquires assets in its own book and down sells them through the securitisation or assignment route.
- (ii) Servicing and collection agent - For sold assets, undertakes the activity of collections and other servicing activities such as managing collections and monthly payouts to investors / assignee with respect to the underlying assets.
- (iii) Investor - Invests in Pass Through Certificates (PTCs) for yield and priority sector lending opportunities.
- (iv) Assignee - Purchases loans through the direct assignment route for asset opportunities.
- (v) Liquidity facility provider - In sell-down transactions, the Bank also provides the liquidity facility for the transactions. The liquidity facility is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfillment of obligations to the beneficiaries. The Bank may also undertake to be a third party liquidity facility provider.
- (vi) Credit enhancement provider - Provides credit enhancement on sale transactions undertaken by the Bank for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold. In some cases, Bank also acts as a third party credit enhancement provider for a fee.
- (vii) Underwriter of Securities - Devolvement of un-subscribed portions of securitised debt issuances on the Bank as permitted by the extant guidelines.

The major risks inherent in securitisation / loan assignment transactions are :

- (i) Credit Risk : Risk arising from defaults / delinquencies by the underlying obligors. The investor / assignee bear the loss in the event of the shortfalls in the transaction which exceed the credit enhancement provided.
- (ii) Market Risk :
 - a) Liquidity Risk : Risk arising on account of absence of secondary market to provide exit options to the investors / participants.
 - b) Interest Rate Risk : Mark to market risks arising on account of interest rate fluctuations.
- (iii) Prepayment Risk : Prepayments in the securitised pool result in early amortisation and loss of future interest (re-investment risk) to the investor on the prepaid amounts.
- (iv) Co-mingling Risk : Risk arising from co-mingling of funds which belong to the investor(s) with that of the originator and / or servicer. This risk occurs when there is a time lag between collection of amounts due from the obligors and payouts being made to the investors / assignee.
- (v) Servicer Risk : Risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors as well as operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.
- (vi) Regulatory Risk : Risk arising due to non-compliance with extant guidelines. There could also be a conflict between the extant regulations and applicable laws.
- (vii) Legal Risk : Risk arising on account of non compliance with laws. In some cases, some laws may get applied retrospectively. Major legal risk on transactions may arise on account of courts not holding a transaction as "True Sale". This may result in transaction being invalid. Also, in case of imperfection in transferring of rights, enforceability of the security may also be a challenge.
- (viii) Pipeline and Warehousing Risk : The Bank has no exposure to pipeline and warehousing risks which pertain to an event where originating banks are unable to off-load assets, which were originated with an intention of selling thus potentially exposing them to losses arising on declining values of these assets. The Bank undertakes sale of assets only for strategic reasons including liquidity management and is not involved in originate and distribute activity.

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The overall framework for both securitisation and loan assignment transactions is specified in the respective policies, which define the covenants for evaluation and the key requirements that need to be adhered to for all such transactions. This briefly covers pool selection, credit enhancement, structuring, rating, legal documentation etc. Additionally, for purchase transactions, the Bank examines the profile and track record of the originator, the type and nature of underlying assets, pool characteristics and rating, credit enhancement provided, listing status (in case of securitisation) etc.

The Bank also has a process for monitoring the performance of all pools purchased (whether under the securitisation or loan assignment route), basis inputs received from the servicer. On an ongoing basis, performance of pools is measured by analysing collection ratios, credit enhancement utilisation, level of available credit enhancement etc. The Bank undertakes regular review with senior management on performance of pools which show concerning trends. In case of sold pools, a note on transactions undertaken is put up to the audit & compliance committee of the board on a quarterly basis.

b) Accounting policy of the Bank for securitisation transactions :

The Bank securitises out its receivables to SPVs in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured advances.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank amortises any profit / premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

The Bank also enters into securitised-out transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by PTCs. The Bank amortises any profit / premium arising on account of sale of receivables through the direct assignment route over the tenure of the loans sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

In accordance with RBI guidelines on sale of non-performing advances, if the sale is at a price below the net book value (i.e. book value less provisions held), the shortfall is debited to the Statement of Profit and Loss. If the sale is for a value higher than the net book value, the excess provision is not reversed but is utilised to meet the shortfall / loss on account of sale of other non-performing advances.

The Bank also invests in PTCs and buys loans through the direct assignment route. These are accounted for at the deal value. The PTCs are classified as investments and are valued using the Yield-to-Maturity (YTM) rates with a markup over the YTM rates for government securities as published by FIMMDA. Loan assignments are classified as advances.

Appropriate provisions are made as per the approved policy of the Bank for investments and purchases in securitisation and loan assignment transactions respectively.

There have been no changes during the fiscal year ended March 31, 2012 in the methods or key assumptions deployed in accounting of securitisation transactions.

c) In the banking book, following were the external credit rating agencies involved with the Bank's securitisation and loan assignment transactions :

- 1) Credit Analysis and Research Limited (CARE)
- 2) Credit Rating Information Services of India Limited (CRISIL)
- 3) Fitch India
- 4) ICRA Limited (ICRA)

The ratings declared / issued by the above agencies were used to cover the following securitisation and loan assignment exposures :

- 1) Securitised debt instruments / PTCs / Purchased assets
- 2) Second loss credit enhancement facilities
- 3) Liquidity facilities

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Banking Book

- d) The total amount of exposures securitised by the Bank :
- (i) Total outstanding amount securitised was ₹ 535,50 lacs (previous year : ₹ 809,66 lacs).
- (ii) Deals done during the year :
- The Bank has not securitised out any component of its standard asset portfolio, impaired / past due assets during the year (previous year impaired / past due : ₹ 18,75 lacs).
- e) Losses recognised by the Bank during the current period for auto and commercial vehicle exposures securitised earlier : ₹ 68 lacs.
- f) Amount of assets intended to be securitised within a year :
- The Bank has made no projection of the assets it intends to securitise-out during the fiscal year beginning April 01, 2012.
- The securitisations transactions are undertaken on a need basis to meet the objectives articulated in section (a) above.
- g) Of (f), amount of assets originated within a year before securitisation : Not applicable.
- h) The total amount of exposures securitised and unrecognised gain or losses on sale by exposure type :

(₹ lacs)

Exposure Type	March 31, 2012		March 31, 2011	
	Outstanding amount of exposures securitised	Outstanding unrecognised gain or losses on sale	Outstanding amount of exposures securitised	Outstanding unrecognised gain or losses on sale
Auto loans	30,41	-	87,86	-
Commercial vehicle loans	2,95	-	22,25	-
Loans against property	114,94	-	183,71	-
Housing loans	351,20	-	478,79	-
Loans against rent receivables	36,00	-	37,05	-
Total	535,50	-	809,66	-

- i) Aggregate amount of :
- On-balance sheet securitisation exposures retained or purchased broken down by exposure type :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Commercial vehicle loans	750,00	1,413,43
Housing loans	13,928,50	11,069,95
Personal loans	54,94	51,36
Two wheeler loans	5,73	3,51
Mixed assets*	758,45	1,089,27
Construction equipment loans	65,39	144,25
Tractor loans	720,62	915,79
Total	16,283,63	14,687,56

- Off-balance sheet securitisation exposures broken down by exposure type :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Housing loans	175,96	180,32
Mixed assets*	182,57	265,45
Commercial vehicle loans	44	44
Total	358,97	446,21

* includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.

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- j) Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach : (₹ lacs)

Risk weight bands	Exposure type	March 31, 2012		March 31, 2011	
		Exposure	Capital charge	Exposure	Capital charge
Less than 100%	Housing loans	9,599,59	440,06	7,253,63	334,20
	Commercial vehicle loans	745,31	50,31	1,413,43	95,41
	Mixed assets*	698,58	47,15	1,118,73	75,51
	Tractor loans	720,62	48,64	915,79	61,82
	Construction equipment loans	65,39	4,41	144,25	9,74
	Personal loans	-	-	14,27	96
At 100%	Housing loans	4,279,64	385,17	3,756,64	338,10
More than 100%	Housing loans	49,27	5,54	59,68	6,71
	Commercial vehicle loans	4,69	53	-	-
	Personal loans	54,94	6,18	-	-
	Mixed assets*	5,987	6,74	7,63	86
	Two wheeler loans	5,73	64	3,51	39
	Total	16,283,63	995,37	14,687,56	923,70

- Exposures that have been deducted entirely from Tier I capital, credit enhancing Interest Only Strips (I/Os) deducted from total capital and other exposures deducted from total capital (by exposure type) :

As on March 31, 2012

(₹ lacs)

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from from total capital	Other exposure deducted from total capital
Commercial vehicle loans	-	-	44
Housing loans	-	-	175,96
Mixed assets*	-	-	182,57
Total	-	-	358,97

* includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.

As on March 31, 2011

(₹ lacs)

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from from total capital	Other exposure deducted from total capital
Commercial vehicle loans	-	-	44
Housing loans	-	-	180,32
Mixed assets*	-	-	265,45
Total	-	-	446,21

* includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.

Trading book

- k) Aggregate amount of exposure securitised-out by the Bank for which the Bank has retained some exposure and which is subject to market risk approach, by exposure type as of March 31, 2012 : ₹ Nil (previous year : ₹ 15 lacs).

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l) Aggregate amount of :

- On-balance sheet securitisation exposures retained or purchased broken down by exposure type :

Exposure Type	(₹ lacs)	
	March 31, 2012	March 31, 2011
Hire purchase receivables	7,64	11,57
Housing loans	309,44	456,58
Mixed assets	-	15
Micro finance	-	48,41
Total	317,08	516,71

- Off-balance sheet securitisation exposures broken down by exposure type : Nil (previous year : Nil)

m) Aggregate amount of securitisation exposures retained or purchased, subject to the securitisation framework for specific risk broken down into different risk weight bands :

- The capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands (book value) :

Particulars	(₹ lacs)	
	March 31, 2012	March 31, 2011
Less than 100 %	317,08	516,56
100%	-	-
More than 100%	-	-
Total	317,08	516,56

n) Aggregate amount of :

- The capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands (capital charge) :

Particulars	(₹ lacs)	
	March 31, 2012	March 31, 2011
Less than 100 %	12,17	20,01
100%	-	-
More than 100%	-	-
Total	12,17	20,01

- Securitisation exposures that are deducted entirely from Tier I capital, credit enhancing I/Os deducted from total capital and exposures deducted from total capital (by exposure type) :

As on March 31, 2012 : Nil

As on March 31, 2011 :

(₹ lacs)

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from total capital	Other exposure deducted from total capital
Mixed assets	-	-	15

8. Market risk in trading book

a) Market risk management policy :

Strategy and processes :

The Bank has a market risk management process, which consists of risk identification, limits setting and risk monitoring. The process ensures that the risks assumed by treasury desks are within the stipulated risk appetite of the Bank. This risk appetite is handed down as limits in a hierarchical manner within the treasury. The treasury limits are a function of budgeted revenues for each desk. The treasury limits are reviewed and finalised by the market risk unit. The treasury mid-office, an independent unit, monitors and reports the limit utilisations as per documented procedures. The Bank has a stress testing framework and a Board approved stress testing policy. Stress testing is carried out periodically for the trading book on the basis of specified stress scenarios. This provides a way to assess the Bank's financial ability to withstand extreme but plausible fluctuations in market prices.

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Structure and organisation :

The market risk process includes the following key participants.

- The Risk Policy & Monitoring Committee (RPMC), inter-alia, evaluates the Bank's market risk policies and procedures, approves and reviews dealing authorities / limits for the Bank's treasury operations and reviews the Bank's risk monitoring systems and risk control procedures.
- The Market risk unit, part of the credit and market risk group, plays its role in the market risk limit approval process, lays down risk assessment and monitoring methods, and periodically evaluates the portfolio in the deliberations of the various committees as well as bilaterally with Treasury Group.
- The treasury mid-office has the role of the day to day monitoring and reporting of market risk controls, valuations etc. It reports limit transgressions to the senior management.
- The investment committee oversees the investments in equities and equity linked investments.
- Treasury desks, which includes foreign exchange, money market, interest rate trading derivatives, institutional sales, equities and precious metal desks. These are the basic levels of day to day management of the various portfolios and market risk.

Risk reporting and measurement systems :

Limits are control measures which seek to reduce risk within or across the desks. The objective of a limit is to ensure that the negative earnings impact of price risks are within the risk taking appetite of the desks and of the Bank. The nature of limits could typically include position limits, gap limits, tenor and duration limits, stop loss trigger level, Value-at-Risk (VaR) limits. These limits are appropriately selected for the relevant portfolios. Limits are monitored using various information technology software packages, including Straight Through Processing (STP) software systems.

Policies for hedging and / or mitigating risk :

The derivative book is classified into trading and banking books. When the Bank deals in derivatives on its own account (trading activity), principally for the purpose of generating a profit from short term fluctuations in price or yields, these transactions are classified as trading book. The trading book is managed within the trading limits approved by the RPMC. All other derivative transactions are classified as a part of the banking book. For derivative contracts designated as hedge, the Bank documents, at the inception of the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the effectiveness of the hedge. The assessment is done on an on-going basis to test if the derivative is still effective in offsetting the changes in the fair value of the hedged item.

The banking book consists of transactions to hedge balance sheet assets or liabilities. The hedge may be against a single asset or liability or against a portfolio of asset or liability in specific tenor buckets. The tenor of derivative hedges may be less than or equal to tenor of underlying asset or liability. These derivative transactions are classified as banking-hedge book. If the underlying asset or liability is not marked to market, then the hedge is also not marked to market.

The Bank enters into derivative deals with counter parties based on their financial strength and understanding of derivative products and its risks. In this regard the Bank has a customer suitability and appropriateness policy in place. The Bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The Bank, at the minimum, conforms to the RBI guidelines with regard to provisioning requirements. On a conservative basis, the Bank may make incremental provisions based on its assessment of impairment of the credit. The Bank maintains capital charge for market risk under the standardised approach.

b) Capital requirements : (₹ lacs)

Category	March 31, 2012	March 31, 2011
Interest rate risk	390,44	863,87
Equity position risk	60,12	37,25
Foreign Exchange risk (including gold)	9,00	27,00
Total	459,56	928,12

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9. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Strategies

The Bank's operational risk framework have been reviewed by risk and control teams. Key aspects towards effective operational risk management include identification, assessment, review, control and reporting of key operational risks.

Process and measurement

Some of the key principles ingrained in the Bank's business operations towards effective operational risk management include segregation of functions, clear reporting guidelines, well defined processes, operating manuals and job cards, transactions verification and authorisation, distributed processing and staff training, strong management team with vast experience in diverse fields. The Bank is in the process of implementing various principles and guidelines laid out in respect of operational risk management by the Basel committee on banking supervision vide Basel II guidelines and by RBI vide its circulars and guidance note on operational risk and advance measurement approach guidelines. The Bank's operational risk management committee oversees implementation of sound operational risk management framework. The Bank has a robust process of reporting operational losses and issues relating to operational risk, wherein the relevant areas are quickly reviewed and any gap suitably addressed. This is further being enhanced with a framework that has integrated capabilities to monitor losses, evaluate operational key risk indicators and qualitatively evaluate risk-control environments among other sound principles and practices.

The Bank has robust information technology with disaster recovery capability for critical components apart from having an integrated Business Continuity Planning (BCP) initiatives for business operations of the Bank. A BCP committee oversees strategy and implementation of disaster and business continuity framework of the Bank. The Bank has information security committee which oversees strategy and implementation of information security policies and procedures for the entire Bank.

Risk reporting

As a part of the Bank's overall operational risk management strategy, there is a clear line of reporting at every function which facilitates reporting and monitoring of operational risk events. Further, measurement and reporting is also achieved through various management information systems attached with each operational process which are generated and monitored regularly.

Mitigation

The Bank manages its various operational risks by ways of adopting best practices in business processes through checks and balances, embedding monitoring and control mechanisms as a part of day-to-day operations and having an effective internal audit process. Various operational risk exposures are monitored regularly and reviewed periodically by the Bank to ensure effective implementation. Control and mitigation guidelines are part of various product, process operation manual and documents of the Bank. The Bank covers risk on account of natural disaster through appropriate insurance.

Operational risk capital

Currently the Bank is following the 'Basic indicator approach' for operational risk capital assessment as mandated by RBI.

10. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates. The banking book comprises of assets and liabilities which are contracted on account of relationship or for steady income and statutory obligations and are generally held till maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks exposing it to risks from changing interest rates.

The Bank's objective is to maintain IRRBB within tolerable limits.

Strategy and processes :

The entire Bank's branches are connected to a central database. Hence for the IRRBB process, the Bank is able to cover the entire balance sheet and also relevant off-balance sheet items. The Bank has an interest rate risk management process, which consists of risk identification, limits setting and risk monitoring.

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Structure and organisation :

The IRRBB risk management process of the Bank operates in the following hierarchical manner:

- a. The board of directors
 - b. The Risk Policy & Monitoring Committee (RPMC)
 - c. The Asset Liability Committee (ALCO)
 - d. ALM operational groups
- a. The board of directors** : has the overall responsibility for management of risks. The board decides the risk management policy of the Bank and sets limits for liquidity, interest rate, foreign exchange and equity price risks.
- b. The Risk Policy & Monitoring Committee (RPMC)** : monitors the Bank's credit and market risk policies and procedures, approves and reviews dealing authorities / limits for the Bank's treasury operations and reviews its risk monitoring systems and risk reporting procedures.
- c. The Asset Liability Committee (ALCO)** : is a decision-making unit responsible for balance sheet planning from risk-return perspective including strategic management of interest rate and liquidity risks. The role of the ALCO in the Bank includes the following :
- (i) Product pricing for deposits and advances.
 - (ii) Deciding the desired maturity profile and mix of incremental assets and liabilities.
 - (iii) Articulating interest rate view of the Bank and deciding on the future business strategy.
 - (iv) Reviewing and articulating funding policy.
 - (v) Reviewing the economic and political impact on the balance sheet.
 - (vi) Ensuring the adherence to the limits set by the board of directors.
 - (vii) Overseeing market risk exposure of the Bank.
- d. ALM Operational groups** : consists of balance sheet management desk (Treasury), Market risk department, Financial control and treasury mid-office. The groups are responsible for analysing, monitoring and reporting the relevant risk profiles to the ALCO or an ALCO sub-committee duly created by the ALCO specifically for this purpose.

Risk measurement systems and reporting :

IRRBB is measured and controlled using both earnings perspective (traditional gap analysis) and economic value perspective (duration gap analysis).

Earnings perspective (traditional gap analysis) : measures the sensitivity of net interest income to changes in interest rate over the next 12 months. It involves bucketing of rate sensitive assets, liabilities and off-balance sheet items as per residual maturity / re-pricing date in various time bands and computing change of income under 200 basis points upward and downward rate shocks over a one year horizon.

Economic value perspective (duration gap analysis) : calculates the change in the present value of the Bank's expected cash flows for a 200 basis point upward and downward rate shock.

The Bank undertakes periodic stress testing for its banking book based on stress scenarios. This provides a measure to assess the Bank's financial standing from extreme but plausible interest rate fluctuations. The stress testing framework is approved by the Board.

IRRBB is controlled through the use of 'limits' on the above risk measures. Limits are set under the RBI prescribed standard parallel rate shock of 200 basis points on the banking book as well as banking book & trading book. These limits on Earnings at Risk (EaR) and Market Value of Equity (MVE) for the above books are approved by both ALCO and Board.

Risk reporting :

Periodic risk reports are sent to senior management for review. A risk summary is also presented at ALCO meetings.

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Quantification of IRRBB :

The increase / decline in earnings and economic value for an upward / downward rate shock of 200 basis points, broken down by currency, are as follows :

- Earnings perspective (impact on net interest income) : (₹ lacs)

Currency	If interest rate were to go down by 200 basis points		If interest rate were to go up by 200 basis points	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
INR	(1,004,88)	276,23	1,004,88	(276,23)
USD	(74,38)	(137,75)	74,38	137,75
Others	(5,52)	60	5,52	(60)
Total	(1,084,78)	139,08	1,084,78	(139,08)

- Economic value perspective (impact on market value of equity) : (₹ lacs)

Currency	If interest rate were to go down by 200 basis points		If interest rate were to go up by 200 basis points	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
INR	429,01	163,03	(429,01)	(163,03)
USD	(24,73)	(74,49)	24,73	74,49
Others	(5,48)	(25,49)	5,48	25,49
Total	398,80	63,05	(398,80)	(63,05)

During the year, the Bank has re-classified some of the balance sheet items as per RBI guidelines on banks' asset liability management framework - interest rate risk dated 4th November 2010 and this re-classification has contributed to the change in the IRRBB between March 2011 and March 2012.