Basel II - Pillar 3 Disclosures

1. Scope of Application

Top bank in the group

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 the Reserve Bank of India ('RBI') guidelines on the preparation of consolidated prudential reports.

Accounting and regulatory consolidation

For the purpose of financial reporting, the Bank consolidates its subsidiaries in accordance with Accounting Standard ('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 reporting, 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. However, 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.
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.

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 its investment in associate entities is risk weighted.

Capital deficiency in subsidiaries

There is no capital deficiency in the subsidiaries of the Bank as of March 31, 2013.

Investment in insurance entities

As of March 31, 2013, the Bank does not have investment in any insurance entity.

2. Capital Structure

Main features of capital instruments

Capital funds are classified into Tier I capital 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 eligible innovative perpetual debt instruments (Tier I bonds) as per prescribed regulatory guidelines.

Elements of Tier II capital include revaluation reserve, if any, investment reserve, general provision on 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 of 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 of 100 basis points (bps) on the interest coupon in conjunction with the 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 ranging from 50 bps to 100 bps on the interest coupon in conjunction with the 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 of up to 15 years. Bonds issued during the year ended March 31, 2013 having a call option at the end of 5 years or 10 years from the date of allotment as per the terms and conditions of the respective issuances aggregated to ₹ 5,447.00 crore (previous year: ₹ 3,650.00 crore) . The interest on lower tier II capital instruments is payable annually.

Details of debt instruments outstanding as on March 31, 2013 are given below:

Amounts in (₹) crore

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	542.85
Upper Tier II	INR	2007-08	2022-23	2017-18	100.00
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	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
Lower Tier II	INR	2012-13	2027-28	2022-23	3,477.00
Lower Tier II	INR	2012-13	2022-23	2017-18	565.00
Lower Tier II	INR	2012-13	2022-23	2017-18	1,405.00
Lower Tier II	INR	2012-13	2022-23	-	250.00
Lower Tier II	INR	2012-13	2022-23	-	150.00
Lower Tier II	INR	2012-13	2022-23	-	200.00
Total					**17,186.75**

* *The Rupee equivalent of the Upper Tier II U.S. Dollar debt of US$ 100 million, is considered at the translation rate of ₹ 54.285 = US $ 1.00*

Tier I capital of the Bank

Amounts in (₹) crore

Type of Instrument	March 31, 2013	March 31, 2012
Paid-up share capital	475.88	469.34
Reserves and surplus	36,094.87	29,692.93
Innovative perpetual debt	200.00	200.00
Gross Tier I [sub-total (a)]	**36,770.75**	**30,362.27**
Deductions:		
Deferred tax assets	(1,913.06)	(1,465.34)
Securitisation exposures*	(177.87)	(179.49)
Market risk charge on account of valuation adjustment for illiquid positions of derivatives and non-derivative portfolio	(47.07)	(46.07)
Total deductions [sub-total b)]	**(2,138.00)**	**(1,690.90)**
Tier I capital (net of deductions) (a-b)	**34,632.75**	**28,671.37**

* *Principally comprises credit enhancements*

Tier II capital of the Bank

Amounts in (₹) crore

Type of Instrument	March 31, 2013	March 31, 2012
Upper Tier II capital	3,958.75	3,924.65
Lower Tier II capital	11,810.60	6,169.80
Provisions on standard assets	1,056.01	920.79
Floating provisions	1,878.08	1,435.03
Investment reserve account	17.66	-
Securitisation exposures*	(177.87)	(179.49)
Tier II capital (net of deductions)	**18,543.23**	**12,270.78**

* *Principally comprises credit enhancements*

Eligible Upper Tier II capital

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Total amount outstanding	3,958.75	3,924.65
Of which amounts raised during the year	-	-
Amount eligible to be reckoned as capital funds	3,958.75	3,924.65

Eligible subordinated debt

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Total amount outstanding	13,028.00	6,981.00
Of which amounts raised during the year	6,047.00	3,650.00
Amount eligible to be reckoned as capital funds	11,810.60	6,169.80

Other deductions from capital

There are no other deductions from capital as of March 31, 2013 (previous year: Nil).

Total eligible capital

The total eligible capital of the Bank amounted to ₹ 53,175.98 crore as of March 31, 2013 (previous year: ₹ 40,942.15 crore).

3. Capital Adequacy

Assessment of capital adequacy

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 inherent to 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

Basel II - Pillar 3 Disclosures

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 levels of Credit Risk, Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Book (IRRBB) and the changes in the on and off balance sheet positions of the Bank are assessed under assumed "stress" scenarios. Typically, these relate, 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 of the Board, 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.

Capital requirements for credit risk

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Portfolios subject to standardised approach	23,655.08	18,764.83
Securitisation exposures	1,026.74	995.53
Total	**24,681.82**	**19,760.36**

Capital requirements for market risk

Amounts in (₹) crore

Standardised duration approach	March 31, 2013	March 31, 2012
Interest rate risk	755.25	390.44
Equity risk*	591.04	60.12
Foreign exchange risk (including gold)	27.00	9.00
Total	**1,373.29**	**459.56**

* *Effective March 31, 2013, includes capital requirement on investments in units of debt-oriented mutual funds that are considered to exhibit market behaviour similar to equities for the purpose of capital adequacy computation.*

Capital requirements for operational risk

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Basic indicator approach	2,256.46	1,892.68

Total and Tier I capital ratios

Particulars	Standalone		Consolidated	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Tier I capital ratio	11.08%	11.60%	11.01%	11.67%
Total capital ratio	16.80%	16.52%	16.90%	16.66%

4. Credit Risk

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 a 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 Risk Policy & Monitoring Committee (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, including the periodic review of the Bank's portfolio composition and the status of impaired assets. The 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, 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 sized businesses wherein 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 judgmental 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 template-based approach or predictable portfolio behavior in terms of yield, delinquency and write-off. Given the high volume environment, the automated tracking and reporting mechanisms are important 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 judgment 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 areas such as target markets / customer segmentation, qualitative and 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 cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics and so on.

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 and 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.

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.

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

a) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

b) 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.

c) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

d) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.

e) The installment of principal or interest thereon remains overdue for one crop season for long duration crops.

f) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

g) 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.

h) 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.

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. 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 become non-performing, the facilities granted by the Bank to that 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 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 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:

- **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 jeopardize the liquidation of the debt and are characterised by the distinct possibility that banks will sustain some loss, if deficiencies are not corrected.

- **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.

- **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 non-performing assets is not recognised in the profit / loss account until received. Specific provision for non-performing assets is made based on Management’s assessment of their degree of impairment subject to the minimum provisioning level prescribed by RBI.

Geographic distribution of gross credit risk exposures

Amounts in (₹) crore

Exposure distribution	March 31, 2013			March 31, 2012		
	Fund Based*	Non-fund Based**	Total	Fund Based*	Non-fund Based**	Total
Domestic	262,409.08	38,294.95	300,704.03	209,665.88	34,233.84	243,899.72
Overseas	10,098.03	399.36	10,497.39	5,921.57	45.01	5,966.58
Total	**272,507.11**	**38,694.31**	**311,201.42**	**215,587.45**	**34,278.85**	**249,866.30**

* *Fund based exposures comprise investments and loans & advances including bills re-discounted.*
** *Non-fund based exposures comprise guarantees, acceptances, endorsements and letters of credit.*

Industry-wise distribution of exposures

Amounts in (₹) crore

Industry	As on March 31, 2013	
	Fund Based	Non-fund Based
Agriculture and Allied Activities	5,121.37	116.64
Automobile and Auto Ancillary	10,955.58	1,247.27
Banks and Financial Institutions	17,943.00	370.52
Capital Market Intermediaries	1,579.22	1,963.19
Cement and Cement Products	1,559.77	397.02
Chemical and Chemical Products	2,734.20	454.06
Coal and Petroleum Products	4,888.51	7,014.75
Construction and Developers (Infrastructure)	2,753.79	1,527.62
Consumer Durables	947.98	416.84
Drugs and Pharmaceuticals	1,659.68	399.52
Engineering	4,367.66	3,236.29
Fertilizers and Pesticides	1,967.23	1,231.17
Food and Beverage	7,036.18	493.98
Gems and Jewelry	4,163.98	135.55
Housing Finance Companies	1,502.60	0.75
Information Technology	1,068.46	555.98
Iron and Steel	5,322.07	2,232.67
Mining and Minerals	1,161.93	355.78
NBFC / Financial Intermediaries	6,354.73	112.61
Non-ferrous Metals	2,431.11	4,059.59
Paper, Printing and Stationery	1,254.17	267.10
Plastic and products	936.76	241.39
Power	5,364.55	1,122.20
Real Estate and Property Services*	3,841.15	855.45
Retail Assets**	115,057.23	1,529.90
Retail Trade	7,103.32	265.55
Road Transport***	15,757.92	192.90
Services	7,324.71	1,437.68
Telecom	1,723.90	650.93
Textiles and Garments	3,106.00	951.24
Wholesale Trade	17,846.09	3,693.01
Other Industries****	7,672.26	1,165.16
Total	**272,507.11**	**38,694.31**

* *'Details of exposure to real estate sector' as disclosed in the Notes forming part of the Financial Statements is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitization, 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, fishing and FMCG and personal care each of which is less than 0.25% of the total exposure.*

Amounts in (₹) crore

Industry	As on 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
Construction and Developers (Infrastructure)	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
Fertilizers and Pesticides	1,876.41	1,215.98
Food and Beverage	4,644.41	470.56
Gems and Jewelry	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
Retail Trade	5,239.76	289.62
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 Trade	11,082.89	3,143.94
Other Industries****	4,075.80	898.19
Total	**215,587.45**	**34,278.85**

* *'Details of exposure to real estate sector' as disclosed in the Notes forming part of the Financial Statements is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitization, 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, fishing and FMCG and personal care each of which is less than 0.25% of the total exposure.*

Exposures to industries (other than retail assets) in excess of 5% of total exposure

Amounts in (₹) crore

Industry	As on March 31, 2013	
	Fund Based	Non-fund Based
Road Transport	15,757.92	192.90
Banks and Financial Institutions	17,943.00	370.52
Wholesale Trade	17,846.09	3,693.01

Amounts in (₹) crore

Industry	As on March 31, 2012	
	Fund Based	Non-fund Based
Road Transport	13,040.72	140.78
Banks and Financial Institutions	16,597.72	392.27
Wholesale Trade	11,082.89	3,143.94

Residual contractual maturity breakdown of assets

- **As on March 31, 2013**

Amounts in (₹) crore

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	2,393.70	7,254.25	20,710.81	14,683.72	-	2,714.67	47,757.15
15 to 28 days	297.56	122.72	2,692.10	6,950.26	-	2,652.75	12,715.39
29 days to 3 months	570.94	821.96	7,566.13	22,920.98	-	1,450.47	33,330.48
3 to 6 months	1,086.06	1,907.48	7,183.02	23,163.54	-	667.35	34,007.45
6 months to 1 year	727.90	2,130.95	7,767.56	26,521.90	-	95.52	37,243.83
1 to 3 years	5,696.48	98.42	34,347.66	113,292.91	-	11,629.70	165,065.17
3 to 5 years	183.85	552.61	5,051.69	19,559.40	-	2.52	25,350.07
Above 5 years	3,674.39	11.90	25,641.44	20,152.41	2,773.32	-	52,253.46
Total	**14,630.88**	**12,900.29**	**110,960.41**	**247,245.12**	**2,773.32**	**19,212.98**	**407,723.00**

*Excludes bills re-discounted.

- **As on March 31, 2012**

Amounts in (₹) crore

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**

**Excludes bills re-discounted.*

Asset quality

Amounts in (₹) crore

Particulars	**March 31, 2013**	**March 31, 2012**
NPA ratios		
a) Gross NPAs to gross advances	0.95%	1.00%
b) Net NPAs to net advances	0.20%	0.18%
Movement of Gross NPAs		
I. Opening balance	2,003.17	1,698.48
II. Additions during the year	1,909.66	1,578.02
III. Reductions	(1,538.91)	(1,273.33)
IV. Closing balance	2,373.92	2,003.17
Movement of provisions for NPAs		
Opening balance	1,648.98	1,399.86
Provisions made during the year	1,636.50	1,400.12
Write-off	(1,165.33)	(943.03)
Write-back of excess provisions	(237.24)	(207.97)
Closing balance	1,882.91	1,648.98
Amount of Net NPAs		
Gross NPAs	2,373.92	2,003.17
Less: Provisions	1,882.91	1,648.98
Net NPAs	491.01	354.19

Particulars	March 31, 2013	March 31, 2012
Classification of Gross NPAs		
Sub-standard	950.85	969.28
Doubtful*		
▪ Doubtful 1	495.34	353.51
▪ Doubtful 2	330.95	185.48
▪ Doubtful 3	94.66	36.55
Loss	502.12	458.35
Total Gross NPAs	**2,373.92**	**2,003.17**

** Doubtful 1, 2 and 3 categories correspond to the period for which asset has been doubtful viz., up to one year (Doubtful 1), one to three years (Doubtful 2) and more than three years (Doubtful 3).*

Note: NPAs include all assets that are classified as non-performing.

Non-performing investments

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Gross non-performing investments	165.46	112.39
Less: Provisions	158.29	112.09
Net non-performing investments	7.17	0.30

Provision for depreciation on investments

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Opening balance	226.93	42.46
Provisions made during the year	105.47	184.51
Write-off	(16.16)	-
Write-back of excess provisions	(77.97)	(0.04)
Closing balance	238.27	226.93

5. Credit Risk: Portfolios subject to the Standardised Approach

Standardised approach

The Bank has used the Standardised Approach for the entire credit portfolio.

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 three major risk buckets as well as those that are deducted, are as follows:

Amounts in (₹) crore

Particulars	March 31, 2013	March 31, 2012
Below 100% risk weight	126,214.32	104,730.86
100% risk weight	98,478.69	79,932.69
More than 100% risk weight	86,508.41	65,202.75
Deducted	-	-
Total	**311,201.42**	**249,866.30**

Note: Includes bills re-discounted aggregating ₹ 2,100.00 crore (previous year: Nil)

Credit rating agencies

The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by the RBI, for risk weighting claims on domestic entities:

- Credit Analysis and Research Limited (CARE)
- Credit Rating Information Services of India Limited (CRISIL)
- India Ratings and Research Private Limited (earlier known as Fitch India)
- ICRA Limited (ICRA)

The Bank is using the ratings assigned by the following international credit rating agencies, approved by the RBI, for risk weighting claims on overseas entities:

- Fitch Ratings
- Moody's
- 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 has restricted their usage to any particular type of exposure.

Public issue ratings transferred onto comparable assets

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 equivalent	A1+	A1	A2	A3	A4 & D	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, then 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 un-assessed 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 un-assessed long term claim is assigned the risk weight corresponding to an inferred long term rating as given in the table under Issue Specific Ratings.

- For an un-assessed 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 un-assessed 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 un-assessed 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 counterparty. 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 counterparty 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 a 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 the 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 counterparty, whether long term or short term, receive 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, then 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.

6. Credit Risk Mitigation: Disclosures for Standardised Approach

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

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

- Cash deposit with the Bank
- Gold, including bullion and jewelry
- 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 Micro and Small Enterprises (CGTMSE), 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.

Exposure covered by financial collateral post haircuts

Total exposure that is covered by eligible financial collateral after the application of haircuts is given below:

Amounts in (₹) crore

Particulars	**March 31, 2013**	**March 31, 2012**
Total exposure covered by eligible financial collateral	14,685.53	13,495.21

Exposure covered by guarantees / credit derivatives

The total exposure for each separately disclosed credit risk portfolio that is covered by guarantees/ credit derivatives is given below:

Amounts in (₹) crore

Particulars	**March 31, 2013**	**March 31, 2012**
Total exposure covered by guarantees	1,874.24	1,909.71

7. Securitisation Exposures

Objectives, Policies, Monitoring

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

The RBI issued 'Revised Securitisation Guidelines' on May 7, 2012 (hereinafter, the 'revised securitisation guidelines') covering both securitisation and loan assignment transactions separately. The said guidelines define minimum holding period and retention requirements. The guidelines also cover due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank undertakes both 'purchase' and 'sale', transactions through both securitization and loan assignment routes. For this purpose, the Bank has Board approved policies for securitization & loan assignment transactions. Sale transactions undertaken by the Bank meet the 'True Sale' criteria stipulated by RBI.

The Bank participates in securitisation and loan assignment transactions in the following roles:

- **Originator / Seller**
  The Bank sources and books assets in its book and subsequently down-sells them through the securitization or assignment route.

- **Servicing and collection agent**
  For assets sold, the Bank 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.

- **Investor**
  The Bank invests in Pass Through Certificates (PTCs) seeking yield and priority sector lending opportunities.

- **Assignee**
  The Bank purchases loans through the direct assignment route for asset opportunities.

- **Liquidity facility provider**
  In case of sale transactions undertaken through the securitisation route, the Bank may also provide liquidity facility for these 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 for other securitisation transactions. The Bank does not provide liquidity facilities on direct assignment transactions undertaken subsequent to the revised securitisation guidelines.

- **Credit enhancement provider**

  Under the revised securitisation guidelines, the Bank may provide credit enhancement on securitization 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold. The Bank does not provide credit enhancements on direct assignment transactions undertaken subsequent to the revised securitisation guidelines.

- **Underwriter**

  The Bank may underwrite in whole or part of an issuance of securitised debt instruments, with the intent of selling them at a later stage subject to stipulations under the extant RBI guidelines.

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

- **Credit Risk**

  In case of securitisation transactions, where credit enhancement by the originator or any third party is permitted under the revised guidelines, the investor bears the loss in the event of the shortfalls in the transaction in excess of the credit enhancement provided. In case credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise from a downgrade in the rating of the corporate guarantee provider. In case of loan assignment transactions, the assignee bears the loss arising from defaults/delinquencies by the underlying obligors.

- **Market Risk:**
  - ✓ **Liquidity Risk**

    This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant. This risk would be applicable only in case of securitisation transactions.

  - ✓ **Interest Rate Risk**

    This is the mark-to-market risk arising on account of interest rate fluctuations.

- **Prepayment Risk**

  Prepayments in the securitised /assigned pool result in early amortisation and loss of future interest (re-investment risk) to the investor on the amounts.

- **Co-mingling Risk**

  This is the risk arising from co-mingling of funds belong to the investor(s) with those 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 made to the investors/assignee.

- **Servicer Risk**

  Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and 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.

- **Regulatory and Legal Risk**

  These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines which may result in higher risk weight and hence, higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cash flows.

The overall framework for both securitisation and loan assignment transactions is specified in the respective Board approved policies. The said policies define the covenants for evaluation and the key requirements that need to be adhered to for all such transactions such as the Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR) stipulations, credit enhancement (for securitisation transactions), structure, rating and accounting treatment. Additionally, for purchase transactions, the Bank examines parameters such as the profile and track record of the originator, the type and nature of underlying assets, pool characteristics, findings of due diligence audits and rating (if applicable), credit enhancement provided and listing status (in case of securitisation).

The Bank also has a process for monitoring the performance of all pools purchased under securitisation or the loan assignment route (both prior to as well as post the issuance of the revised securitisation guidelines) basis inputs received from the servicing agent / trustee. The performance of pools is measured by analysing parameters such as collection ratios, delinquencies, credit enhancement utilisation and level of available credit enhancement (where applicable). The Bank undertakes regular escalation to the Management on performance of pools which show concerning trends. In case of sold pools, a memorandum on transactions undertaken is put up to the Audit & Compliance Committee of the Board on a quarterly basis.

Accounting Policy for securitisation transactions

The Bank securitises out its receivables, subject to the minimum holding period criteria and the minimum retention requirements of RBI, to Special Purpose Vehicles ('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 borrowings. 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, not exceeding 20% of the total securitised instruments, in line with RBI guidelines. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank also enters into transactions for transfer of standard assets through the direct assignment of cash flows, 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 Pass through Certificates ('PTCs'), subject to the RBI prescribed minimum holding period criteria and the minimum retention requirements. The RBI issued revised securitisation guidelines on securitisation of standard assets vide its circular dated May 7, 2012. Accordingly, the Bank does not provide liquidity or credit enhancements on the direct assignment transactions undertaken subsequent to these guidelines.

Pursuant to the revised securitisation guidelines, the Bank amortises any profit received in cash for every individual securitisation or direct assignment transaction at the end of every financial year. This amortisation is calculated as the maximum of either of the three parameters stated below:

- the losses incurred on the portfolio, including marked-to-market losses in case of securitisation transactions, specific provisions, if any, and direct write-offs made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip); or

- the amount of unamortised cash profit at the beginning of the year multiplied by the amount of principal amortised during the year as a proportion to the amount of unamortised principal at the beginning of the year; or

- the amount of unamortised cash profit at the beginning of the year divided by residual maturity of the securitisation or the direct assignment transaction.

In relation to securitisation transactions undertaken prior to the said revised securitisation guidelines, including those undertaken through the direct assignment route, the Bank continues to amortise the profit / premium that arose on account of sale of receivables over the life of the securities sold, in accordance with the RBI guidelines on securitisation of standard assets issued vide its circular dated February 1, 2006.

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 the said RBI guidelines.

The Bank invests in PTCs issued by other SPVs. These are accounted for at the deal value and are classified as investments. The Bank also buys loans through the direct assignment route which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised based on effective interest rate (EIR) method.

External credit rating agencies

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

- Credit Analysis and Research Limited (CARE)
- Credit Rating Information Services of India Limited (CRISIL)
- India Ratings and Research Private Limited (earlier known as Fitch India)
- ICRA Limited (ICRA)

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

- Securitised Debt Instruments / PTCs / Purchased assets
- Second loss credit enhancement facilities
- Liquidity facilities

Securitisation exposures in banking book

- Details of securitisation exposures in banking book

Amounts in (₹) crore

Particulars	**March 31, 2013**	**March 31, 2012**
Amount securitised outstanding	378.72	535.50
Amount securitised during the year*	-	-
Losses recognised during the current period for auto and commercial vehicle exposures securitised earlier	0.03	0.68
Amount of assets intended to be securitised within a year**	-	-
Of which amount of assets originated within a year before securitisation	-	-

**The Bank has not securitised out any component of its standard asset portfolio, impaired/past due assets.*

***The Bank has made no projection of the assets it intends to securitise-out during the fiscal year beginning April 1, 2013. Securitisation transactions are undertaken on a need basis to meet the objectives articulated under 'Objectives, Policy, Monitoring'.*

- The total amount of exposures securitised and unrecognised gain or losses on sale

Amounts in (₹) crore

Exposure type	**March 31, 2013**		**March 31, 2012**	
	Outstanding amount of exposures securitised	**Outstanding unrecognized gain or loss on sale**	**Outstanding amount of exposures securitised**	**Outstanding unrecognized gain or loss on sale**
Auto loans	1.94	-	30.41	-
Commercial vehicle loans	0.14	-	2.95	-
Loans against property and rent receivables	113.65	-	150.94	-
Housing loans	262.99	-	351.20	-
Total	**378.72**	**-**	**535.50**	**-**

- Aggregate amount of on-balance sheet securitisation exposures retained or purchased

Amounts in (₹) crore

Exposure Type	**March 31, 2013**	**March 31, 2012**
Commercial vehicle loans	246.94	750.00
Housing loans	16,516.24	13,928.50
Personal loans	10.89	54.94
Two wheeler loans	1.63	5.73
Mixed assets*	305.54	758.45
Construction equipment loans	-	65.39
Tractor loans	307.11	720.62
Total	**17,388.35**	**16,283.63**

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

- Aggregate amount of off-balance sheet securitisation exposures

Amounts in (₹) crore

Exposure type*	**March 31, 2013**	**March 31, 2012**
Housing loans	173.12	175.96
Mixed assets**	188.46	190.67
Commercial vehicle loans	-	0.44
Total	**361.58**	**367.07**

** includes liquidity facility amounting to ₹ 8.10 crore as of March 31, 2013 (previous year: ₹ 8.10 crore) which is risk weighted for capital adequacy purposes.*

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

- 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:

Amounts in (₹) crore

Risk weight bands	**Exposure type**	**March 31, 2013**		**March 31, 2012**	
		Exposure	**Capital Charge**	**Exposure**	**Capital Charge**
Less than 100%	Housing loans	11,717.74	534.34	9,599.59	440.06
	Commercial vehicle loans	245.25	16.55	745.31	50.31
	Mixed assets *	302.66	20.43	698.58	47.15
	Tractor Loans	307.11	20.73	720.62	48.64
	Construction equipment loans	-	-	65.39	4.41
At 100%	Housing loans	4,765.19	428.87	4,279.64	385.17
More than 100%	Housing loans	33.31	3.75	49.27	5.54
	Commercial vehicle loans	1.69	0.19	4.69	0.53
	Personal loans	10.89	1.23	54.94	6.18
	Mixed assets *	2.88	0.32	59.87	6.74
	Two wheeler loans	1.63	0.18	5.73	0.64
Total		**17,388.35**	**1,026.59**	**16,283.63**	**995.37**

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

- 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

As on March 31, 2013

Amounts in (₹) crore

Exposure type	**Exposure deducted entirely from Tier I capital**	**Credit enhancing I/Os deducted from total capital**	**Other exposure deducted from total capital**
Commercial vehicle loans	-	-	-
Mixed assets*	-	-	180.36
Housing loans	-	-	173.12
Total	**-**	**-**	**353.48**

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

As on March 31, 2012

Amounts in (₹) crore

Exposure type	**Exposure deducted entirely from Tier I capital**	**Credit enhancing I/Os deducted from total capital**	**Other exposure deducted from total capital**
Commercial vehicle loans	-	-	0.44
Mixed assets*	-	-	182.57
Housing loans	-	-	175.96
Total	**-**	**-**	**358.97**

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

Securitisation exposures in trading book

- Aggregate amount of exposure securitised-out for which some exposure has been retained and which is subject to market risk approach as of March 31, 2013 was ₹ 0.57 crore (previous year : Nil). The exposure type was commercial vehicle loans.

- Aggregate amount of on-balance sheet securitisation exposures retained or purchased

Amounts in (₹) crore

Exposure type	March 31, 2013	March 31, 2012
Hire purchase receivables	2.78	7.64
Housing loans	235.33	309.44
Mixed assets*	306.06	-
Commercial vehicle loans	78.13	-
Tractor loans	76.39	-
Micro finance	14.91	-
Total	**713.60**	**317.08**

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

- Off-balance sheet securitisation exposures as of March 31, 2013 were Nil (previous year: Nil).

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

  ✓ Securitisation exposures broken down into different risk weight bands at book value

Amounts in (₹) crore

Risk weight band	March 31, 2013	March 31, 2012
Less than 100%	698.69	317.08
At 100%	14.91	-
More than 100%	-	-
Total	**713.60**	**317.08**

  ✓ Aggregate amount of capital requirements for securitisation exposures (capital charge)

Amounts in (₹) crore

Risk weight band	March 31, 2013	March 31, 2012
Less than 100%	30.46	12.17
At 100%	1.43	-
More than 100%	-	-
Total	**31.89**	**12.17**

- Securitisation exposures that are deducted entirely from Tier I capital, credit enhancing I/Os deducted from total capital and exposures deducted from total capital as on March 31, 2013 were ₹ 2.26 crore (previous year: Nil). The exposure type was commercial vehicle loans.

8. Market Risk in Trading Book

Market Risk Management Process

The Market Risk management process at the Bank consists of identification and measurement of risks, control measures and reporting systems. It ensures that the risk taking of the Bank's treasury desks is within the risk appetite encapsulated within the treasury limits package that is approved by the Board, risk appetite is handed down as limits to the various treasury desks and limits are monitored by the treasury mid office and reported as per the guidelines laid down from time to time.

Market Risk Architecture

The market risk process includes the following key participants:

- The Risk Policy and Monitoring Committee of the Board, inter-alia, approves the Bank's market risk policies and procedures, approves and reviews limits for the Bank's Treasury operations.

- The Market Risk Function, covers the market risk limit approval process, lays down risk assessment and monitoring methods, and periodically evaluates the trading portfolio in the deliberations of the various committees as well as bilaterally with Treasury Group.

- The Treasury Mid-Office is responsible for the day to day monitoring and reporting of market risk controls, valuations etc. Mid Office reports any limit breaches to the Senior Management.

- The Investment Committee oversees and reviews any direct investments in Shares, Convertible Bonds, Convertible Debentures and any other Equity linked instruments.

- Treasury Desks among others include Foreign Exchange, Money Market, Interest Rate Trading, Trading Derivatives, Equities and Precious Metal desks which carry out the basic day to day management of the various portfolios and the underlying market risk.

- Treasury Analytics unit is responsible for model validation and maintenance of the policy laid down for model valuation and validation including prescription for market data sources, which is further reviewed by Market Risk.

Market Risk Limits

Types of limits could include position limits, gap limits, tenor and duration limits, PV01 limits, stop loss trigger level, value-at-risk limits and greek limits. They may or may not apply to all portfolios and will be appropriately selected for market risk controls in the treasury limits package.

The Bank enters into derivative deals with counterparties 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 honor its obligations in the event of crystallization 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.

Market risk capital requirement

Amounts in (₹) crore

Risk weight band	March 31, 2013	March 31, 2012
Interest rate risk	755.25	390.44
Equity position risk*	591.04	60.12
Foreign exchange risk (including gold)	27.00	9.00
Total	**1,373.29**	**459.56**

* *Effective March 31, 2013, includes capital requirement on investments in units of debt-oriented mutual funds that are considered to exhibit market behaviour similar to equities for the purpose of capital adequacy computation.*

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 has 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, transaction verification and authorization, distributed processing, staff training and 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 a robust information technology with disaster recovery capability for critical components apart from having an integrated Business Continuity Planning (BCP) initiative 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 an 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 is comprised of assets and liabilities that 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 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.

Structure and Organization

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

- **Board of Directors**

  The Board has the overall responsibility for management of risks. The Board decides the risk management policy of the Bank and also sets limits for interest rate risk.

- **Risk Policy & Monitoring Committee of the Board**

  This Committee 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.

- **Asset Liability Committee (ALCO)**

  ALCO is a decision-making Management committee responsible for balance sheet planning from risk-return perspective including strategic management of interest rate risks. The role of the ALCO 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. Ensuring the adherence to the limits set by the Board of Directors
  vi. Determining the structure, responsibilities and controls for managing liquidity and interest rate risk
  vii. Ensuring operational independence of risk management function
  viii. Reviewing stress test results
  ix. Deciding on the transfer pricing policy of the Bank

- **ALM Operational Groups**

  ALM operational groups are comprised of members from the balance sheet management desk (treasury), market risk function, 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 and trading book. These limits on earnings at risk (EaR) and market value of equity for the above books are approved by the ALCO and Board.

Risk reporting

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

Quantification of IRRBB

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

- **Earnings Perspective (impact on net interest income)**

Amounts in (₹) crore

Currency	If interest rate were to go down by 200 bps		If interest rate were to go up by 200 bps	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
INR	(1,275.38)	(1,004.88)	1,275.38	1,004.88
USD	(186.60)	(74.38)	186.60	74.38
Others	(0.25)	(5.52)	0.25	5.52
Total	**(1,462.23)**	**(1,084.78)**	**1,462.23**	**1,084.78**

- **Economic Value Perspective (impact on market value of equity)**

Amounts in (₹) crore

Currency	If interest rate were to go down by 200 bps		If interest rate were to go up by 200 bps	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
INR	(638.46)	429.01	638.46	(429.01)
USD	(280.99)	(24.73)	280.99	24.73
Others	(83.68)	(5.48)	83.68	5.48
Total	**(1,003.13)**	**398.80**	**1,003.13**	**(398.80)**