1. **Scope of Application**

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

The New Capital Adequacy Framework is applicable to HDFC Bank Limited (hereinafter referred to as the Bank) and its two subsidiaries (HDFC Securities Ltd. and HDB Financial Services Private Ltd.) which together constitutes the group in line with 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. Investments in associates are accounted 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 fully consolidated in the consolidated financial statements.
HDB Financial Services Private Limited (HDBFS)	HDBFS is a subsidiary engaged in retail asset financing and is fully consolidated in the consolidated financial statements.
Atlas Documentary Facilitators Company Private Limited (ADFC)	ADFC is an associate engaged in back-office processing and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
SolutionNET India Private Limited (SolutionNET) Private Limited	SolutionNET is an associate engaged in providing information technology consulting and services and is consolidated by equity method in the consolidated financial statements. 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 consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Softcell Technologies Limited (Soft cell)	Softcell is an associate engaged in providing business-to-business software services and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Centillion Solutions & Services Private Ltd (Centillion)	Centillion is an associate engaged in Back office processing services and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
International Asset Reconstruction Company Private Ltd (IARCL)	IARCL is an associate engaged in securitization and asset reconstruction and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.
Kairoleaf Analytics Private Limited (Kairoleaf)*	Kairoleaf was an associate engaged in providing analytical solutions and is consolidated by equity method in the consolidated financial statements. Not consolidated for capital adequacy purpose.

*Kairoleaf Analytics Private Ltd ceased to be an associate with effect from March 30, 2009, on account of reduction in ownership interest from 29% to 14.60%.

The Bank's investment in the equity capital of subsidiaries are deducted, 50% from Tier I capital and 50% from Tier II capital. Investments in the Bank's associates are risk-weighted.

c) There is no capital deficiency in the subsidiaries of the bank as of March 31, 2009.

d) As of March 31, 2009, 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 outstanding as of March 31, 2009 :**

Capital funds are classified into Tier I and Tier II capital under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments (Tier I bonds) eligible for inclusion in Tier I capital that comply with the requirements specified by RBI. 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. HDFC Bank has issued debt instruments that form part of Tier I and Tier II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

Tier I bonds are non-cumulative and perpetual in nature with a call option after 10 years. Interest on Tier I bonds is payable semi-annually. There is a step up clause on interest payment of 75 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. 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 fourteen years. The interest on lower Tier II capital instruments is payable either annually or semi-annually.

b) Details of Tier I capital are given below:

(Rs. lacs)

Particulars	**Amount**
Paid up share capital	425,38
Reserves	14,213,76
Innovative Perpetual Debt	200,00
Gross Tier I	14,839,14
Deductions:	
Deferred Tax Asset	(861,92)
Credit enhancement on securitization (50%)	(203,70)
Total Deductions	(1,065,62)
Total Tier I capital (net of deductions)	**13,773,52**

c) The total amount of Tier II capital (net of deductions) as of March 31, 2009 is Rs. 6,666,80 lacs.

Details of Tier II capital are given below:

Particulars	**Amount**
Upper Tier II capital	2,818,10
Lower Tier II capital	3,264,48
Provision for Standard assets	760,29
Investment Reserve Account	27,63
Less: Credit enhancement on securitization	(203,70)
Total Tier II capital (net of deductions)	**6,666,80**

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

(Rs. lacs)

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

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

(Rs. lacs)

Particulars	**Amount**
Total amount outstanding as of March 31, 2009	3,459,70
Of which amounts raised during the year	*1,300,00*
Amount eligible to be reckoned as capital funds	3,264,48

f) The total eligible capital of the Bank outstanding as of March 31, 2009 amounts to 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 their risk profile and a strategy for maintaining their 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 corporate governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank has formalized a comprehensive Internal Capital Adequacy Assessment Process (ICAAP document). This 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 the current and following two 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
- 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	**Amount**
Portfolios subject to Standardized approach	10,308,03
Securitization Exposures	431,68

c) Capital Requirements for Market Risk:

(Rs. lacs)

Particulars	**Amount**
Standardized duration approach:	
Interest rate risk	521,23
Foreign Exchange risk (including gold)	27,00
Equity risk	14,50
Total	**562,73**

d) Capital Requirements for Operational Risk:

(Rs. lacs)

Particulars	**Amount**
Capital required under Basic Indicator Approach	806,11

e) Total and Tier I Capital:

(Rs. lacs)

Particulars	**Amount**
Tier I capital ratio	10.62%
Total capital ratio	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 centralized. In respect of the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralized, 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.

Credit Process:

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

There are two different credit management models within which the credit process operates - the Retail Credit Model and the Wholesale Credit Model. The Retail Credit Model is geared towards high volume, small transaction size businesses 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 judgmental 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, we approve 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 and 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 cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics, etc.

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 other retail products, the Bank explores the appropriateness of using scores based on the statistical analysis of portfolio behaviour over a period of time.

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:

a. Interest and/or instalment 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.

b. The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC). An account is 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. A loan granted for short duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

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

f. Any receivable representing positive mark-to-market value of a derivative contract, if overdue for a period of 90 days or more, is treated as non-performing asset and also makes all other funded facilities granted to the client as non-performing asset, following the principle of borrower-wise classification. The applicability of the principle of borrower-wise asset classification is confined to only the overdues arising from forward contracts and plain vanilla swaps and options. Accordingly, any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, if any, which has already crystallised or might crystallise in future and is / becomes receivable from the client, is parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more is itself classified as NPA, as per the extant income recognition and asset classification (IRAC) norms. The classification of all other assets of such clients will, however, continue to be governed by the extant IRAC norms.

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

a. Sub-standard Assets - A sub-standard 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 characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

b. ***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 sub-standard, 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.

c. ***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) Gross Credit Risk Exposures:

(Rs. lacs)

Category	**Amount**
Fund based*	105,489,42
Non Fund based**	17,063,74
Total	**122,553,16**

* Fund based exposures comprises loans and advances and investments of the bank

**Non fund based exposures comprises guarantees, acceptances, endorsements and letter of Credits

c) Geographic distribution of exposures:

(Rs. lacs)

Category	**Fund Based**	**Non Fund Based**
Domestic	104,656,04	17,063,74
Overseas	833,38	-
Total	**105,489,42**	**17,063,74**

d) Industry-wise distribution of exposures:

(Rs. lacs)

Industry	**Fund Based**	**Non Fund Based**
Agriculture and allied activities	3,250,14	13,68
Automobile & Auto Ancillary	3,899,16	198,65
Banks and Financial Institutions	4,595,53	198,38
Capital Market Intermediaries	676,68	1,488,47
Cement and Cement Products	314,97	396,01
Chemical and Chemical Products	620,45	209,66
Construction and Developers	955,29	420,77
Drugs and Pharmaceuticals	1,069,48	174,55
Engineering	1,752,94	2,569,11
Fertilisers and Pesticides	2,744,56	212,07
FMCG and Personal Care	435,59	59,78
Food and Beverage	1,882,70	359,72
Gems and Jewellery	795,97	175,46
Glass and Glass Products	238,15	32,67
Home Finance Companies	1,707,57	-
Information Technology	470,13	222,32
Infrastructure(Road, Port)	865,44	200,33
Iron and Steel	1,246,30	385,48
Mining and Minerals	370,77	88,62
NBFC/Financial Intermediaries	4,203,16	24,44
Non-ferrous Metals and Products	722,16	992,94
Paper, Printing and Stationery	370,74	406,20
Petroleum & Petroleum Products	2,643,73	1,835,65
Plastics and Plastic Products	258,95	54,21
Power	755,92	364,39
Real Estate & Property Services*	1,456,30	31,21
Retail Assets**	51,171,21	2,383,29
Road Transport***	5,327,05	170,96
Services	936,48	565,77
Telecom	1,184,32	665,21
Textile	1,276,41	182,54
Wholesale/Retail Trade	3,196,23	441,29
Other Industries****	4,094,94	1,539,91
Grand Total	**105,489,42**	**17,063,74**

* classification of exposure to real estate sector under "Exposures in Sensitive Sector", as disclosed in the Notes to the Financial Statements, 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.

** 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 about 24 industries such as leather and leather products, rubber and rubber products, cold storage, warehousing, wood and wood products, airlines, shipping each of which is less then 0.25% of the total exposure.

e) Residual Contractual Maturity breakdown of assets:

(Rs. lacs)

Maturity Buckets	Cash and Balances with Reserve Bank of India	Balances with Banks & Money at Call & Short Notice	Invest-ments	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	5,345,11	7,725,24	1,732,28	1,89	15,287,36
Grand Total	**13,527,22**	**4,009,94**	**58,715,16**	**99,027,36**	**1,732,28**	**6,390,81**	**183,402,77**

f) Gross and Net NPAs:

(Rs. lacs)

NPA Classification	Amount
Sub Standard	1,647,47
Doubtful *	
- Doubtful 1	161,01
- Doubtful 2	20,61
- Doubtful 3	4,18
Loss	154,81
Total	**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) Net NPAs:

(Rs. lacs)

Particulars	Amount
Gross NPA	1,988,08
Less Provisions	1,360,46
Net NPA	627,62

h) NPAs Ratio:

Particulars	Ratios
Gross NPA as a ratio to Gross Advances	1.98%
Net NPA as a ratio to Net Advances	0.63%

i) Movement of Gross NPAs (Merged):

(Rs. lacs)

Particulars	Amount
Opening balances	906,97
Additions during the year/ on Amalgamation	3,413,31
Reductions during the year	(2,332,20)
Closing Balance	1,988,08

Of the above, the movement in NPAs arising on account of the advance book of eCBoP during the year ended March 31, 2009 is as follows:

Movement of Gross NPAs (eCBoP):

(Rs. lacs)

Particulars	Amount
Opening balances	-
Additions during the year	1,549,67
Reductions during the year	(705,27)
Closing Balance	844,40

j) Movement of Provisions for NPA (Merged) :

(Rs. lacs)

Particulars	Amount
Opening balances	60,845
Provisions made during the year/ on Amalgamation	3,012,88
Write off	(2,187,37)
Write back of excess provisions	(73,50)
Closing Balance	1,360,46

Of the above, the movement of provisions in NPAs arising on account of the advance book of eCBoP during the year ended March 31, 2009 is as follows:

Movement of Provisions for NPA (eCBoP) :

(Rs. lacs)

Particulars	Amount
Opening balances	-
Additions during the year	1,306,04
Write off	(702,76)
Write back of excess provisions	(2,51)
Closing Balance	600,77

k) **Amount of Non performing Investment:**

(Rs. lacs)

Particulars	Amount
Gross Non performing investment	2,23
Total provisions held on Non performing Investment	(2,23)
Net Non performing investment	-

l) **Movement of provisions for depreciation on investments:**

(Rs. lacs)

Particulars	Amount
Opening balance	7,45
Provisions made during the year	51,41
Write off	-
Write back of excess provisions	(3,45)
Closing balance	55,41

5. Credit Risk: Disclosures for portfolios subject to the Standardized Approach

a) **The Bank has used the Standardized 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's 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 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's guidelines:

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

- 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 in 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	UR
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 standardized approach, the Bank's outstanding (rated and unrated) in the following three major risk Buckets as well as those that are deducted:

(Rs. lacs)

Particulars	Amount
Below 100% risk weight	45,470,60
100% risk weight	44,083,39
More than 100% risk weight	32,999,17
Deducted	-
Total	**122,553,16**

6. Credit Risk Mitigation: Disclosures for Standardized Approaches

a) Qualitative Disclosures

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's guidelines.

- Cash deposit with the Bank
- Gold, including bullion and jewellery
- Securities issued by Central and State Governments
- Kisan Vikas Patra and National Savings Certificates
- Life insurance policies with a declared surrender value
- Debt securities rated at least BBB(-) /PR3 /P3/F3/A3
- Units of Debt Mutual Funds

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 recognizes the credit protection given by the following entities, considered eligible as per RBI's 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) For disclosed credit risk portfolio under the standardized approach, the total exposure that is covered by eligible financial collateral:

(Rs. lacs)

Particulars	Amount
Total exposure covered by eligible financial collateral	7,155,86

7. Securitisation – Disclosure for Standardized Approach

a) Risk Management Objectives and Policies:

Securitisation involves pooling together future cash flows and assigning them to a Special Purpose Vehicle (SPV). Such a sale of assets is on a 'True Sale' basis and the obligation of the seller is restricted to the amount of credit enhancement, if any, provided by it. On sale, the assets move out of the balance sheet of the seller entirely. The guidelines issued by RBI on securitisation of standard assets define securitisation as a two-stage process. In the first stage, there is sale of single asset or a pool of assets to a 'bankruptcy remote' special purpose vehicle (SPV) in return for an immediate cash payment. In the second stage, the security interests representing claims on incoming cash flows from the asset or pool of assets are transferred to third party investors by issuance of tradable debt securities.

The Bank undertakes securitization transactions from time to time. The Bank has a comprehensive policy, approved by the Board, for the securitization business. The policy clearly defines the various adherences required to be followed when selling down assets. The activities at the time of sell down includes, inter-alia, pool selection as per stated criteria, pool rating, due diligence audits, legal evaluation, etc. Similarly, when the Bank is investing in securitization instruments it examines the profile and track record of the originator, the type and nature of underlying receivables, pool characteristics, rating assigned, listing availability, credit enhancement available, etc and compares these with the standards set out in the policy.

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

- Originator - The Bank sells down its own portfolio periodically.
- Service & collection agent - For all pools sold by the Bank, it undertakes the servicing and collection of loans.
- Investor - The Bank actively invests in Pass Through Certificates
- Liquidity facility provider - In cases of sell-down transactions, the Bank functions as the liquidity facility provider. The liquidity facility is a type of credit support used to meet temporary collection shortfalls.
- Credit Enhancement Facilities Provider - The Bank provides credit enhancement as stipulated by the rating agencies in case of rated sell down transactions.

The principal objectives of the Bank as an originator are a combination of reduction of credit risk in the portfolio, generation of liquidity, capital release, asset-liability management. As an investor, the objective of the Bank for entering into an asset opportunity with an appropriate risk-return trade off that the underlying assets carry.

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 has been 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, in the form of cash collaterals/guarantees and/or by subordination of cash flows etc., to Senior Pass Through Certificates (PTCs).

The Bank also enters into securitisation transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates.

The RBI issued guidelines on securitization 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 amortizes 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 recognized in the Profit and Loss Account for the period in which the sale occurs. 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.

c) **Names of External Credit Agencies used for securitisation transactions:**

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

Currently, the securitisation exposures for which these ratings are used cover:

a. Securitised Debt Instruments / Pass through Certificates (PTCs).

b. Second Loss Credit Enhancement Facility.

c. Liquidity Facility.

d) i) **Total outstanding principal securitized by exposure type as on March 31, 2009:**

(Rs. lacs)

Exposure Type*	Amount
Auto loan	557,63
Commercial vehicle loan	173,72
Two Wheeler loan	1,18
Loan against property	385,10
Housing loan	967,20
Loan against rent receivables	45,99
Total	**2,130,82**

*Amounts are in respect of exposures which the Bank has originally sourced and continues to service.

ii) **Deals done during the year:**

(Rs. lacs)

Exposure Type*	Where the Bank has retained interests	Where the Bank does not have retained interests
Auto loan	-	391,34
Commercial vehicle loan	-	168,75
Loan against property	-	387,98
Housing loan	-	967,20
Loan against rent receivables	-	46,27
Total	**-**	**1,961,55**

*Amounts are in respect of exposures which the Bank has originally sourced and continues to service.

e) (i) The amount of impaired/past due assets securitised is Rs 84,07 lacs.

(ii) There are no losses during the year on account of write offs/provisions/write down of I/Os strips and other residual interests.

f) **Aggregate amount of Securitization exposures retained or purchased as on March 31, 2009 :**

(Rs. lacs)

Particulars	Amount
1. Retained	
Mixed Asset*	23,56
2. Purchased (excluding loan assignments)	
Auto loan	145,52
Commercial vehicle loan	55,25
Hire Purchase Receivables	18,82
Housing loan	873,87
Personal loan	81,90
Two wheeler loan	27,06
3. Credit & Liquidity enhancement/facility**	716,40
4. Other Commitments	-
Total	**1,942,39**

* comprises auto loans, commercial vehicle loans and two wheeler loans.

** includes third party liquidity facility outstanding.

g) (i) **Risk weight wise securitization exposures retained or purchased:**

(Rs. lacs)

Risk Weight bands	Amount
Less than 100%	1,275,14
100%	259,84
More than 100%	-
Total	**1,534,98**

(ii) **Securitization exposures deducted from capital by exposure type:**

(Rs. lacs)

Exposure Type	Exposure deducted entirely from tier I capital capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
Commercial vehicle loan	-	-	44
Housing loan	-	-	164,43
Mixed assets*	-	-	242,53
Total	**-**	**-**	**407,40**

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

h) i) **Total number and book value of loan assets securitised – by type of underlying assets:**

(Rs. lacs) (except no. of loans securitised)

Particulars Underlying assets securitised during the year	2008-09 Total Book value of securitised	2008-09 Total Number of assets securitised	2007-08 Total Book value of securitised	2007-08 Total Number of assets securitised
Auto loan	391,34	239,16	-	-
Commercial vehicle loan	374,20	166,01	290,06	52,44
Construction Equipment loan	48,41	5,32	-	-
Loan Against Property	387,98	21,14	-	-
Housing loan	967,20	42,27	-	-
Loan against Rent Receivables	46,27	10	-	-
Total	**2,215,40**	**474,00**	**290,06**	**52,44**

(ii) **Sale Consideration and gain / loss on sale of securitization:**

(Rs. lacs)

Particulars	2008-09	2007-08
Sale consideration received	2,209,28	291,39
Profit/(loss) on sell off*	(6,12)	1,25

* Pursuant to RBI guidelines dated February 1, 2006 under reference no. DBOD.No.BP.BC. 60/ 21.04.048/2005-06, 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.

ii) **Summary of form and quantum of services provided:**

(Rs. lacs)

Particulars	2008-09	2007-08
Outstanding credit & liquidity enhancement / facility*	716,40	527,70
- Funded	56,48	136,50
- Non Funded	659,92	391,21
Outstanding servicing liability	1,91	1,04

* includes third party liquidity facility outstanding.

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 finalized by the Market Risk Unit. The Treasury Mid-Office, as an independent unit, monitors and reports these limits as per laid down procedures regularly.

Structure and Organization:

The market risk process includes the following key participants.

- Treasury Desks such as Foreign Exchange, Money Market, Interest Rate Trading, Equities. These are the basic levels of day to day management of their portfolios and market risk.
- The Investment Committee and Management Committee oversees the investments in equities and equity linked investments.
- 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, if any to the Senior Management.
- The Risk Monitoring Committee of the Board, inter-alia, 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 the Bank's risk monitoring systems and risk control procedures.

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, PVBP (Present Value of a Basis Point) 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 book. 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, the same is 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 on 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 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.

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 standardized approach.

b) Capital requirements:

(Rs. lacs)

Category	**Capital charge**
- Interest rate risk	521,23
- Equity position risk	14,50
- Foreign Exchange risk	27,00
Total	**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 Management strategies and policies are developed under the guidance of Board of Directors as well as oversight and review by Risk Monitoring Committee (RMC) and Audit and Compliance Committee. 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, strong management team with vast experience in diverse fields, well defined processes, process manuals and job cards, transactions verification and authorization, distributed processing and staff training .

The Bank is in the process of implementing various principles and guidelines laid out in regards to Operational Risk Management by 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 gaps suitably addressed. This is further being enhanced with the implementation efforts of Basel II 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 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 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 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:

- Interest Rate Sensitivity using Gap Method: Gap or mismatch risk is monitored by calculating gaps for interest rate sensitive assets, liabilities and off-balance sheet positions in time buckets.
- 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.
- 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 rate sensitive assets, liabilities and off-balance sheet positions for a given change in interest rates.
- Stress Testing: The Bank undertakes periodic stress testing for its banking book based on various scenarios. This provides a measure to assess the bank's financial withstanding from extreme but plausible interest rate fluctuations.

Quantification of Interest Rate Risk:

As required under Pillar III norms, the increase / decline in earnings and economic value for an upward / downward rate shock of 200 basis points as on 31st March 2009, broken down by currency is as follows:

- **Earnings Perspective**

(Rs. lacs)

Currency	Impact on Net Interest Income (by applying interest rate shock of 200 basis points)	
	If interest rate were to go down by 200 basis points	If interest rate were to go up by 200 basis points
INR	(271,02)	271,02
USD	(99,47)	99,47
Others	6,89	(6,89)
Total	(363,60)	363,60

- **Economic Value Perspective (Impact on Market Value of Equity):**

(Rs. lacs)

Currency	Impact on Net Interest Income (by applying interest rate shock of 200 basis points)	
	If interest rate were to go down by 200 basis points	If interest rate were to go up by 200 basis points
INR	(397,02)	397,02
USD	(138,16)	138,16
Others	(30,84)	30,84
Total	(566,02)	566,02