YES BANK LIMITED

DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK – PILLAR III (BASEL II)

1. Scope of Application

YES BANK Limited is a publicly held bank; which was incorporated as a limited company under the Companies Act, 1956; on November 21, 2003. The Bank received the licence to commence banking operations from the Reserve Bank of India ('RBI') on May 24, 2004. Further, YES BANK was included to the Second Schedule of the Reserve Bank of India Act, 1934 with effect from August 21, 2004. As at March 31, 2010, Yes Bank does not have any subsidiaries.

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

2. Capital Structure

Equity Capital

The Bank has authorized share capital of Rs. 4,000,000 thousands comprising 400,000,000 shares of Rs.10/- each. As at March 31st 2010, the Bank has issued, subscribed and paid up equity shares 339,667,269 of Rs. 10 each amounting to Rs. 3,396,673 thousands. The Bank's shares are listed on the National stock exchange (NSE) and Bombay stock Exchange (BSE). During the year 2009-10, the Bank has issued 38,362,709 equity shares of Rs. 10 each for cash pursuant to a Qualified Institutional Placement (QIP) at Rs. 269.50 aggregating to Rs 10,338,750 thousands. The Bank has also allotted 4,325,630 shares to employees pursuant to exercise of employee stock options during financial year 2009-10. The Bank accreted Rs. 10,045,157 thousands (net of share issue expenses of Rs. 146,065 thousands) as premium, on the QIP issue and stock options exercised.

The provisions of the Banking Regulation Act, 1949, the Companies Act, 1956 and other applicable laws and regulations govern the rights and obligations of the equity share holders of the Bank.

Innovative Perpetual Debt Instruments/ Tier II Instruments

In line with the RBI circular on capital adequacy, the Tier I capital of the Bank comprises of paid up equity share capital, statutory reserves, capital reserves, other disclosed free reserves and eligible Innovative Perpetual Debt Instruments (IPDI). The Tier II capital of the Bank includes general loan loss provision, Upper Tier II Instruments and Lower Tier II instruments. The terms and conditions that are applicable for IPDI and Upper and Lower Tier II instruments comply with the stipulated regulatory requirements.

IPDI are non cumulative, unsecured, perpetual instruments with step up and/or call options. Interest on IPDI is payable either annually or semi-annually. The Upper Tier II

instruments are non convertible, unsecured and have a minimum tenor of fifteen years. Interest on Upper Tier II debt is payable either annually or semi-annually.

Lower Tier II debt is unsecured and non-convertible. Interest on Lower Tier II is payable annually.

The details of IPDI and Tier II instruments are given below.

Innovative Perpetual Debt Instruments (IPDI)

The Bank has raised IPDI, eligible as Tier I Capital to the tune of Rs 820,000 thousands during the year ended March 31, 2010.

The details of IPDI outstanding as at March 31, 2010 are given below:

Nature of security	Date of Issue	Coupon Rate (%)	Tenure	Rs in thousands
Bonds*	27-Jun-08	450 BPS over applicable LIBOR	Perpetual	214,400
Promissory Notes	21-Feb-09	10.25%	Perpetual	1,150,000
Promissory Notes	9-Mar-09	10.25%	Perpetual	390,000
Promissory Notes	5-Mar-10	10.25%	Perpetual	820,000
TOTAL				**2,574,400**

** issue has been made of USD 5,000,000 converted at foreign exchange rate on date of borrowing 1$ = Rs. 42.88*

Upper Tier II Instruments

The Bank has raised Upper Tier II Capital to the tune of EUR 13,250,000 during the year ended March 31, 2010. The details of Upper Tier II instruments outstanding as at March 31, 2010 are given below:

Nature of security	Tranche	Date of Issue	Coupon Rate (%)	Tenure	Rs in thousands
Debentures	Tranche 1	2-Jan-07	9.73%	15 years	800,000
Debentures	Tranche 2	7-Feb-07	9.60%	15 years	336,000
Promissory	Tranche 3	15-Mar-07	10.10%	15 years	

Notes					100,000
Debentures	Tranche 4	14-Mar-07	10.00%	15 years	100,000
Debentures	Tranche 5	23-Mar-07	10.40%	15 years	600,000
Promissory Notes	Tranche 6	31-Mar-07	10.40%	15 years	50,000
Debentures	Tranche 7	20-Apr-07	10.40%	15 years	20,000
Debentures	Tranche I	29-Sep-07	10.70%	15 years	1,820,000
Debentures	Tranche II	8-Nov-07	10.70%	15 years	100,000
Bonds*	Not Applicable	27-Jun-08	300 BPS over applicable LIBOR	15 Years	3,430,400
Debentures	Not Applicable	15-Sep-08	11.75%	15 Years	2,000,000
Bonds**	Not Applicable	30-Sep-09	380 BPS over applicable EURIBOR	15 Years	927,633
TOTAL					**10,284,033**

** Issue has been made of USD 80,000,000 converted at foreign exchange rate on date of borrowing 1$ = Rs. 42.88*

*** Issue has been made of EUR 13,250,000 converted at foreign exchange rate on date of borrowing I EUR = Rs. 70.01*

Lower Tier II Instruments

The Bank has raised Lower Tier II Capital to the tune of Rs. 5,600,000 thousands during the year ended March 31, 2010. The details of Lower Tier II instruments outstanding as at March 31, 2010 are given below:

Nature of security	Tranche	Date of Issue	Coupon Rate (%)	Tenure	Rs in thousands
Bonds	Not Applicable	2-Mar-06	One year commercial Paper benchmark rate plus 55 basis points, reset	7 years and 6 months	1,000,000

			annually		
Promissory Notes	Not Applicable	7-Nov-06	9.10%	9 years and 6 months	1,800,000
Debentures	Tranche I	29-Sep-07	10.00%	9 years and 7 months	100,000
Debentures	Tranche II	30-Nov-07	10.15%	9 years and 6 months	71,000
Debentures	Tranche III	12-Dec-07	10.15%	9 years and 6 months	10,000
Debentures	Tranche IV	7-Feb-08	10.00%	9 years and 3 months	368,000
Debentures	Not Applicable	30-Sep-09	9.65%	10 years and 7 months	2,600,000
Debentures	Not Applicable	22-Jan-10	9.65%	10 years	3,000,000
TOTAL					**8,949,000**

Capital Funds

The composition of Capital funds of the Bank as at March 31, 2010 is as below:

A. Tier I Capital	Rs in thousands
i. Paid up Share Capital	3,396,673
ii. Reserves	27,498,618
iii. Innovative Perpetual Debt Instruments*	2,574,400
iv. Amounts deducted from Tier I capital (Illiquidity adjustment and other deductions)	(693,750)
Tier I Capital	**32,775,941**
** includes USD 5,000,000 converted at foreign exchange rate on date of borrowing 1$ = Rs. 42.88*	
B. Tier II Capital	**19,794,338**
C. Debt capital instruments eligible for inclusion in Upper Tier II Capital	
i. Total amount outstanding	10,284,033
ii. Of which amount raised during the current year**	927,633
iii. Amount eligible to be reckoned as capital funds	10,284,033
The total amount outstanding and the amount eligible to be reckoned as capital funds includes (a) Includes Issue of USD 80,000,000; converted at foreign exchange rate on date of borrowing . 1$ = Rs. 42.88 (b) Issue has been made of EURO 13,250,000 converted at foreign exchange rate on date of borrowing 1 Euro = Rs. 70.01	
*** Issue has been made of EURO 13,250,000 converted at foreign exchange rate on date of borrowing 1 Euro = Rs. 70.01*	
D. Subordinated Debt eligible for inclusion in Lower Tier II Capital	
i. Total amount outstanding	8,949,000
ii. Of which amount raised during the current year	5,600,000
iii. Amount eligible to be reckoned as capital funds	8,549,000
E. Other deductions from capital	-
F. Total eligible Capital (A + B)	**52,570,279**

3. Capital Adequacy

The Bank is subject to the Capital adequacy norms stipulated by the Reserve Bank of India ('RBI'). As at March 31, 2010, the Bank is required to maintain minimum capital which is higher of the capital requirement under Basel II or 90.0% (100% as at March 31, 2009) of the capital requirement under Basel I . As at March 31,2010, the capital of the Bank is higher than the minimum capital requirement mentioned above. The capital adequacy ratio maintained and reported as at March 31, 2010 and March 31, 2009 is as per Basel II guidelines.

The Bank has put in place a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) which identifies the Risk appetite of the Bank and linkages between the business targets of the Bank and material risks that the Bank could face in implementation of its strategic plan. The integration of risk assessment with business activities facilitated by a robust risk management framework enables the Bank to take informed decisions and effectively manage risk-return trade off. The Bank has set processes to periodically review and improve the techniques used for identification, measurement and assessment of all material risks and resultant capital requirements.

Table 3 Capital adequacy	**Rs in thousands**
A. Capital requirements for credit risk	
i. Portfolios subject to standardised approach	21,141,677
ii. Securitisation exposures	-
B. Capital requirements for market risk	**899,226**
Standardised duration approach	
Interest rate risk	571,426
Foreign exchange risk (including gold)	126,000
Equity risk	201,800
C. Capital requirements for operational risk	
Basic Indicator approach	920,286
D. Total and Tier I Capital Adequacy ratio	
Tier I Capital Adequacy ratio	12.85%
Total Capital Adequacy ratio	20.61%

4. **Credit Risk**

Credit Risk Management Objectives, Processes and Structure (CRM):

Credit Risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments as per the terms and conditions of the contracts. The Bank is exposed to credit risk through lending and non funded products.

The Bank's risk management processes are guided by well defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through Risk Monitoring Committee(RMC) which is a Board level sub-committee.

The Board sets the overall risk appetite and risk philosophy for the Bank. The RMC and the Audit Committee of the Board review various aspects of risk arising from the business.

Strategies & Processes

The objective of the Bank's Credit Policy is to build and maintain a quality portfolio with sound and well-diversified credit risk distribution. Credit Risk Management is an important tool for achieving this objective, as it helps the Bank:

- Take informed credit decisions based on an adequate assessment of the relevant factors involved in the credit risk
- Screen credit proposals and assume only such credit risk that is acceptable to the Bank to ensure better credit quality in compliance with statutory and regulatory guidelines
- Optimise the risk return trade-off by providing guidelines for securing return commensurate with the risk involved in the credit
- Ensure diversification of the credit portfolio, by avoiding concentration in credit exposures to individual/ group borrowers, industry/ sector etc
- Customise product offerings (fund-based and fee-based) to maximize customer satisfaction

Risk identification and assessment is the first step in the credit risk management system. The credit risk inherent in credit proposal is assessed by evaluating the below mentioned risk factors among others:

- Financial Risk: This would include an assessment of the entity's overall financial strength based on performance and financial indicators, as derived from its financial statements -historical and projected
- Business Risk: This entails an analysis of the fundamentals of the business unit, its competitive market position in the industry and its operational efficiency
- Industry Risk: This would include an evaluation of the competition/ entry barriers, industry cyclicality/outlook, regulatory risk/government policies and other contemporary issues
- Management Risk: This involves evaluation of the management of the enterprise, their risk philosophy, competence and past track record

Structure and Organization of the Credit Risk Management Function

The organizational structure for CRM in the Bank comprises the Board of Directors, the Risk Monitoring Committee ('RMC') and the Credit Risk Management Department ('CRMD').

The Board of Directors of the Bank ("Board") has the overall responsibility for risk management in the Bank, including credit risk management. The Risk Monitoring Committee (RMC) is an independent Board-level sub-committee that reviews and monitors the various risk exposures in the Bank. The Credit Risk Management Department (CRMD) is delegated specific responsibilities of managing the credit risk in the Bank by the RMC.

The Board approves the Bank's credit policy covering, inter alia, prudential exposure limits, business segments, credit assessment and approval/denial system, margin and collateral management, credit documentation, credit pricing, credit administration and monitoring system, non-performing assets management policy and credit risk management system.

The roles and responsibilities of the 'RMC' broadly include issuance and modification of the guidelines for Credit Risk Management with the Board's approval, providing update to the Board at periodic intervals about the Bank's credit risk exposure profile along with the recommended corrective measures, ensuring that the credit function activities are managed in compliance with the Credit Policy of the Bank and recommending changes/ modifications in the credit policy of the Bank for approval by the Board.

The credit proposals are examined in depth by the sanctioning authorities, under the "three initial system" of sanction. This system establishes line accountability for credit decisions and combines credit approval authorities and Discretionary Powers. The creditworthiness and assessment of credit requirement are evaluated and determined in line with the risk rating of the borrower and the credit facilities are sanctioned accordingly.

Credit Proposals above Rs. 500 million are sanctioned by an Internal Credit Committee which comprises the MD & CEO, Chief Risk Officer, President/Heads of Business & Risk.

The CRMD is headed by the Chief Risk Officer who is assisted by Country Head (Corporate & Institutional Credit), Country Head (Commercial Banking Credit), Country Head (Business Banking Credit), Country Head (Retail Banking Credit), Head – (Market Risk), Head - Portfolio Management Group & Head (Credit Mid Office). Operational Risk Management is supervised by the Chief Operating Officer, and reviewed by the Operational Risk Management Committee (ORMC). The CRMD is accountable for protecting the quality of the entire loan/ investment portfolio and would undertake portfolio evaluations and conduct comprehensive studies on the environment to test the resilience of the loan portfolio.

Reporting and Measurement:

The credit risk management function is largely centralized at Head Office for both credit approvals and disbursements. It is well structured and staffed to ensure that the credit policy and regulatory requirements are adhered to and implemented. Post sanction, an independent Credit Management Unit is responsible for ensuring that the credit policy guidelines and terms of sanction are adhered to.

The Bank has a risk rating system comprising of multiple models that assesses the ratings of customers based on their financial data, industry characteristics, business positioning and other non financial parameters. The core banking system is used to control and monitor utilisation of limits under various products by customer and is also the repository for information on past dues and excesses. There is also a post disbursal tracking system that is used for monitoring appraisal conditions, financial covenants, documentation exceptions, deferrals, etc.

An annual review is required for all facilities granted to a customer. The analysis carried out during annual review would reflect not only the performance of the company but also the performance of the account. The lower rated obligors are reviewed more frequently.

Credit Monitoring involves follow-up and supervision of the Bank's individual loans as well as the entire loan portfolio with a view to maintain the assets quality at the desirable level, through proactive and corrective actions, aimed at controlling and mitigating the risks to the Bank. The main objectives of Credit Monitoring are:

(a) To ensure compliance with the terms and conditions of the credit sanctioned
(b) To ensure the end-use of the Bank funds by the borrowers as per the approved purposes and prevent diversion of the funds for unauthorized purposes
(c) To assess the health of the obligor at periodic intervals with reference to the key indicators of performance such as activity level, profitability, management standards
(d) To periodically review the loan portfolio of the Bank or of its specified segment to assess the overall asset quality/ risk and compliance with the prudential norms

Policies for Hedging & Mitigating Credit Risk:

Security management is instrumental in hedging and mitigating credit risk. It involves creation of enforceable charge over the borrower's/third party assets in favour of the Bank, proper valuation/storage/maintenance and insurance of the securities so charged at regular intervals, in order that the Bank's advances/loans remain fully covered by the realizable value of the securities charged to it. Further, the charged securities are valued at periodic intervals on conservative basis and stipulated margins maintained at all times.

Primary securities are taken to cover the full/core facilities, and suitable charge / lien thereon created in favour of the Bank. With a view to strengthen the security cover in advances where required and also to guard against an unexpected steep erosion in the value of the primary security, collateral security is also obtained by way of a charge on non-financed assets of the borrower, or of the promoters or third party guarantors having sufficient value.

Definition and Classification of Non Performing Assets (NPA)

The Bank classifies its outstandings into performing and non performing in accordance with the extant RBI guidelines.

A Non Performing Advance (NPA) is defined as a loan or an advance where:

i. interest and/ or installment of principal remains overdue for 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. a bill purchased/discounted by the Bank remains overdue for a period of more than 90 days
iii. interest and/or installment of principal in respect of an agricultural loan remains overdue for two crop seasons for short duration crops and one crop season for long duration crops
iv. the regular/ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction
v. the account remains 'out of order' in respect of an overdraft/ cash credit (OD/CC). An account is treated as 'out of order' if:
    a) the outstanding balance remains continuously in excess of the sanctioned limit/drawing power, or
    b) where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of the balance sheet or credits are not enough to cover the interest debited during the same period,
vi. Drawings have been permitted in working account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than three months old even though the unit may be working or the borrower's financial position is satisfactory
vii. An account would be classified as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter

The Bank's loan portfolio would be classified in 4 categories of assets as per extant RBI guidelines as follows:

- Standard Assets: These are Performing assets (or Non- NPAs)
- Non-Performing Assets (NPAs):
    - Sub-standard Assets: i.e. an asset which remains irregular/out of order /overdue for 90 days and is classified as NPA for a period of 12 months from the date of such classification.
    - Doubtful Assets: i.e. an NPA that remains Sub-standard Asset for a period of 12 months,
    - Loss Assets: An asset that is identified as 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.

The Bank has established appropriate internal mechanism for prompt identification of NPA(s).

Total Gross Credit Risk Exposure* Including Geographic Distribution of Exposure*

Rs in thousands

	Domestic		
Type of exposure	**Exposure***	**Exposure netted by FD lien**	**Exposure backed by Eligible Guarantees**
Fund Based	230,845,754	7,465,570	2,705,876
Non Fund Based**	105,104,491	20,936,581	2,094,964
Total	**335,950,245**	**28,402,151**	**4,800,840**

*Represents book value as at March 31, 2010

The Bank has no gross credit exposure overseas (Fund or Non fund**) as at March 31, 2010.
**Non-fund based exposures are guarantees given on behalf of the constituents and acceptances and endorsements.

Industry type distribution of Exposure* as at March 31, 2010

Rs in thousands

Industry	Fund based Exposure	Fund based Exposure netted by FD lien	Fund based Exposure backed by Eligible Guarantees	Non Fund Based** Exposure	Non Fund based Exposure netted by FD lien	Amount of Non Fund outstanding covered by Eligible Guarantees	Total exposure	% to Total gross credit exposure	Exposure subjected to On and Off balance sheet netting	Total exposure backed by Eligible Guarantees
Coal	1,461,340	-	-	730,874	40,287		2,192,214	0.65%	40,287	-
Mining	749,754	-	-	237,751	29,169		987,505	0.29%	29,169	-
Iron & Steel	7,207,783	4,169	-	2,222,570	-		9,430,353	2.81%	4,169	-
Other Metal & Metal Products	1,689,598	5,619	-	1,203,060	54,757		2,892,658	0.86%	60,376	-
All Engg*	14,451,237	**92,371**	-	**10,581,034**	**616,934**		**25,032,271**	**7.45%**	**709,305**	**-**
- Of which Electronics	1,847,030	*2,371*	-	*635,042*	*30,449*		*2,482,072*	*0.74%*	*32,820*	-
Electricity	1,162,545	-	-	3,662,868	849,914		4,825,413	1.44%	849,914	-
Cotton Textiles	605,693	-	-	27,503	-		633,196	0.19%	-	-
Other Textiles	1,549,420	3,323	-	235,942	28,199		1,785,362	0.53%	31,522	-
Sugar	4,180,000	540,000	-	725,361	-		4,905,361	1.46%	540,000	-
Tea	675,764	-	-	140,716	-		816,480	0.24%	-	-
Food Processing	7,628,850	114,824	-	2,088,723	1,747,022		9,717,573	2.89%	1,861,846	-
Vegetable Oils	1,301,052	10,028	-	1,134,210	401,848		2,435,262	0.72%	411,876	-
Rubber & Rubber Products	2,437,288	-	-	776,478	822		3,213,766	0.96%	822	-
Chemicals, Dyes & Paints*	19,183,520	**315,820**	-	**2,741,213**	**199,806**		**21,924,733**	**6.53%**	**515,626**	**-**
- Of which Fertilisers	6,694,996	-	-	*1,528,700*	-		*8,223,696*	*2.45%*	-	-
- Of which Drugs & Pharmaceuticals	8,120,094	*299,566*	-	*235,358*	*35,599*		*8,355,452*	*2.49%*	*335,165*	-
- Of which Petro-Chemicals	208,565	-	-	*715*	*71*		*209,280*	*0.06%*	*71*	-

Industry	Fund based Exposure	Fund based Exposure netted by FD lien	Fund based Exposure backed by Eligible Guarantees	Non Fund Based** Exposure	Non Fund based Exposure netted by FD lien	Amount of Non Fund outstanding covered by Eligible Guarantees	Total exposure	% to Total gross credit exposure	Exposure subjected to On and Off balance sheet netting	Total exposure backed by Eligible Guarantees
Cement	5,704,658	-	-	538,158	-		6,242,816	1.86%	-	-
Gems & Jewellery	870,445	293	-	4,654,701	3,606,711		5,525,146	1.64%	3,607,004	-
Construction*	13,555,597	6,008	-	5,545,381	396,327		19,100,978	5.69%	402,335	-
Petroleum	782,384	1,384	-	5,561,470	15,200		6,343,854	1.89%	16,584	-
Automobiles including trucks	2,582,027	1,560	-	636,571	15,628		3,218,598	0.96%	17,188	-
Computer Software	1,555,913	192,381	57,846	952,575	69,996		2,508,488	0.75%	262,377	57,846
Power*	17,049,782	194,910	1,638,750	10,161,997	1,469,559		27,211,779	8.10%	1,664,469	1,638,750
Telecommunications*	18,400,720	25,654	-	12,226,739	1,637,430		30,627,459	9.12%	1,663,084	-
Roads & Ports	2,165,398	-	-	2,041,633	144,947		4,207,031	1.25%	144,947	-
Infrastructure (Others)	9,016,508	997,834	-	7,527,826	397,797		16,544,334	4.92%	1,395,631	-
NBFC	9,707,845	1,050,012	-	26,720	22,349		9,734,565	2.90%	1,072,361	-
Trading	6,888,906	188,877	961,800	7,990,489	4,994,108		14,879,395	4.43%	5,182,985	961,800
Paper & Paper Products	701,641	201,641	-	546,888	-		1,248,529	0.37%	201,641	-
Other Industries	76,725,269	3,362,822	47,480	19,491,094	3,548,003	2,094,964	96,216,363	28.64%	6,910,825	2,142,444
Residual Advances	854,817	156,040	-	693,946	649,768		1,548,763	0.46%	805,808	-
Grand Total	**230,845,754**	**7,465,567**	**2,705,876**	**105,104,493**	**20,936,582**	**2,094,964**	**335,950,247**		**28,402,149**	**4,800,840**

*exceeds 5% of the gross credit exposure (before on and off balance sheet exposure)

**Non-fund based exposures are guarantees given on behalf of the constituents and acceptances and endorsements.

Residual Contractual maturity breakdown of assets

Rs in thousands

Maturity Bucket	**Cash, Balances with RBI and other banks**	**Investments**	**Advances**	**Other assets including Fixed assets**
1 day	91,322	-	1,640,039	10,411
2 days to 7 days	1,365,404	2,002,466	4,619,854	36,668
8 days to 14 days	1,183,797	252,003	9,880,639	69,089
15 days to 28 days	2,285,709	-	7,877,583	357,461
29 days to 3 months	4,505,262	6,553,896	37,681,166	884,571
Over 3 to 6 months	4,336,049	8,806,283	17,140,176	199,413
Over 6 to 12 months	7,069,744	8,789,540	39,073,521	323,960
Over 1 year to 3 years	3,710,732	6,530,640	73,576,291	7,782,124
Over 3 years to 5 years	266,812	13,638,277	17,512,039	256,768
Over 5 years	1,917,652	55,526,308	12,929,924	3,141,514
Total	**26,732,483**	**102,099,413**	**221,931,232**	**13,061,979**

Movement of NPA (Gross) and Provision for NPAs - March 31, 2010

Particulars	**Rs. in Thousands**
A. Amount of NPAs (Gross)	**602,020**
Substandard	591,407
Doubtful 1	10,613
Doubtful 2	-
Doubtful 3	-
Loss	-
B. Net NPAs	**129,878**
C. NPA Ratios	
i. Gross NPAs to Gross Advances	0.27%
ii. Net NPAs to Net Advances	0.06%

D. Movement of NPAs (Gross)	
Opening Balance as at April 1, 2009	849,254
Additions during the year	1,133,551
Reductions during the year	1,380,785
Closing Balance as at March 31, 2010	602,020
E. Movement of Provisions for NPAs	
Opening Balance as at April 1, 2009	437,684
Provisions made during the year	1,216,410
Write- offs of NPA provision	825,657
Write backs of excess provisions	356,295
Closing Balance as at March 31, 2010	472,142

NPI (Gross), Provision for NPI and Movement in Provision for Depreciation on investments – March 31,2010

Particulars	Rs in thousands
A. Amount of Non - Performing Investment (NPI)	-
B. Amount of provisions held for NPI	-
C. Movement of provisions for depreciation on investments	
Opening Balance as at April 1, 2009	38,142
Add/(Less): Provisions made during the year	154,103
Closing Balance as at March 31, 2010	**192,245**

5. Credit Risk: Portfolios subject to the Standardized approach

Ratings used under standardized approach

The Bank makes use of ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely CRISIL, CARE, ICRA & Fitch (India) for domestic counterparties and Standard & Poor's, Moody's and Fitch for foreign counterparties.

While arriving at risk-weighted assets for credit risk under the standardized approach 'bank loan' ratings of the counterparty have been used. This would include fund-based and non-fund based facilities. In case of treasury facilities, the Bank has also used 'Issuer' ratings of the counterparties, wherever available. In case the Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. Further the lower rating, where there are two ratings and the second-lowest rating where there are three or more ratings are used in cases where multiple ratings for a given facility were available.

Details of credit exposures* (funded and non funded) classified by risk buckets**

The table below provides the break-up of the Bank's exposures* (rated and unrated) into three major risk buckets.

(Rs in thousands)

Risk Weight Bands	Fund Based Exposure	Non Fund Based**	Total exposure	Exposure netted by FD lien	Total other eligible financial collateral used as credit risk mitigants	Total amount of exposure (Fund+Non Fund) covered by Eligible Guarantees
Below 100% risk weight	85,232,505	34,843,079	120,075,584	2,690,389	-	4,800,840
100% risk weight	140,703,855	68,781,475	209,485,330	25,142,679	-	-
Above 100% risk weight	4,909,394	1,479,937	6,389,331	569,083	-	-
Deducted	-	-	-	-	-	-
Total	**230,845,754**	**105,104,491**	**335,950,245**	**28,402,151**	**-**	**4,800,840**

**Represents book value as at March 31 ,2010*

**Non-fund based exposures are guarantees given on behalf of the constituents and acceptances and endorsements

6. Credit Risk Mitigation- Disclosures for standardized Approaches

The Bank's credit policy outlines the type of collateral that can be taken for different facilities and the process for its valuation. Currently, eligible financial collateral in the form of fixed deposits under lien and guarantees issued by Banks/Government agencies have been used as credit risk mitigants.

In the case of fixed deposits under lien, the Bank reduces its credit exposure to counterparty by the value of the fixed deposits. In case of exposures backed by guarantees issued by Banks/Government agencies, the guaranteed portion is assigned the risk weight of the guarantor when the conditions outlined by extant guidelines are fulfilled.

The total exposure that is covered by guarantees has been disclosed for each separately disclosed credit risk portfolio in the earlier sections.
As at March 31, 2010, the total exposure (after, where applicable on or off balance sheet netting) that is covered by eligible financial collateral after application of haircuts is Rs. Nil.

7. Securitization: Disclosure for Standardised Approach

The Bank's Securitization activities are governed by its securitization policy document and applicable extant RBI guidelines.

Objective : The objective of securitizing asset receivables is to sell the asset and the associated credit risk to a set of capital market investors through the issue of capital market instruments – Pass Through Certificates (PTCs). The "true sale" sale enables derecognition of the transferred assets from the Balance Sheet of the Bank to the investors, thereby transferring all associated credit risk . Securitization transactions also help the Bank in exploiting the arbitrage between asset pricing and capital market instrument pricing, where available.

During the year ended March 31, 2010, the Bank undertook one securitization transaction and no credit enhancement/liquidity support was provided by the Bank in any form whatsoever. The Securitization transaction facilitated complete transfer of credit risk of the underlying exposures to the SPV/investors of the PTCs.

The roles played by the Bank in the said transaction were:

Originator : As an Originator, the Bank transferred asset (Corporate Loan) to a Special Purpose Vehicle.

Service Provider (Collection and Payment agent) : The Bank has carried out administrative functions with respect to the cash flows from the underlying for servicing the investors.

The Bank has processes in place to monitor changes in risk of securitization exposures by way of monthly review of servicer reports as well as an annual review of the entire securitized portfolio from any originator. This review encompasses the underlying portfolio performance, collection efficiency and extent of credit enhancement available as well as analysis of the servicer. Further, for managing the interest rate risk in the purchased securitized assets, the Bank uses PVBP as a sensitivity measure and VaR which is monitored on a periodical basis.

The Bank also acquires investment grade securitized debt instruments backed by financial assets originating from diverse sectors for regulatory /investment/trading/market-making purposes. The Bank facilitates issuances of securitized debt instruments by acting as an underwriter for select issuances based on its own underwriting/risk criteria

With respect to warehousing and pipeline risk, the Bank has not undertaken any warehousing transactions during the year ended March 31,2010. The Bank endeavours to mitigate pipeline and warehousing risk by having back to back commitments from investors. The Bank has not sponsored any off Balance Sheet Vehicles with reference to its Securitization transactions.

The securitization transactions wherein loans are transferred to a Special Purpose vehicle are accounted for in accordance with the RBI guidelines on "Securitization of Standard Assets.

Securitized assets are derecognized upon sale if the Bank surrenders control over the contractual rights that comprise the financial asset and fulfills other conditions as per applicable extant RBI guidelines. Gain on securitization is amortized over the life of the securities issued by the SPV. Losses are recognized immediately. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

With respect to the securitized exposures purchased, the valuation is carried out by applying an appropriate mark-up (reflecting associated credit risk) over the Yield To Maturity (YTM) rates of government securities. Such mark up and YTM rates applied are as per the relevant rates published by FIMMDA. There are no changes in the methods and key assumptions used in the current year as compared to the previous year.

The Bank does not have any securitization exposure (retained or purchased) in its Banking book as at March 31, 2010.

Banking Book- Securitization Exposures

During the year ended March 31, 2010, with respect to all securitization transactions originated by the Bank, the transfers of assets have been effected on "true sale" basis and the Bank has no retained exposure as at March 31, 2010. The Bank has securitized Rs. 500,000 thousands of loan assets (Corporate) during the year ended March 31, 2010. There was no unamortized gain as at March 31, 2010 or loss recognized with respect to exposures securitized by the Bank during the current year. As at March 31, 2010 , the Bank does not intend to securitize any assets within a year.

The Bank does not have any off balance sheet securitization exposure in its Banking book as at March 31, 2010.

Trading Book- Securitization Exposures

In its Trading Book, the Bank has no retained exposures for exposures securitized by the Bank as at March 31, 2010.

The details of on- balance sheet and off balance sheet securitization exposures purchased and outstanding as at March 31, 2010 is given below.

(Rs in thousands)

Particulars	Amount of on balance sheet securitization exposure*	Amount of off balance sheet securitization exposure
Housing finance	801,684	-
Auto Finance	1,147,322	-
Micro Finance	11,373	-
Corporate	-	-
Total	**1,960,379**	**-**

* The entire exposure falls in the below 100% risk weight category.

The capital requirements for the securitization exposures (Specific + General Market Risk charge) broken down into different risk weight bands is shown below.

(Rs in thousands)

Particulars	Housing finance	Auto Finance	Micro Finance	Corporate
Below 100% risk weight	41,104	32,304	211	-
100% risk weight	-	-	-	-
Above 100% risk weight	-	-	-	-
Deducted	-	-	-	-
Total	**41,104**	**32,304**	**211**	**-**

8. Market Risk in Trading Book

Trading Book Market risk is the possibility of loss arising in Trading Book from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

The market risk for the Trading Book of the Bank is managed in accordance to the Board approved Investment Policy, Market Risk Policy, Derivative Policy and Derivative Appropriateness Policy. These policies provide guidelines to the operations, Valuations, and various limits and controls pertaining to various securities, foreign exchange and derivatives. These policies enhance Bank's ability to transact in various instruments in accordance with the extant regulatory guidelines. Bank also has a Stress Testing Policy and Framework which enables Bank to capture impact of various stress scenarios on Trading Book Portfolio. The policies are reviewed periodically to incorporate changed economic, business and regulatory environment.
The Asset Liability Management Committee (ALCO) and the Investment Committee of the Bank are responsible for measuring and monitoring of Market Risk under the overall guidance of the Risk Monitoring Committee (RMC) of the bank.

- Risk management and reporting is based on globally accepted parameters such as Modified Duration, PVO1, Exposure and Gap Limits, VaR, etc. As per the Market Risk Policy, limits have been set for Sensitivities and VaR and the same are monitored on a daily basis
- Forex Open Position limits (Daylight / Overnight), stop-loss limit, are properly monitored and exception reporting is accordingly carried out.
- Back testing of the current VaR model carried out quarterly.
- Bank has adopted the Standardised Duration Approach as prescribed by RBI for computation of capital charge for market risk and is already fully compliant with such RBI guidelines. Standardised Duration Approach is applied for calculation of Market Risk for:
  - ✓ Securities under HFT category
  - ✓ Securities under AFS category
  - ✓ All Derivatives except those entered into for Hedging Balance Sheet
  - ✓ Open foreign exchange position
  - ✓ Equity positions.

Amount of Capital required for Market Risk as at March 31,2010	**Rs in thousands**
Interest rate risk	571,426
Equity position risk	201,800
Foreign Exchange risk	126,000
Total capital required for Market Risk	**899,226**

9. Operational Risk

Strategies & Processes

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

The Bank has in accordance with the regulatory guidelines, implemented a comprehensive board approved Operational Risk Management Policy and put in place a framework to identify, assess and monitor risks; strengthen controls; improve customer service; and minimise operating losses.

Structure and Organization

The Bank has constituted the Operational Risk Management Committee (ORMC), consisting of senior management personnel. The ORMC which supports the Risk Management Committee (RMC) of the Board, is responsible for implementing the Operational Risk Management Policy and adopting the best industry practices.

Scope and Nature of Operational Risk Reporting and Measurement Systems

The Bank has implemented a systematic process for recording operational risk events and losses. These events and losses are reported and discussed at ORMC for appropriate actions.

Approaches for Computation of Capital Charge for Operational Risk

In accordance with Reserve Bank of India guidelines, the Bank has adopted the Basic Indicator Approach (BIA) for measurement of Operational Risk for the year ending March 31, 2010.

10. Interest rate risk in the Banking Book (IRRBB)

Interest Rate Risk in banking book is the risk where changes in market interest rates might adversely affect the Bank's financial condition. The bank identifies and measures the interest rate risk in banking book as:

a) **Earnings perspective:** short term/immediate impact of changes in interest rates in banking book known as earnings perspective is on the Bank's Net Interest Income (NII).

b) **Economic perspective:** longer term, changes in interest rates impact the cash flows on the assets, liabilities and off-balance sheet items, giving rise to a risk of profitability and eventually to the net worth of the Bank, arising out of all re-pricing mismatches and other interest rate sensitive positions known as economic value perspective.

The Asset - Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of IRRBB under the guidance of the Risk Monitoring Committee (RMC). RMC reviews various decisions taken by the ALCO for managing IRRBB. The ALM & Market Risk Policies define the framework for managing IRRBB through measures like:

1. **Interest Rate sensitivity Report:** Measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions) in various tenor buckets based on re-pricing or maturity, as applicable.

2. **Duration Gap Analysis:** The Bank has a framework of the Duration Gap analysis for measuring the impact on its economic value of capital.

3. **Banking Book Value at Risk (VaR):** VaR is a measure of how the market value of an asset or a portfolio of assets is likely to decrease over a certain period of time under usual conditions.

4. **Earnings at Risk (EaR):** Under the earnings perspective the focus of the analysis is on the impact of changes in interest rates on accruals or reported earnings or Net Interest Income. This perspective focuses on risk to earnings in the near term, typically the next one year. The Earnings at Risk measure as reported by the bank represents an ex ante estimate of changes in earnings over the next twelve months should interest rate change by + 100 or – 100 basis points.

5. **Sensitivity Analysis:** A Sensitivity analysis based on “what if” situations (parallel and non parallel shift) is carried out considering both trading and banking book to envisage the impact of interest rate change on the Earnings and market value of trading portfolio.

6. **Stress Testing:** The bank also undertakes stress testing of banking book on a regular basis on Duration GAP analysis to emphasise the impact on duration of capital under various stress scenarios.

All the above risk metrics are measured on a monthly basis and reported to ALCO/RMC periodically.

Key Assumptions:

1. Saving deposits: Volatile portion treated as non-interest bearing and placed in the maturity bucket of 1 day to 28 days. The core portion is placed in the maturity bucket of 1 year to 3 years as per behavioral studies.
   Current deposits: Considered as rate sensitive for DGAP purpose based on behavioural analysis as per RBI guidelines.

Impact of Interest rate Risk

1. Impact on Net Interest Income (with 1% change in interest rates for both assets and liabilities) Rs. 241,300 thousands
2. Impact on Economic value of Equity (EVE) (with 1% change in interest rates for both assets and liabilities) Rs. 2,318,660 thousands.

Note:
(i) The above impact is for 100 bps parallel shift in the interest rates for both assets and liabilities.
(ii) The Bank's turnover in any foreign currency is not more than 5% of the total turnover (bank's balance sheet size) in the Banking Book. The impact on EVE includes the Bank's exposure in INR, USD, JPY, CHF, GBP and EURO.