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

YES BANK is subject to the Basel II framework with effect from March 31, 2009 as stipulated by the Reserve Bank of India (RBI). The Basel II framework consists of three-mutually reinforcing pillars:

- Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk
- Pillar 2 - Supervisory review of capital adequacy
- Pillar 3 - Market discipline

Market discipline (Pillar 3) comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections.

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 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, 2011, 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 ₹ 4,000,000 thousands comprising 400,000,000 shares of ₹ 10/- each. As at March 31, 2011, the Bank has issued, subscribed and paid up equity shares 347,147,124 of ₹ 10 each amounting to ₹ 3,471,471 thousands. The Bank's shares are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). During the year 2010-11, the Bank has allotted 7,479,855 equity shares of ₹ 10 each for cash pursuant to exercise of employee stock options. The Bank accreted ₹ 765,939 thousands as premium on account of 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 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 ₹ 2,250,000 thousands during the year ended March 31, 2011.

The details of IPDI outstanding as at March 31, 2011 are given below:

Nature of security	Date of Issue	Coupon Rate (%)	Tenure	₹ 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
Promissory Notes	21-Aug-10	9.90%	Perpetual	2,250,000
TOTAL				**4,824,400**

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

Upper Tier II Instruments

The Bank has raised Upper Tier II Capital to the tune of ₹ 6,400,000 thousands during the year ended March 31, 2011. The details of Upper Tier II instruments outstanding as at March 31, 2011 are given below:

Nature of security	Tranche	Date of Issue	Coupon Rate (%)	Tenure	₹ 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 Notes	Tranche 3	15-Mar-07	10.10%	15 years	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
Debentures	Not Applicable	14-Aug-10	9.65%	15 years	4,400,000
Debentures	Not Applicable	8-Sep-10	9.50%	15 years	2,000,000
TOTAL					**16,684,033**

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

** Issue has been made of EUR 13,250,000 converted at foreign exchange rate on date of borrowing 1 EUR = ₹ 70.01

Lower Tier II Instruments

The Bank has raised Lower Tier II Capital to the tune of ₹ 3,064,000 thousands during the year ended March 31, 2011. The details of Lower Tier II instruments outstanding as at March 31, 2011 are given below:

Nature of security	Tranche	Date of Issue	Coupon Rate (%)	Tenure	₹ in thousands
Debentures	Not Applicable	2-Mar-06	One year commercial Paper benchmark rate plus 55 basis points, reset annually	7 years and 6 months	1,000,000
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
Debentures	Not Applicable	30-Sep-10	9.30%	9 years and 7 months	3,064,000
TOTAL					**12,013,000**

Capital Funds

The composition of Capital funds of the Bank as at March 31, 2011 is as below:

Particulars	₹ in thousands
A. Tier I Capital	
i. Paid up Share Capital	3,471,471
ii. Reserves	34,468,931
iii. Innovative Perpetual Debt Instruments*	4,824,400
iv. Amounts deducted from Tier I capital (Illiquidity adjustment and other deductions)	(1,114,185)
Tier I Capital	**41,650,617**
* includes USD 5,000,000 converted at foreign exchange rate on date of borrowing 1$ = ₹ 42.88	
B. Tier II Capital	**29,542,501**
C. Debt capital instruments eligible for inclusion in Upper Tier II Capital	
i. Total amount outstanding	16,684,033
ii. Of which amount raised during the current year	6,400,000
iii. Amount eligible to be reckoned as capital funds	16,684,033

The total amount outstanding and the amount eligible to be reckoned as capital funds includes:

(a) Issue of USD 80,000,000 converted at foreign exchange rate on date of borrowing 1$ = ₹ 42.88

(b) Issue has been made of EURO 13,250,000 converted at foreign exchange rate on date of borrowing 1 Euro = ₹ 70.01

Particulars		₹ in thousands
D.	**Subordinated Debt eligible for inclusion in Lower Tier II Capital**	
	i. Total amount outstanding	12,013,000
	ii. Of which amount raised during the current year	3,064,000
	iii. Amount eligible to be reckoned as capital funds	11,413,000
E.	**Other deductions from capital**	-
F.	**Total eligible Capital (A + B)**	**71,193,118**

3. Capital Adequacy

The Bank is subject to the Capital adequacy norms on Basel II as stipulated by the RBI. The Bank currently follows standardised approach for credit risk, standardised duration approach for market risk and basic indicator approach for operational risk for computing capital requirements.

As at March 31, 2011, the Bank is required to maintain minimum capital which is higher of the capital requirement under Basel II or 80.0% (90.0% as at March 31, 2010) of the capital requirement under Basel I. As at March 31, 2011, 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, 2011 and March 31, 2010 is as per Basel II guidelines.

The Bank has put in place a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by RBI. The main components of the ICAAP Policy are the Bank's historical and projected financial and capital position, risk appetite of the Bank, identification and assessment of material risks Bank is exposed to, control framework to mitigate those risks, adequacy of capital, capital raising plans and Bank wide stress testing.

The Bank also conducts standalone and integrated stress testing covering all quantifiable risk to assess the adequacy of capital under the extreme but plausible scenarios on periodical basis.

The integration of risk assessment with business activities and strategies facilitated by a robust risk management framework under ICAAP enables the Bank to take informed decisions and effectively manage risk-return trade off.

The Bank under the ICAAP policy has also formalized capital planning process on periodical basis. This includes assessment of capital adequacy, desired level of capital based on internal thresholds, anticipated capital requirements based on business projections and availability of various sources of capital. The same is also reported and analysed in its Board of Directors meeting on quarterly basis.

Capital adequacy		₹ in thousands
A.	**Capital requirements for credit risk**	
	i. Portfolios subject to standardised approach	38,027,562
	ii. Securitisation exposures	-
B.	**Capital requirements for market risk**	**3,570,643**
	Standardised duration approach	
	Interest rate risk	3,369,854
	Foreign exchange risk (including gold)	150,000
	Equity risk	50,609
C.	**Capital requirements for operational risk**	
	Basic Indicator approach	1,544,956
D.	**Tier I and Total Capital Adequacy ratio**	
	Tier I Capital Adequacy ratio	9.65%
	Total Capital Adequacy ratio	16.50%

Risk Management Framework

The risk management framework at YES BANK is driven by a well informed and knowledgeable Board, largely comprised of independent directors, and Senior Management.

At YES BANK the Board fulfills the following roles:

- Oversee the risk profile of the bank
- Monitor the business and the existing control mechanisms
- Ensure expert management
- Maximize the interests of all the stakeholders

The Board has two board level committees (Risk Management Committee (RMC) and Audit & Compliance Committee) to deal with risk management related specific matters and delegated powers for different functional areas.

Senior Management Oversight

For an effective day to day risk management including risk assessment, measurement, control and reporting at YES BANK, a pro-active risk management department reporting to the Chief Risk Officer of the Bank has been structured.

The respective unit leaders forming the senior management within the Risk Management Unit have teams reporting into them and they handle the identified business sub-function. The various units within the Risk Management Unit are as below:

- **Credit Risk:** This unit is responsible for approving and monitoring credits. There are separate risk heads for each of the business segments – viz. Corporate & Institutional Banking (CIB), Commercial Banking (CB), Business Banking and Retail Banking.
- **Credit Management:** Responsible for all post sanction monitoring including setting up of limits, compliance with sanction conditions, monitoring of documentation, covenants, etc.
- **Portfolio Analytics:** Responsible for monitoring the credit portfolio across all segments including monitoring of early warning signals, conducting industry research and formulating industry outlook etc.
- **Market Risk:** Responsible for monitoring the market risk in the Bank's portfolio. The market risk unit consists of exposure management/ derivative appropriateness, trading book and ALM/banking book functions.
- **Capital Compliance:** Responsible for BASEL II compliance, ICAAP review, Bankwide Stress testing and ensuring that the Bank maintains sufficient capital against the various risks that are identified.
- **General Counsel (Legal):** Responsible for managing the entire legal function.

In addition to the above, the following Committees comprising top and senior management personnel are a part of the risk framework:

- **Management Credit Committee:** The committee comprises of the MD & CEO, CRO, Deputy CRO, risk heads and business heads and is responsible for all credit approvals for exposures beyond certain threshold. The committee also oversees the overall credit risk management for the Bank.
- **Asset - Liability Management Committee (ALCO):** ALCO is responsible for adherence to the policies and limits set by the RMC as well as for deciding the business strategy on the assets and liabilities sides in line with the Bank's business and risk management objectives. ALCO also reviews the capital position of the Bank in its periodical meetings.
- **Investment Committee:** The ALCO has set up Investment Committee as its sub-committee comprising of representatives from Financial Markets, Market risk, Credit risk, Finance and Legal. The Investment committee is responsible for overall investment strategy in Financial Markets.
- **Operational Risk Management Committee (ORMC):** This committee is chaired by the CRO and is responsible for operational risk management.
- **Fraud and Suspicious Transaction Monitoring Committee (FASCOM):** To review all fraud and suspicious transactions.
- **Security Council:** This committee is chaired by the CRO and is responsible for the physical and information security aspects of the Bank.

4. Credit Risk

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

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 funded 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.

Policies and Processes

The Bank's Credit Policy, approved by the Board, outlines the credit risk governance framework. 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 to:

- Take informed credit decisions based on an adequate assessment of the relevant risk factors
- Screen credit proposals and assume only such credit risk that is acceptable to the Bank to ensure better credit quality
- 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, credit rating 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.
- **Project Risk:** This involves evaluation of any significant project being undertaken by the Company and its impact on the financials of the Company.

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. In case of program/policy based products, delegations are given to individual executives.

Credit Proposals beyond certain threshold are sanctioned by a Management Credit Committee which comprises the MD & CEO, Chief Risk Officer, President/Heads of Business & Risk.

Structure and Organization of the Credit Risk Management Function

The Credit Risk Management Department (CRMD) is delegated with specific responsibilities of managing the credit risk in the Bank by the RMC.

The CRMD is headed by the Chief Risk Officer who is assisted by Deputy Chief Risk Officer, Country Head (Corporate & Institutional Banking Credit), Country Head (Commercial Banking Credit), Country Head (Business Banking Credit), Country Head (Retail Banking Credit), Head (Market Risk), Head (Corporate Finance Credit), Head (Credit Mid Office), Head (Operational Risk), Portfolio Analytics Unit & Capital Compliance Unit. 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.

Credit Monitoring, 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 assigns the credit ratings to the 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 utilization 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 status 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 asset 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 and 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.

Credit Concentration Risk

Concentration Risk is defined as a risk arising from any single exposure or a group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets or overall risk level) to threaten a bank's health or ability to maintain its core operations.

Types of Concentration Risks

There are two main types of concentration risks:

Single name – Large exposure

The risk here is that of a potential default by large customers which may adversely impact the profitability and capital adequacy of the Bank.

Sector Risk – Large exposure

This concentration risk arises from a group of exposures that share a common underlying characteristic (e.g. sector). The risk here is that of a business downturn in the sector or potential default by companies of the same sector thereby impacting the profitability and capital adequacy of the Bank.

Monitoring, mitigation and control of Concentration Risk

Managing concentration involves prescribing internal limits for exposures across industries, ratings, maturities or as basic as restricting lending to potential large borrowers at the portfolio level. Such limits require proper monitoring and internal controls such that specific events do not trigger large losses that will eventually undermine YES BANK's financial position.

In addition to the credit exposure limits, the Bank controls and limits concentration risk among its borrowers at the portfolio level by assessing:

- Rating-wise distribution of its borrowers to ensure that Bank is not highly concentrated towards lower rated customers
- Single Borrower Limit (SBL) and Group Borrower Limit (GBL) to ensure that Bank is not lending to few large customer/ companies or few companies under the same parent company
- Industry/Sectoral Caps as a percentage of total portfolio to ensure that stress on a particular sector has a limited impact on the Bank's profitability or CRAR
- Maturity-wise distribution of its borrowers to ensure that borrowers are not concentrated towards particular tenor buckets
- Maximum limit on percentage of unsecured loans to total loans and advances
- Specified Limits for sensitive sectors such as Real Estate and Capital Market
- Monitoring of risk concentration through active portfolio management

Policies for Hedging and 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 and stipulated margins are maintained at all times.

Definition and Classification of Non-Performing Assets (NPA)

The Bank classifies its outstanding 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 more than 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*

(₹ in thousands)

Type of exposure	Domestic		
	Exposure*	Exposure netted by FD lien	Exposure backed by Eligible Guarantees
Fund Based	531,924,765	18,402,790	519,038
Non-Fund Based**	185,058,897	42,892,542	2,209,146
TOTAL	**716,983,662**	**61,295,332**	**2,728,184**

*Represents book value as at March 31, 2011

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

The Bank has no gross overseas credit exposure (Fund or Non-fund**) as at March 31, 2011.

Industry type distribution of Exposure* as at March 31, 2011

(₹ 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
Coal	8,050,812	-	-	1,858,005	666,747	-	9,908,817
Mining	592,268	-	-	610,257	42,140	-	1,202,525
Iron & Steel	15,439,267	2,526	293,805	7,778,874	345,445	-	23,218,141
Other Metal & Metal Products	166,768	2,036	-	3,256,124	246,657	-	3,422,892
All Engg.	**11,037,943**	**2,666**	**-**	**11,252,249**	**371,178**	**-**	**22,290,192**
- Of which Electronics	47,069	-	-	161,303	1,142	-	208,372
Electricity	1,566,887	98,271	-	1,411,906	-	-	2,978,793
Cotton Textiles	4,082,118	8,400	-	971,694	67,900	-	5,053,812
Other Textiles	83,222	3,041	-	339,218	4,935	-	422,440
Sugar	6,897,687	524,443	-	382,487	-	-	7,280,174
Tea	707,905	-	-	79,776	30	-	787,681
Food Processing	20,159,234	80,000	-	976,892	317,029	-	21,136,126
Vegetable Oils	2,211,771	-	-	6,086,700	3,173,552	-	8,298,471
Rubber & Rubber Products	24,287	-	-	8,930	893	-	33,217
Chemicals, Dyes & Paints	**19,256,132**	**361,210**	**-**	**5,020,991**	**304,622**	**-**	**24,277,123**
- Of which Fertilisers	11,079,056	-	-	2,297,515	1,182	-	13,376,571
- Of which Drugs & Pharmaceuticals	4,054,531	337,382	-	627,644	201,344	-	4,682,175
- Of which Petro-Chemicals	23,594	-	-	-	-	-	23,594
Cement	13,643,878	-	-	684,338	-	-	14,328,216
Gems & Jewellery	2,156,693	417	-	8,667,503	6,023,873	-	10,824,196
Construction#	13,861,446	1,457,870	-	26,454,203	771,264	-	40,315,649
Petroleum	1,388,569	-	-	7,684,610	35,891	-	9,073,179
Automobiles including trucks	13,723,052	19,141	-	3,589,096	31,095	-	17,312,148
Computer Software	3,511,071	863	70,135	578,087	17,812	-	4,089,158
Power#	23,855,292	970,347	-	18,735,418	1,998,138	-	42,590,710
Telecommunications#	28,424,637	93,747	-	13,215,234	157,969	-	41,639,871
Roads & Ports	6,977,842	411,000	-	4,144,785	103,630	-	11,122,627
Infrastructure (Others)	10,377,982	341,591	-	4,405,894	285,079	-	14,783,876
NBFC	33,325,498	1,325,190	-	43,845	12,953	-	33,369,343
Trading#	13,234,675	3,987,565	142,059	26,400,429	21,239,672	-	39,635,104
Paper & Paper Products	4,797,243	-	-	1,097,117	5,425	-	5,894,360
Leather & Leather Products	182,695	-	-	40,499	2,375	-	223,194
Other Industries	163,625,019	8,256,357	13,039	28,637,496	6,019,998	2,209,146	192,262,515
Residual	108,562,872	456,109	-	646,240	646,240	-	109,209,112
Grand Total	**531,924,765**	**18,402,790**	**519,038**	**185,058,897**	**42,892,542**	**2,209,146**	**716,983,662**

* Represents book value as at March 31, 2011

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

\# Exceeds 5% of the gross credit exposure (before FD lien netting)

Residual Contractual maturity breakdown of assets

(₹ in thousands)

Maturity Bucket	Cash, Balances with RBI and other banks	Investments	Advances	Other assets including Fixed assets
1 day	116,076	-	2,857,636	19,334
2 days to 7 days	3,146,715	-	10,160,909	326,628
8 days to 14 days	1,725,553	-	10,157,440	100,522
15 days to 28 days	2,378,344	1,591,278	23,101,268	2,743,805
29 days to 3 months	8,164,767	29,744,027	71,840,323	1,245,693
Over 3 to 6 months	4,569,656	11,870,150	47,846,376	501,757
Over 6 to 12 months	7,322,734	6,624,856	43,012,885	390,422
Over 1 year to 3 years	4,479,992	27,359,778	80,594,485	12,793,521
Over 3 years to 5 years	749,195	27,634,956	25,256,352	594,183
Over 5 years	2,306,732	83,463,333	28,808,713	4,469,495
TOTAL	**34,959,764**	**188,288,378**	**343,636,387**	**23,185,360**

Movement of NPA (Gross) and Provision for NPAs - March 31, 2011

Particulars	(₹ in thousands)
A. Amount of NPAs (Gross)	**805,242**
Substandard	392,128
Doubtful 1	413,114
Doubtful 2	-
Doubtful 3	-
Loss	-
B. Net NPAs	**91,536**
C. NPA Ratios	
i. Gross NPAs to Gross Advances	0.23%
ii. Net NPAs to Net Advances	0.03%
D. Movement of NPAs (Gross)	
Opening Balance as at April 1, 2010	602,020
Additions during the year	498,168
Reductions during the year	294,946
Closing Balance as at March 31, 2011	805,242
E. Movement of Provisions for NPAs	
Opening Balance as at April 1, 2010	472,142
Provisions made during the year	491,970
Write-offs of NPA provision	116,685
Write backs of excess provisions	133,721
Closing Balance as at March 31, 2011	**713,706**

NPI (Gross), Provision for NPI and Movement in Provision for Depreciation on Investments – March 31, 2011

Particulars		(₹ 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, 2010	192,245
	Add/(Less): Provisions made during the year	(71,892)
	Closing Balance as at March 31, 2011	**120,353**

5. Credit Risk: Portfolios subject to the Standardised approach

Ratings used under standardised approach

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

While arriving at risk-weighted assets for credit risk under the standardised 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 'External' 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 lower 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.

(₹ 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	285,570,406	56,793,054	342,363,460	5,145,270	-	2,724,170
100% risk weight	216,831,801	122,507,187	339,338,988	52,719,712	-	4,014
Above 100% risk weight	29,522,558	5,758,656	35,281,214	3,430,350	-	-
Deducted	-	-	-	-	-	-
TOTAL	**531,924,765**	**185,058,897**	**716,983,662**	**61,295,332**	**-**	**2,728,184**

**Represents book value as at March 31 ,2011*

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

6. Credit Risk Mitigation – Disclosures for standardised 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 eligible guarantor as specified in RBI guidelines 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, the guaranteed portion is assigned the risk weight of the guarantor when the conditions outlined by extant RBI guidelines are fulfilled.

The total exposure that is covered by guarantees and eligible financial collateral has been disclosed for each industry sector separately in the earlier section.

7. Securitization: Disclosure for Standardised Approach

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

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.

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 warehousing and pipeline risk, the Bank has not undertaken any warehousing transactions during the year ended March 31, 2011. 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 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 has processes in place to monitor the purchased securitization exposures by way of monthly review of servicer reports. 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.

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.

Banking Book – Securitization Exposures

During the year ended March 31, 2011, the Bank did not undertake any securitization transaction in its Banking Book.

The Bank does not have any securitization exposure (retained or purchased) in its Banking book as at March 31, 2011.

Trading Book – Securitization Exposures

In its Trading Book, the Bank has no retained exposures for exposures securitized by the Bank as at March 31, 2011.

The details of on – balance sheet and off balance sheet securitization exposures purchased and outstanding as at March 31, 2011 is given below.

(₹ in thousands)

Particulars	Amount of on balance sheet securitization exposure*	Amount of off balance sheet securitization exposure
Housing finance	609,402	-
Auto Finance	453,059	-
Micro Finance	-	-
Corporate	2,000,000	-
TOTAL	**3,062,461**	**-**

* 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.

(₹ in thousands)

Particulars	Housing finance	Auto Finance	Micro Finance	Corporate
Below 100% risk weight	35,786	11,841	-	116,770
100% risk weight	-	-	-	-
Above 100% risk weight	-	-	-	-
Deducted	-	-	-	-
TOTAL	**35,786**	**11,841**	**-**	**116,770**

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 and Derivative 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 Forex Open Position limits (Daylight / Overnight), stop-loss limit, Sensitivities and VaR and the same are monitored on a daily basis.
- 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, 2011	(₹ in thousands)
Interest rate risk	3,369,854
Equity position risk	50,609
Foreign Exchange risk	150,000
Total capital required for Market Risk	**3,570,463**

9. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational Risk includes legal risk but excludes strategic risk and reputation risk.

Operational Risk Management Governance and Framework

The Bank has in accordance with the regulatory guidelines, implemented a comprehensive board approved Operational Risk Management Policy to put in place an operational risk management process as an integral part of its overall Risk Management Architecture. The overall objective of the policy is:

- Determine Bank's appetite for Operational Risk
- Framework to identify, assess and monitor operational risk for effective mitigation
- Strengthen overall control environment at the Bank
- Improvement in customer service and minimse operational losses

For the effective management of Operational Risk, 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 of Directors is responsible for implementing the Operational Risk Management Policy and adopting the best practices. The key function of the ORMC is:

- Establish clear lines of management responsibility, accountability, and reporting in such a manner that they are distinct to avoid conflict of interest
- Vetting of new products and processes from the operational risk perspective
- Implement RCSA framework
- Review all operational loss incidents and near misses and suggest process improvements and mitigants
- Review of recent developments around the globe, and any key controls required from operational risk perspective

Additionally, and with a view to ensure sound practices in respect of governance of the overall operational risk, the Bank has outlined policies and processes in respect of Information and Physical Security; Outsourcing; Business Continuity Planning and IT Disaster Recovery; Records Management; Fraud Control and Customer Service.

For effective implementation of the above policies Bank has also put in place various committee's such as:

- Security Council committee (Physical and Information)
- Outsourcing Management committee
- Fraud Monitoring and Suspicious Transaction Monitoring Committee
- Standing Committee on Customer Service and Service Excellence Committee

These committees' meet on a predefined frequency to discuss the implementation of best practices/risk management frameworks, various related events within the Bank, recent development and key actions steps required if any. The minutes of these meetings are reported and discussed in Risk Monitoring Committee as well as to the Board of Directors.

Identification, Assessment, Mitigating, Reporting and Measurement

The Bank has implemented a systematic process for identifying, assessing and recording operational risk events – with or without financial impact on a periodical basis. These events are then analysed for root cause and corrective actions are implemented.

The Bank has adopted best practices in mitigating operational risk in transaction processing, adherence to defined policies and laws, customer documentation and business continuity through:

- Well defined, documented and updated process manuals and policies
- Internal Audit of the units
- Centralized processing at National Operating Centers
- Segregation of duties, maker checker concept, automated processes
- Transaction monitoring and analysis
- Additional checks for high value transactions, reconciliation of accounts and data, control MIS for various limits, periodical trainings, standardised documentations, authorization matrix, regular process reviews and BCP/DR testing

The Bank has also taken insurance for certain types of operational risk including bankers indemnity, cash movement, electronic and cyber crimes and fixed assets.

Approach 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. The Bank is also undertaking analysis for migration to advanced approaches for computation of Capital Charge for Operational Risk.

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 ALCO is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of IRRBB under the guidance of the RMC. RMC reviews various decisions taken by the ALCO for managing IRRBB. The ALM and 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:

Saving deposits and Current deposits are considered as rate sensitive for DGAP purpose based on behavioral analysis as per RBI guidelines.

Impact of Interest rate Risk

1. Impact on Net Interest Income (with 1% change in interest rates for assets and liabilities pertaining to solely Banking Book) ₹ 34,824 thousands.
2. Impact on Economic value of Equity (EVE) (with 1% change in interest rates for assets and liabilities) ₹ 3,752,710 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.