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 Ltd. and HDB Financial Services Ltd.) which together constitute the group in line with Reserve Bank of India 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 the 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.
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.
SolutionNET India Private Limited (SolutionNET)*	SolutionNET is an associate engaged in providing information technology consulting and services 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. It is not consolidated for capital adequacy purpose.
Softcell Technologies Limited (Softcell)	Softcell is an associate engaged in providing business-to-business software services 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) Ltd (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.

*SolutionNET ceased to be an associate of the Bank from May 5, 2009.

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, 2010.

d) As of March 31, 2010, 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 Reserve Bank of India (RBI).

Elements of Tier II capital include revaluation reserve, if any, general provision for standard assets, 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. The Bank has not issued any Tier I and Tier II bonds in the financial year 2009–2010.

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 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 14 years. The interest on lower Tier II capital instruments is payable either annually or semi-annually.

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

Particulars	**March 31, 2010**	**March 31, 2009**
Paid-up share capital	457,74	425,38
Reserves	21,111,10	14,213,76
Innovative Perpetual Debt	200,00	200,00
Gross Tier I	21,768,84	14,839,14
Deductions :		
Deferred Tax Asset	(844,16)	(861,92)
Securitisation exposures*	(240,75)	(203,70)
Total Deductions	(1,084,91)	(1,065,62)
Total Tier I capital (net of deductions)	**20,683,93**	**13,773,52**

** Principally comprises credit enhancements*

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

Particulars	**March 31, 2010**	**March 31, 2009**
Upper Tier II capital	2,759,90	2,818,10
Lower Tier II capital	3,248,24	3,264,48
Provision for Standard assets	760,29	760,29
Investment Reserve Account	26,14	27,63
Securitisation exposures*	(240,75)	(203,70)
Total Tier II capital (net of deductions)	**6,553,82**	**6,666,80**

** Principally comprises credit enhancements*

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

Particulars	March 31, 2010	March 31, 2009
Total amount outstanding	2,759,90	2,818,10
Of which amounts raised during the year	-	1,575,00
Amount eligible to be reckoned as capital funds	2,759,90	2,818,10

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

Particulars	March 31, 2010	March 31, 2009
Total amount outstanding	3,393,20	3,459,70
Of which amounts raised during the year	-	1,300,00
Amount eligible to be reckoned as capital funds	3,248,24	3,264,48

f) Other deductions from capital : Nil as on March 31, 2010 (Nil as on March 31, 2009).

g) The total eligible capital of the Bank outstanding as of March 31, 2010 amounts to Rs. 27,237,75 lacs (previous year : Rs. 20,440,32 lacs).

3. Capital Adequacy

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

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 risk 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 formalised a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document. The Bank's ICAAP document covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future trends / 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 risks 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
- Credit Concentration Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Reputation Risk

b) Capital requirements for credit risk : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Portfolios subject to Standardised approach	11,546,56	10,169,11
Securitisation Exposures	734,01	570,60
Total	**12,280,57**	**10,739,71**

c) Capital requirements for market risk :

Standardised duration approach : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Interest rate risk	486,63	521,23
Foreign Exchange risk (including gold)	27,00	27,00
Equity risk	27,12	14,50
Market Risk Charge on account of valuation adjustment for illiquid positions of derivative and non derivative portfolio	48,52	N.A.
Total	**589,27**	**562,73**

d) Capital requirements for operational risk : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Basic indicator approach	1,175,01	806,11

e) Total and Tier I capital ratio :

Particulars	Standalone		Consolidated	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
Tier I capital ratio	13.26%	10.58%	13.28%	10.62%
Total capital ratio	17.44%	15.69%	17.48%	15.75%

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 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 Monitoring Committee (RMC), 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. The RMC 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 ensuring 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 customer's 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 and is based largely on actuarial / statistical techniques and the management 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 to 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 standardized 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 & Procedure 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 Risk Monitoring Committee sets concentration ceilings and line management monitors and reports outstandings for each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and outstandings are periodically reported to the Board. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers will 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.

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 Reserve Bank of India (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. A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

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

vi. 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.

vii. 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 only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

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 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.

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 : **(Rs. lacs)**

Category	March 31, 2010	March 31, 2009
Fund based*	134,357,30	105,489,42
Non-fund based**	22,297,14	17,063,74
Total	**156,654,44**	**122,553,16**

* Fund based exposures comprise loans & advances and investments.

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

c) Geographic distribution of exposures : **(Rs. lacs)**

Category	March 31, 2010		March 31, 2009	
	Fund based	Non-fund based	Fund based	Non-fund based
Domestic	132,332,27	22,263,23	104,656,04	17,063,74
Overseas	2,025,03	33,91	833,38	-
Total	**134,357,30**	**22,297,14**	**105,489,42**	**17,063,74**

d) Industry-wise distribution of exposures : **(Rs. lacs)**

Industry	March 31, 2010	
	Fund Based	Non-fund Based
Agriculture and allied activities	3,149,36	72,06
Airlines	187,60	234,06
Automobile and Auto Ancillary	7,383,28	751,88
Banks and Financial Institutions	9,413,64	246,55
Capital Market Intermediaries	1,082,14	1,781,31
Cement and Cement Products	840,13	390,22
Chemical and Chemical Products	1,045,50	269,02
Coal and Petroleum Products	2,111,42	3,601,73
Construction and Developers	898,00	240,98
Drugs and Pharmaceuticals	1,584,41	202,55
Engineering	2,110,69	2,319,28
Fertilisers and Pesticides	5,483,01	339,44
FMCG and Personal Care	476,16	57,75
Food and Beverage	2,356,79	552,78
Gems and Jewellery	1,136,90	19,18
Housing Finance Companies	3,599,83	-
Information Technology	977,87	250,43
Iron and Steel	2,033,72	1,650,64
Mining and Minerals	425,45	368,58
NBFC / Financial Intermediaries	5,473,61	35,02
Non-ferrous Metals and Products	1,331,31	2,715,60
Paper, Printing and Stationery	721,08	407,83

(Rs. lacs)

Industry	March 31, 2010	
	Fund Based	Non-fund Based
Power	1,859,35	511,50
Real Estate and Property Services*	2,705,13	249,31
Retail Assets**	55,913,40	81,69
Road Transport***	5,901,72	96,17
Services	2,450,04	593,83
Telecom	768,29	1,055,92
Textile	1,383,68	283,46
Wholesale / Retail Trade	7,106,41	1,852,58
Other Industries****	2,447,38	1,065,79
Total	**134,357,30**	**22,297,14**

* 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 the RBI guidelines, which includes not only exposures to borrowers in the real estate industry but also exposure to borrowers in other industries, where the exposures are primarily secured by real estate and investment in home finance institutions and securitization.

** Consists of 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 about 11 industries such as consumer durables, glass and glass products, leather and leather products, media and entertainment, other non metalic mineral products, plastic and plastic products, railways, rubber and rubber products, shipping, tobacco and tobacco products, wood and wood products each of which is less then 0.25% of the total exposure.

e) Residual contractual maturity breakdown of assets :

As on March 31, 2010 (Rs. 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	5,776,48	14,152,70	9,800,94	6,237,53	-	2,712,06	38,679,71
15 to 28 days	138,86	81,68	1,096,01	2,390,98	-	1,974,45	5,681,98
29 days to 3 months	589,81	238,89	3,087,27	13,199,47	-	-	17,115,44
3 to 6 months	549,66	34,04	2,274,05	13,749,99	-	-	16,607,74
6 months to 1 year	688,24	67,82	2,883,05	14,684,28	-	-	18,323,39
1 to 3 years	5,356,24	10,00	23,534,38	55,333,97	-	1,362,71	85,597,30
3 to 5 years	1,215,87	-	5,907,31	9,436,38	-	-	16,559,56
Above 5 years	1,168,15	9,75	9,925,27	11,130,13	2,149,07	-	24,382,37
Total	**15,483,31**	**14,594,88**	**58,508,28**	**126,162,73**	**2,149,07**	**6,049,22**	**222,947,49**

As on March 31, 2009 **(Rs. 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	5,789,36	3,495,20	17,063,46	6,342,89	-	3,210,56	35,901,47
15 to 28 days	133,45	69,06	1,125,44	2,447,68	-	399,85	4,175,48
29 days to 3 months	433,48	334,00	2,540,01	11,205,24	-	3,24	14,515,97
3 to 6 months	453,97	42,59	2,355,52	10,582,53	-	1,03	13,435,64
6 months to 1 year	676,64	52,78	4,147,37	13,991,78	-	2,53	18,871,10
1 to 3 years	4,696,66	7,50	21,618,57	40,625,20	-	2,766,39	69,714,32
3 to 5 years	869,63	-	4,519,68	6,106,80	-	5,32	11,501,43
Above 5 years	474,03	8,81	5,345,10	7,725,24	1,732,28	1,89	15,287,36
Total	**13,527,22**	**4,009,94**	**58,715,15**	**99,027,36**	**1,732,28**	**6,390,81**	**183,402,77**

f) Amount of Gross NPAs : **(Rs. lacs)**

NPA Classification	March 31, 2010	March 31, 2009
Sub Standard	1,064,09	1,647,47
Doubtful *		
- Doubtful 1	307,91	161,01
- Doubtful 2	20,36	20,61
- Doubtful 3	31,07	4,18
Loss	398,46	154,81
Total	**1,821,89**	**1,988,08**

* 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 : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Gross NPAs	1,821,89	1,988,08
Less : Provisions	1,427,26	1,360,46
Net NPAs	394,63	627,62

h) NPA Ratios :

Particulars	March 31, 2010	March 31, 2009
Gross NPAs as a ratio to gross advances	1.43%	1.98%
Net NPAs as a ratio to net advances	0.31%	0.63%

i) Movement of NPAs (Gross) : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Opening balance*	1,951,53	906,97
Additions during the year / on Amalgamation	2,617,54	3,413,31
Reductions	(2,747,18)	(2,332,20)
Closing balance	1,821,89	1,988,08

j) Movement of provisions for NPAs : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Opening balance*	1,323,90	608,45
Provisions made during the year / on Amalgamation	2,655,32	3,012,88
Write-off	(2,250,20)	(2,187,37)
Write-back of excess provisions	(301,76)	(73,50)
Closing balance	1,427,26	1,360,46

* In accordance with RBI guidelines under reference DBOD.No.BP.BC.46/21.04.048/2009-10 dated September 24, 2009, gross NPAs and provisions for NPAs as of April 1, 2009 and as of March 31, 2010 exclude interest held in suspense in respect of NPA accounts. Previous year's figures are not recomputed.

k) Amount of Non performing investments : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Gross non-performing investments	2,23	2,23
Provisions held for non-performing investments	(2,23)	(2,23)
Net non-performing investments	-	-

l) Movement of provisions for depreciation on investments : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Opening balance	55,41	7,45
Provisions made during the year	9,73	51,41
Write-off	-	-
Write-back of excess provisions	(6,73)	(3,45)
Closing balance	58,41	55,41

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 -

  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 all 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 RBI guidelines. The Bank has not made any discrimination among ratings assigned by these agencies nor restricted their usage to any particular type(s) of exposure(s).

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

- 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.
- The Bank has used long term ratings of counterparty as a proxy for an unrated short term exposure on the same counterparty subject to compliance with the requirements for use of multiple rating assessments and applicability of issue rating to issuer / other claims. The 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 Revised Framework. The rating risk weight mapping furnished below was adopted for domestic corporate exposures, as per RBI guidelines :

Rating	AAA	AA	A	BBB	BB & Below	Unrated
Risk Weight	20%	30%	50%	100%	150%	100%

- If an issuer 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.
- For risk-weighting purposes, short-term ratings are deemed to be issue specific. They are only used to derive risk weights for claims arising from the rated facility. They are not generalised to other short-term claims. Further, a short-term rating is not used to support a risk weight for an unrated long-term claim. Short-term assessments are only used for short-term claims against banks and corporates.
- As permitted by the RBI guidelines, notwithstanding the above restriction on using an issue specific short term rating for other short term exposures, unrated short term claim on counterparty attract 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 counterparty attracts a 20% or a 50% risk-weight, unrated short-term claims to the same counter-party cannot attract a risk weight lower than 30% or 100% respectively. Similarly, if an issuer 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, unless the recognised credit risk mitigation techniques for such claims have been used.
- In respect of the issue specific short term ratings the following risk weight mapping has been adopted by the Bank, as provided in the RBI guidelines :

Short Term Rating (eqv.)	P1+	P1	P2	P3	P4 / P5	Unrated
Risk Weight	20%	30%	50%	100%	150%	100%

- The Bank has been guided by the following rules in respect of exposures / obligors having multiple ratings from the chosen credit rating agencies for the purpose of risk weight calculation :

  (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 should be referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.

- Where the Bank invests in a particular issue that has an issue specific rating by a chosen credit rating agency the risk weight of the claim is based on this assessment. Where the Bank's claim is not an investment in a specific assessed issue, the following general principles are applied :
  - (i) In circumstances where the borrower has a specific assessment for an issued debt - but the Bank's claim is not an investment in this particular debt - the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) is applied to the Bank's unassessed claim only if this claim ranks pari passu or senior to the specific rated debt in all respects and the maturity of the unassessed claim is not later than the maturity of the rated claim, except where the rated claim is a short term obligation.
  - (ii) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is unrated by any chosen credit rating agency, is assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari passu or junior to the rated exposure in all respects.
  - (iii) Where the Bank extends an issuer or an issue specific rating assigned by a chosen credit rating agency to any other exposure which the Bank has on the same counterparty and which meets the above criterion, it is extended to the entire amount of credit risk exposure the bank has with regard to that exposure i.e., both principal and interest.

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 :

(Rs. lacs)

Particulars	March 31, 2010*	March 31, 2009
Below 100% risk weight	64,069,03	45,470,60
100% risk weight	56,858,55	44,083,39
More than 100% risk weight	39,726,86	32,999,17
Deducted	-	-
Total	**160,654,44**	**122,553,16**

** Including exposure under bills re-discounting transactions of Rs. 4,000,00 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 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 recognizes 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 counter-party.
- 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 as on March 31, 2010 was Rs. 10,040,78 lacs.

c) The total exposure for each separately disclosed credit risk portfolio, that is covered by guarantees / credit derivatives as on March 31, 2010 was Rs. 166,01 lacs.

7. Securitisation Exposures : Disclosure for Standardised Approach

a) Objectives, Policies, Monitoring :

The Bank undertakes securitisation transactions with the objective of capital release, meeting liquidity requirements, asset-liability management, diversifying exposures across asset classes, managing the risk-return trade off that the underlying assets carry.

The securitisation transactions of the Bank are in compliance with the guidelines issued by RBI on securitisation of standard assets. The securitisation transactions meet the 'True Sale' criteria mentioned in the said RBI guidelines.

Once securitised-out, the underlying assets are derecognised from the Bank's balance sheet. Risks and rewards associated with the said assets are transferred to the purchasing counter-party. The Bank does not assume any credit risk on the securitised-out exposures except to the extent of any credit enhancement and / or liquidity facilities provided in respect of such transactions. The Bank holds necessary capital towards such credit risk assumed.

The Bank also enters into sale / purchase transactions through the direct assignment route, which are similar to securitisation transactions undertaken through the SPV route, without the issuance of any securities and / or formation of any SPV.

Risks inherent in a securitisation transaction are typically in the form of :

(i) Liquidity Risk : This arises due to timing differences between payment received on pooled assets from the underlying obligors and payments due to investors.

(ii) Credit Risk : It is the risk of non-payment by the underlying obligors. The investor bears loss in the event of the shortfalls in the transaction exceeding credit enhancement provided.

(iii) Prepayment Risk : Prepayments in the securitised pool results in early amortisation and loss of future interest to the investor on the prepaid amount. The investor is also exposed to reinvestment risk on account of prepayments in the pool.

(iv) Servicer Risk : The investor faces servicing disruption risk if the servicer fails to perform its duties and obligations on a sustainable basis as per Collection & Servicing Agreement. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.

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

- Originator - As the originator of securitisation deals, the Bank sells its loan portfolios through either the SPV route or the direct assignment route.
- Service and collection agent - For pools securitised-out, the Bank also undertakes the activity of collection / servicing of the underlying assets.
- Investor - The Bank invests in Pass Through Certificates (PTCs) and purchases loans through the direct assignment route. In some of the securitisation transactions, the Bank also invests in the assets securitised by it, which, however, is restricted to the maximum limit prescribed by RBI from time to time.
- Liquidity facility provider - In sell-down transactions, the Bank also provides liquidity facility on the transactions. The liquidity facility is a type of credit support used to meet temporary collection shortfalls. The Bank may also undertake to be a third party liquidity facility provider.

- Credit enhancement provider - The Bank provides credit enhancement as stipulated by the rating agencies in case of rated sell down transactions.

Securitisation transactions in the Bank are processed by a separate team. The Bank has a comprehensive policy, approved by the Board, for the securitisation business. The said policy articulates the requirements that need to be adhered to for all securitisation transactions.

The activities at the time of sell down, inter alia include pool selection, pool rating, due diligence audits, legal evaluation etc.

Similarly, when the Bank invests in securitisation instruments, it examines the profile and track record of the originator, the type and nature of underlying assets, pool characteristics and rating, listing availability, credit enhancements etc.

Monitoring of the underlying pools and periodical reporting thereof is integral to the risk management function of the team that processes securitisation and loan assignment transactions.

Typical monitoring / reporting tools include :

- Quarterly reporting of sell down transactions to the Audit Committee as per extant RBI guidelines.
- Monthly reporting and monitoring of transactions which show concerning trends.

b) Accounting Policy of the Bank for Securitisation transactions :

The Bank securitises out its receivables 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 etc., to senior Pass Through Certificates (PTCs).

The RBI issued guidelines on securitisation of standard assets vide its circular dated February 1, 2006 under reference no. DBOD No.BP.BC.60/21.04.048/2005-06. Pursuant to these guidelines, 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 Profit and Loss Account for the period in which the sale occurs. Any credit enhancement on assets sold are reduced from tier I & tier II capital as prescribed in the guidelines. Prior to the issuance of the said guidelines (i.e. in respect of sell-off transactions undertaken until January 31, 2006), any gain or loss from the sale of receivables was recognised in the period in which the sale occurred.

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 Profit and Loss Account. 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.

Investments in Pass Through Certificates (PTCs) and loans bought through the direct assignment route are accounted for at the deal value. Securitisation exposures of the Bank in PTC instruments are classified under the investment portfolio of the Bank. The said instruments are marked to market as per RBI guidelines.

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, 2010 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 transactions :

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

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

1. Securitised debt Instruments / PTCs
2. Second loss credit enhancement facilities
3. Liquidity facilities

Banking Book

d) The total amount of exposures securitised by the Bank :

i) Total outstanding amount securitised was Rs. 1,338,71 lacs (previous year : Rs. 2,130,82 lacs).

ii) Deals done during the year :

The Bank has not securitised out any component of its standard asset portfolio during the year ended March 31, 2010.

The amount of impaired / past due assets securitised out were Rs. 4,69 lacs (previous year : Rs. 84,07 lacs).

e) Losses on exposures securitised during the current period : Nil.

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, 2010. 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 :

(Rs. lacs)

Exposure Type	**March 31, 2010**		**March 31, 2009**	
	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	232,21	-	557,63	-
Commercial vehicle loans	81,40	9	173,72	38
Two Wheeler loans	-	5	1,18	37
Loans against property	279,53	-	385,10	-
Housing loans	707,36	-	967,20	-
Loans against rent receivables	38,21	-	45,99	-
Total	**1,338,71**	**14**	**2,130,82**	**75**

i) Aggregate amount of :

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

(Rs. lacs)

Particulars	**March 31, 2010**	**March 31, 2009**
Auto loans	-	23
Commercial vehicle loans	1,518,91	985,44
Housing loans	8,141,19	4,245,21
Personal loans	25,46	100,45
Two wheeler loans	1,05	3,18
Mixed Assets	752,00	340,83
Commercial Equipment loans	91,97	-
Tractor loans	523,65	499,45
Total	**11,054,23**	**6,174,79**

- Off-balance sheet securitisation exposures broken down by exposure type **(Rs. lacs)**

Particulars	**March 31, 2010**	**March 31, 2009**
Auto loans	3,09	2,61
Housing loans	189,42	164,42
Personal loans	-	9,50
Mixed Assets	268,42	499,68
Total	**460,93**	**676,21**

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 :

(Rs. lacs)

Risk Weight Bands	Exposure Type	March 31, 2010		March 31, 2009	
		Exposure	Capital Charge	Exposure	Capital Charge
Less than 100%	Housing loans	4,884,27	225,91	-	-
	Commercial vehicle loans	1,081,06	72,97	378,77	25,57
	Mixed Assets	663,35	43,43	444,25	10,25
	Business loans	21,18	1,43	-	-
	Tractor loans	274,48	18,53	-	-
	Construction equipment loans	91,98	6,21	-	-
	Auto loans	3,15	6	3,15	6
At 100%	Housing loans	3,256,91	29,312	4,245,21	382,07
	Commercial vehicle loans	436,35	39,27	597,17	53,75
	Tractor loans	249,17	22,43	499,45	44,95
	Personal loans	4,06	37	18,13	1,63
	Mixed Assets	-	-	77	6
More than 100%	Commercial vehicle loans	1,07	12	9,06	1,02
	Personal loans	22	2	73,96	8,32
	Auto loans	-	-	23	3
	Mixed Assets	89,17	10,03	170,26	19,15
	Two wheeler loans	1,05	12	3,18	36
	Total	**11,057,47**	**734,02**	**6,443,59**	**547,22**

- Exposures that have been deducted entirely from Tier 1 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, 2010 **(Rs. lacs)**

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	-	-	44
Housing loans	-	-	189,42
Mixed Assets*	-	-	267,83
Total	**-**	**-**	**457,69**

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

As on March 31, 2009 **(Rs. lacs)**

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	-	-	44
Housing loans	-	-	164,43
Mixed Assets*	-	-	242,53
Total	**-**	**-**	**407,40**

** 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, 2010 :

Mixed Assets : Rs. 18,56 lacs (previous year : Rs. 23,57 lacs)

l) Aggregate amount of :

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

(Rs. lacs)

Exposure Type	March 31, 2010	March 31, 2009
Auto loans	4,43	145,52
Commercial vehicle loans	16,13	55,25
Hire purchase receivables	15,29	18,82
Housing loans	617,20	873,87
Personal loans	-	81,90
Two wheeler loans	3,40	27,06
Mixed Assets	18,56	23,57
Total	**675,01**	**1,225,99**

- 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) : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Less than 100 %	651,21	1,225,99
100%	-	-
More than 100%	-	-
Total	**651,21**	**1,225,99**

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) : **(Rs. lacs)**

Particulars	March 31, 2010	March 31, 2009
Less than 100 %	44,19	34,04
100%	-	-
More than 100%	-	-
Total	**44,19**	**34,04**

- Securitisation exposures that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and exposures deducted from total capital (by exposure type) :

As on March 31, 2010 **(Rs. lacs)**

Exposure Type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
Two wheeler loans	-	-	3,41
Auto loans	-	-	1,83
Mixed Assets	-	-	18,56
Total	**-**	**-**	**23,80**

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 its 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.

Structure and Organization :

The market risk process includes the following key participants.

- The Risk Monitoring Committee of the Board, inter-alia, evaluates the Bank's credit and 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, 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 limits, VaR (Value-at-Risk) limits. These limits are appropriately selected for the relevant portfolios. Limits are monitored using various information technology software packages, including STP (Straight Through Processing) 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 Risk Monitoring Committee of the Board. 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 includes transactions concluded for the purpose of providing customer structures which are covered with inter-bank counter parties on a back-to-back basis. These transactions are classified under banking–non hedge book.

The banking book also 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 Reserve Bank of India 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 : **(Rs. lacs)**

Category	**March 31, 2010**	**March 31, 2009**
Interest rate risk	486,63	521,23
Equity position risk	27,12	14,50
Foreign Exchange risk	27,00	27,00
Market Risk Charge on account of valuation adjustment for illiquid positions of derivative and non derivative portfolio	48,52	N.A.
Total	**589,27**	**562,73**

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 developed and independently 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, strong management team with vast experience in diverse fields, well defined processes, operating manuals and job cards, transactions verification and authorisation, distributed processing and staff training. 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 Reserve Bank of India vide their Guidance Note on Operational Risk. 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) initiative for all 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.

Hedging / Mitigating

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 risk mitigants and hedges 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 (IRRBB)

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 Asset Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for identification and analysis of balance sheet risks and laying down parameters for efficient management of these risks through the Asset Liability Management Policy of the Bank. ALCO periodically monitors and controls the strategic position and the interest rate risk positions arising during the normal course of business and ensures adherence to compliance of internal limits.

Measurement of Interest Rate Risk in the Banking Book :

In measuring Interest Rate Risk, risk arising from maturity and re-pricing mismatches are measured both from an earnings and economic value perspective. The Bank uses the following techniques for the quantification of IRRBB :

a) Interest Rate Sensitivity using Gap Method : Gap or mismatch risk is calculated by calculating gaps for interest rate sensitive assets, liabilities and off-balance sheet positions in different time buckets.

b) Earnings at Risk using Gap : Based on the gap report, Earnings at Risk approximates the impact of an interest rate / re-pricing shock for a given change in interest rate on the net interest income (difference between total interest income and total interest expense) over a one year horizon.

c) Impact on Economic Value of equity : As against the earnings approach, risk is monitored based on the present value of the Bank's expected cash flows. A modified duration approach is used to ascertain the impact on interest sensitive assets, liabilities and off-balance sheet positions for a given change in interest rates.

d) Stress Testing : The Bank undertakes periodic stress testing for its banking book based on stress scenarios. This provides a measure to assess the Bank's financial withstanding from extreme but plausible interest rate fluctuations.

Quantification of the Interest Rate Risk :

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

- Earnings Perspective (Impact on Net Interest Income) : **(Rs. 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, 2010	**March 31, 2009**	**March 31, 2010**	**March 31, 2009**
INR	(263,04)	(271,02)	263,04	271,02
USD	(145,16)	(99,47)	145,16	99,47
Others	7,01	6,89	(7,01)	(6,89)
Total	**(401,19)**	**(363,60)**	**401,19**	**363,60**

- Economic Value Perspective (Impact on Market Value of Equity) : **(Rs. 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, 2010	**March 31, 2009**	**March 31, 2010**	**March 31, 2009**
INR	(69,24)	(397,02)	69,24	397,02
USD	(199,25)	(138,16)	199,25	138,16
Others	(22,66)	(30,84)	22,66	30,84
Total	**(291,15)**	**(566,02)**	**291,15**	**566,02**