FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

# AUDITORS' REPORT

## On the financial statements of the Indian Branch of FirstRand Bank Limited under Section 30 of the Banking Regulation Act, 1949, of India.

We have audited the attached Balance Sheet of the Indian Branch of FirstRand Bank Limited (hereinafter referred to as the 'Bank') as on 31st March 2011, the annexed Profit & Loss of the Indian Branch of the Bank for the year ended on that date and the Cash Flow Statement of the Indian Branch of the Bank for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, of India read with the provision of sub-section (1), (2) and (5) of Section 211 and sub section (5) of section 227 of the Indian Companies Act, 1956, the Balance Sheet and the Profit & Loss Account are not required to be drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are therefore drawn up in conformity with Form 'A' and 'B' of the Third Schedule to the Banking Regulation Act, 1949.

We report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.

(ii) The transactions of the Bank which have come to our notice have been, in our opinion, within the powers of the Bank.

(iii) In our opinion, proper books of account, as required by law have been maintained by the Bank in so far as appears from our examination of those books.

(iv) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;

(v) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Indian Companies Act, 1956, in so far as they apply to Banks and are not inconsistent with the Banking Regulation Act 1949 and the method of accounting and disclosure prescribed by the Reserve Bank of India.

(vi) In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with the principal accounting policies and the notes thereon give the information required by the Indian Companies Act, 1956, in the manner so required for Banking Companies and on such basis give a true and fair view in conformity with the accounting principles generally accepted in India;

(a) in the case of the Balance Sheet, of the state of affairs of the Indian Branch of the Bank as on 31st March 2011;

(b) in the case of the Profit & Loss Account, of the profit of the Indian Branch of the Bank for the year ended on that date; and

(c) In the case of Cash Flow Statement, of the cash flows of the Indian Branch of the Bank for the year ended on that date.

For and on behalf of
Borkar & Muzumdar
Chartered Accountants
Firm Regn. No. : 101569W

Sd/-
**Devang Vaghani**
Partner
M. No. 109386

Place: Mumbai
Date: June 27, 2011

# FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

## Balance Sheet as on 31 March 2011

*Indian Rupees in 000's*

| Description | Schedule | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|---|
| ***CAPITAL AND LIABILITIES*** | | | |
| Capital | 1 | 4,091,540 | 1,773,165 |
| Reserves & Surplus | 2 | – | – |
| Deposits | 3 | 254,450 | 50,623 |
| Borrowings | 4 | 2,941,051 | 1,087,552 |
| Other Liabilities and Provisions | 5 | 159,908 | 134,318 |
| **TOTAL** | | **7,446,949** | **3,045,658** |
| ***ASSETS*** | | | |
| Cash & Balances with Reserve Bank of India | 6 | 132,813 | 18,893 |
| Balances with Banks & Money at Call & Short Notice | 7 | 268,609 | 77,475 |
| Investments | 8 | 4,936,710 | 2,091,239 |
| Loans & Advances | 9 | 1,413,871 | 200,000 |
| Fixed Assets | 10 | 41,046 | 63,096 |
| Other Assets | 11 | 653,900 | 594,955 |
| **TOTAL** | | **7,446,949** | **3,045,658** |
| Contingent Liabilities | 12 | 18,967,585 | 12,515,082 |
| Bills for collection | | 285,844 | 74,181 |

## Profit and Loss Account for the Year ended 31 March 2011

*Indian Rupees in 000's*

| Description | Schedule | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|---|
| **I. INCOME** | | | |
| Interest earned | 13 | 352,664 | 56,489 |
| Other Income | 14 | 234,292 | 119,381 |
| **TOTAL** | | **586,956** | **175,870** |
| **II. EXPENDITURE** | | | |
| Interest expended | 15 | 152,049 | 9,755 |
| Operating expenses | 16 | 519,371 | 538,565 |
| Provisions and contingencies | 17 | 3,994 | 800 |
| **TOTAL** | | **675,414** | **549,120** |
| **III. PROFIT/LOSS** | | | |
| Net Profit/(Loss) for the year | | **(88,458)** | **(373,250)** |
| **IV. APPROPRIATIONS** | | | |
| Balance carried over to Balance Sheet | | **(88,458)** | **(373,250)** |

Significant Accounting Policies and Notes to the Financial Statements 18

The accompanying notes & schedules form an integral part of the Financial Statements

For **Borkar & Muzumdar**
Chartered Accountants

Sd/-
**Devang Vaghani**
Partner
M.No. 109386
Firm Registration No.101569W

Mumbai
27th June 2011

For **FirstRand Bank Limited–India**

Sd/-
**Mahendren Moodley**
Chief Executive Officer

Durban, South Africa
22nd June 2011

Sd/-
**Rohit Wahi**
Chief Financial Officer

Mumbai
27th June 2011

# FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

*Indian Rupees in 000's*

| | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|
| **Cash flow from Operating Activities** | | |
| Net profit before taxation and extraordinary items | (88,458) | (373,250) |
| **Adjustments for:** | | |
| Depreciation on Fixed Assets | 32,959 | 29,082 |
| Provision for Gratuity & Leave Encashment | 994 | 2,709 |
| Provision for Country risk | 371 | |
| Provision for Standard Assets | 6,425 | 800 |
| Provision for Wealth Tax | 11 | – |
| Provision for Deferred tax | (2,813) | – |
| Loss on sale of Fixed Assets | 50 | 301 |
| **Operating Profit before changes in working capital** | **(50,462)** | **(340,358)** |
| **Adjustment for:** | | |
| (Increase)/Decrease in Investments | (2,845,471) | (2,091,239) |
| (Increase)/Decrease in Advances | (1,213,870) | (200,000) |
| (Increase)/Decrease in Other Assets | 32,326 | (221,705) |
| Increase /(Decrease) in Borrowings | 1,853,499 | 1,087,552 |
| Increase/(Decrease) in Deposits | 203,827 | 50,623 |
| Increase/(Decrease) in Other Liabilities and Provisions | 17,789 | 130,809 |
| Taxes Paid /Deducted /Refunded | – | – |
| **Net Cash flow from Operating Activities (A)** | **(2,002,362)** | **(1,584,318)** |
| **Cash flow from Investing Activities** | | |
| Net Purchase of Fixed Assets | (10,959) | (92,479) |
| **Net Cash flow from Investing Activities (B)** | **(10,959)** | **(92,479)** |
| **Cash flow from Financing Activities** | | |
| Receipt of Capital | 2,318,375 | 1,773,165 |
| **Net Cash flow from Financing Activities (C)** | **2,318,375** | **1,773,165** |
| **Net Increase/(Decrease) in cash and cash equivalents (A+B+C)** | **305,054** | **96,368** |
| **Increase/(Decrease) in cash and cash equivalents** | **305,054** | **96,368** |
| **Cash and Cash equivalents at the beginning of the period** | **96,368** | **–** |
| **Cash and Cash equivalents at the end of the period** | **401,422** | **96,368** |
| **Cash and Cash equivalents represents** | | |

| Particulars | Amount | Amount |
|---|---|---|
| a) Cash and balance with Reserve Bank of India | 132,814 | 18,893 |
| b) Balance with Banks and money at call and short notice | 268,608 | 77,475 |
| **Total** | **401,422** | **96,368** |

For **Borkar & Muzumdar**
Chartered Accountants

Sd/-
**Devang Vaghani**
Partner
M.No. 109386
Firm Registration No.101569W

Mumbai
27th June 2011

For **FirstRand Bank Limited–India**

Sd/-
**Mahendren Moodley**
Chief Executive Officer

Durban, South Africa
22nd June 2011

Sd/-
**Rohit Wahi**
Chief Financial Officer

Mumbai
27th June 2011

## FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

### Schedules to Financial Statements as at 31-Mar-2011

*Indian Rupees in 000's*

| | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|
| **Schedule 1 – Capital** | | |
| Amount of deposit kept with Reserve Bank of India under section 11(2)(b) of the Banking Regulation Act, 1949. | 2,500 | 2,500 |
| **Head Office Account** | | |
| Opening Balance | 1,773,165 | |
| Additions during the period | 2,318,375 | 1,773,165 |
| **TOTAL** | **4,091,540** | **1,773,165** |
| **Schedule 2 – Reserves & Surplus** | | |
| Balance in Profit & Loss account | – | – |
| **TOTAL** | – | – |
| **Schedule 3 – Deposits** | | |
| **I.** Demand deposits | | |
| – From Banks | 23,361 | – |
| – From others | 30,841 | 419 |
| **II.** Savings bank deposits | – | – |
| **III.** Term deposits | – | – |
| – From Banks | – | – |
| – From others | 200,248 | 50,204 |
| **TOTAL (I + II+III)** | **254,450** | **50,623** |
| **Schedule 4 – Borrowings** | | |
| **I.** Borrowings in India | | |
| (i) Reserve Bank of India | 250,000 | – |
| (ii) Other Bank | 1,180,000 | 200,000 |
| (iii) Other institution and agencies | 399,521 | 609,172 |
| Items (i) and (iii) above are secured borrowings | | |
| **II.** Borrowings outside India (includes borrowings from Head Office) | 1,111,530 | 278,380 |
| **TOTAL (I+II)** | **2,941,051** | **1,087,552** |
| **Schedule 5 – Other Liabilities and Provisions** | | |
| **I.** Bills Payable | – | – |
| **II.** Inter Office adjustments (net) | – | – |
| **III.** Due to Head Office (HO adjustment account) | 3,117 | 25,449 |
| **IV.** Interest Accrued | 3,499 | 253 |
| **V.** Others | 153,292 | 108,616 |
| **TOTAL (I + II +III+IV+V)** | **159,908** | **134,318** |

*Indian Rupees in 000's*

| | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|
| **Schedule 6 – Cash and Balances with Reserve Bank of India** | | |
| I. Cash in hand | 2 | 6 |
| II. Balances with Reserve Bank of India | | |
| (i) in Current Accounts | 132,811 | 18,887 |
| (ii) in Other Accounts | – | – |
| **TOTAL ( I + II)** | **132,813** | **18,893** |
| **Schedule 7 – Balances with Banks & Money at Call & Short Notice** | | |
| **I In India** | | |
| (i) Balance with banks | | |
| (a) in Current Accounts | 4,262 | 8,760 |
| (b) in Other Deposit Accounts | – | – |
| (ii) Money at call and short notice | | |
| (a) with banks | – | – |
| (b) with other Institutions | – | – |
| (c) with RBI | – | – |
| **TOTAL I** | **4,262** | **8,760** |
| **II Outside India** | | |
| (i) in Current Accounts | 2,128 | 1,365 |
| (ii) in Other Deposit Accounts | – | – |
| (iii) Money at call and short notice | 262,219 | 67,350 |
| **TOTAL II** | **264,347** | **68,715** |
| **GRAND TOTAL ( I + II)** | **268,609** | **77,475** |
| **Schedule 8 – Investments** | | |
| **I. Investments in India** | | |
| (i) Government Securities | 2,529,286 | 2,091,239 |
| (ii) Other approved Securities | – | – |
| (iii) Shares | – | – |
| (iv) Debentures and bonds | – | – |
| (v) Subsidiaries and/or joint ventures | – | – |
| (vi) Others (includes Certificate of Deposit) | 2,407,424 | – |
| | 4,936,710 | 2,091,239 |
| **II. Investments Outside India** | – | – |
| **TOTAL (I + II)** | **4,936,710** | **2,091,239** |

Government Securities includes the following: a) Securities kept with Clearing Corporation of India Ltd towards Security clearing facility of Face Value Rs. 65,000('000). b) Securities kept with Reserve Bank of India under the Liquidity Adjustment Facility (LAF) of Face Value Rs. 262,500('000) and c) Securities kept under Collateralised Borrowing and Lending Obligation of Face Value Rs. 450,000 ('000).

# FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

## Schedules to Financial Statements as at 31-Mar-2011

*Indian Rupees in 000's*

| | | | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|---|---|
| **Schedule 9 – Advances** | | | | |
| I | (i) | Bills purchased and discounted | 123,914 | – |
| | (ii) | Cash credits, overdrafts and loans repayable on demand | 589,957 | – |
| | (iii) | Term loans | 700,000 | 200,000 |
| | | **TOTAL** | **1,413,871** | **200,000** |
| II | (i) | Secured by tangible assets | 244,195 | – |
| | (ii) | Covered by bank/ Government guarantees | – | – |
| | (iii) | Unsecured | 1,169,676 | 200,000 |
| | | **TOTAL** | **1,413,871** | **200,000** |
| **III** A. | | Advances in India | | |
| | (i) | Priority sectors | 728,870 | – |
| | (ii) | Public sector | – | – |
| | (iii) | Banks | – | – |
| | (iv) | Others | 685,001 | 200,000 |
| | | **TOTAL** | **1,413,871** | **200,000** |
| **III** B. | | Advances outside India | – | – |
| | (i) | Due from banks | – | – |
| | (ii) | Due from others | – | – |
| | | (a) Bills purchased and discounted | – | – |
| | | (b) Syndicated loans | – | – |
| | | (c) Others | – | – |
| | | **TOTAL** | **–** | **–** |
| | | **TOTAL** | **1,413,871** | **200,000** |
| **Schedule 10 – Fixed Assets** | | | | |
| I | | **Premises** | – | – |
| II | | **Other Fixed Assets (including furniture and fixtures)** | | |
| | | Opening Balance | 92,179 | – |
| | | Additions During the year | 10,788 | 92,882 |
| | | Gross Book Value | 102,967 | 92,882 |
| | | Deductions during the year | (50) | (704) |
| | | Accumulated Depreciation to date | (62,041) | (29,082) |
| | | Net Book Value | **40,876** | **63,096** |
| III | | **Capital work-in-progress** | 170 | – |
| | | **TOTAL (I +II)** | **41,046** | **63,096** |

*Indian Rupees in 000's*

| | | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|---|
| **Schedule 11 – Other Assets** | | | |
| **I.** | Inter-office adjustments (net) | – | – |
| **II.** | Interest accrued | 5 | 574 |
| **III.** | Tax paid in advance/ tax deducted at source | 1,955 | 1,955 |
| **IV.** | Stationary and stamps | – | – |
| **V.** | Non-banking assets acquired in satisfaction of claims | – | – |
| **VI.** | Others* | 651,940 | 592,426 |
| | (*includes debit balance in Profit and Loss 31 March 2011 Rs 461,708 (000′s) and March 31 2010 Rs.373,250 (000′s) | | |
| | **TOTAL (I +II + III+ IV + V +VI)** | **653,900** | **594,955** |
| **Schedule 12 – Contingent Liabilities** | | | |
| **I.** | Claims against the bank not acknowledged as debt | – | – |
| **II.** | Liability on account of outstanding derivative contracts | 3,750,000 | – |
| **III.** | Liability on account of outstanding forward exchange contracts and foreign currency swap contract | 12,216,025 | 9,232,988 |
| **IV.** | Guarantees given on behalf of constituents | **3,001,560** | **3,282,094** |
| | (a) In India | 3,001,560 | 3,282,094 |
| | (b) Outside India | – | – |
| **V.** | Acceptances, endorsements and other obligations | – | – |
| **VI.** | Other items for which the bank is contingently liable | – | – |
| | **TOTAL (I +II + III+ IV + V +VI)** | **18,967,585** | **12,515,082** |

# FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

## Schedules to Financial Statements for the period ended 31-Mar-2011

*Indian Rupees in 000's*

| | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|
| **Schedule 13 – Interest Earned** | | |
| **I.** Interest/discount on advances/bills | 33,547 | 7,137 |
| **II.** Income on investments | 317,931 | 24,822 |
| **III.** Interest on balances with RBI and other interbank funds | 923 | 24,512 |
| **IV.** Others | 263 | 18 |
| **TOTAL** | **352,664** | **56,489** |
| **Schedule 14 – Other Income** | | |
| **I.** Commission, exchange and brokerage (net) | 18,982 | 6,629 |
| **II.** Profit/Loss on sale of investments (net) | (1,545) | (935) |
| **III.** Profit/(Loss) on revaluation of investments (net) | – | – |
| **IV.** Profit/(Loss) on sale of land, buildings and other assets (net) | (50) | (301) |
| **V.** Profit on exchange transactions/ Derivatives (net) | 32,323 | 1,981 |
| **VI.** Miscellaneous Income | 184,582 | 112,007 |
| **TOTAL** | **234,292** | **119,381** |
| **Schedule 15 – Interest Expenses** | | |
| **I.** Interest on deposits | 767 | 32 |
| **II.** Interest on Reserve Bank of India/inter-bank borrowings | 124,635 | 5,247 |
| **III.** Others | 26,647 | 4,476 |
| **TOTAL** | **152,049** | **9,755** |

*Indian Rupees in 000's*

| | 31-Mar-11 Amount | 31-Mar-10 Amount |
|---|---|---|
| **Schedule 16 – Operating Expenses** | | |
| **I.** Payment to and Provisions for employees | 363,736 | 395,171 |
| **II.** Rent, taxes and lighting | 28,658 | 32,100 |
| **III.** Printing and Stationery | 1,136 | 659 |
| **IV.** Advertisement and publicity | 1,483 | – |
| **V.** Depreciation on bank's property | 32,959 | 29,082 |
| **VI.** Directors' fees, allowances and expenses | – | – |
| **VII.** Auditors' fees and expenses | 416 | 524 |
| **VIII.** Law charges | 371 | 6,895 |
| **IX.** Postage, telegrams, telephone etc. | 723 | 12,869 |
| **X.** Repairs and maintenance | 12,026 | 7,092 |
| **XI.** Insurance | 5,536 | 5,997 |
| **XII.** Other expenditure | 72,326 | 48,176 |
| **TOTAL** | **519,371** | **538,565** |
| **Schedule 17 – Provisions and Contingencies** | | |
| **I.** Provision for Standard Assets | 6,425 | 800 |
| **II.** Provision /(Write back) for Deferred Tax | (2,813) | – |
| **III.** Provision for Wealth Tax | 11 | – |
| **IV.** Provision for Country Risk | 371 | – |
| **TOTAL** | **3,994** | **800** |

### SCHEDULE 18: SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

**1. BACKGROUND**

The accompanying financial statements for the year ended 31st March 2011 comprise the accounts of the Mumbai Branch (referred to as 'the Bank') of FirstRand Bank Limited which is a banking company incorporated in South Africa with limited liability and was granted a license to carry on banking business in India by Reserve Bank of India (RBI) on 18th February 2009.

The Bank was included in the Second Schedule to the RBI Act, 1934 vide notification dated 12th June 2009, published in the Gazette of India dated 11th July 2009 and notified by RBI to all scheduled commercial banks vide circular dated 3rd August 2009.

**2. BASIS OF PREPARATION AND USE OF ESTIMATES**

The financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting unless otherwise stated and are in accordance with Generally Accepted Accounting Principles (GAAP) and comply with statutory provisions prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by RBI from time to time, Accounting Standards ('AS') issued by the Institute of Chartered Accountants (ICAI) and notified by the Companies Accounting Standard Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.

The financial statements are presented in Indian Rupees rounded off to the nearest thousand, unless otherwise stated.

**3. USE OF ESTIMATES**

The preparation of the financial statements in conformity with the GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent liabilities as at the date of the financial statements. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable; however actual results could differ from these estimates. Any revision in the accounting estimates is recognized prospectively in the current and future period.

## FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

4. **CHANGES IN ACCOUNTING POLICY**

4.1. **Change in depreciation method**

During the year, the Bank has revised the depreciation methodology from Written Down Value method to Straight Line basis. As a result of the aforesaid revision, the depreciation charge for the year is higher by Rs 7,770 ('000s)

5. **SIGNIFICANT ACCOUNTING POLICIES**

5.1. **Investments**

**Classification**

In accordance with RBI guidelines, all Investments are classified into the following categories, based on the intent at the time of acquisition

- Held to Maturity (HTM),
- Available for Sale (AFS) and
- Held for Trading (HFT)

Under each of these categories the investment portfolio is further classified in accordance with RBI disclosure guidelines into sub-categories of:

- Government securities,
- Other approved securities,
- Shares,
- Debentures and Bonds,
- Subsidiaries/Joint ventures and
- Others.

Reclassification if any between the categories is done in accordance with RBI guidelines.

The Bank follows settlement date method for accounting of its investments

**Basis of classification**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category. Investments which the Bank intends to hold till maturity, are classified as HTM securities. Investments which are not classified in the above categories, are classified under AFS category.

As on the Balance Sheet date, all the investments of the Bank are classified in AFS category.

**Acquisition Cost**

In determining the cost of investment,

- Brokerage, commission, etc. paid at the time of purchase/sale is charged to the Profit and Loss Account.
- Broken period interest paid at the time of acquisition of the security is charged to the Profit and Loss Account.
- Cost of investments is based on the weighted average cost method.

**Disposal of Investments**

Profit/Loss on sale of investments under the aforesaid three categories are taken to the Profit and Loss account. The profit from sale of investments under HTM category, net of taxes and transfers to statutory reserve is subsequently appropriated to "Capital Reserve".

**Valuation**

Investments held under the AFS and HFT categories are marked to market periodically at the price as declared by Primary Dealers Association of India jointly with Fixed Income Money Market and Derivatives Association ("FIMMDA"). Securities are valued scrip-wise and depreciation/appreciation is aggregated for each sub-category. Net depreciation, if any, is provided for and net appreciation, if any, is ignored. Net depreciation required to be provided for in any one sub-category is not reduced on account of net appreciation in any other sub-category. Consequent to revaluation, the book value of the individual security is not changed.

Treasury Bills and Certificate of Deposits being discounted instruments are valued at carrying cost.

**Repurchase (Repo) and Reverse Repurchase Transactions**

Repo and reverse repo transactions are accounted for in accordance with the extant RBI guidelines. Accordingly, Repo and reverse repo transactions [including those conducted under the Liquidity Adjustment Facility (LAF) with RBI] are accounted as collateralised borrowing and lending respectively.

Costs thereon are accounted for as interest expense and Revenues thereon are accounted as interest income.

**5.2. Advances and provision for advances**

Advances are classified as performing and non-performing based on extant prudential norms for income recognition, asset classification and provisioning issued by RBI.

Specific loan loss provisions in respect of non-performing advances (NPAs) are made based on management's assessment of the degree of impairment of advances, subject to the minimum provisioning level prescribed in the RBI guidelines.

As at the reporting date, the Bank had no non performing advances.

The Bank maintains general provision for standard assets including credit exposures computed on interest rate and foreign exchange derivative contracts as stipulated by RBI. The provision for standard assets is included in Schedule 5 under 'Others'.

In addition to the provisions required according to the asset classification status, provisioning is done for individual country exposures (other than for home country exposure). Countries are classified into risk categories as per Export Credit Guarantee Corporation guidelines and provisioning is done as per RBI guidelines in respect of countries' where the net funded exposure is one percent or more of the Bank's total assets.

**5.3. Fixed assets and depreciation**

Fixed assets are stated at historical cost less accumulated depreciation and adjusted for impairment, if any. Cost includes duties, taxes and incidental expenses related to the acquisition and installation of the asset.

The Bank charged depreciation on its fixed assets on written down value (WDV) basis till previous year. During the year 2010-11, Bank changed the depreciation policy from WDV basis to Straight line basis (SLM). As a result of this change, the net depreciation charge for the year is higher by 7,720 (000's) with a corresponding decrease in the net block of fixed assets. This higher change includes an amount of Rs 698 (000's) towards shortfall in depreciation of prior year. The SLM depreciation rates used are given below and are calculated as per the useful life of the assets estimated by the Banks' management or at the rates prescribed under Schedule XIV of the Companies Act, 1956 whichever is higher:

| Asset Category | Depreciation Rate (SLM) |
|---|---|
| Office Equipment | 33.33% |
| Computers/Hardware Equipment | 33.33% |
| Application Software | 33.33% |
| Furniture and Fixtures | 33.33% |
| Motor Vehicles | 20.00% |

Leasehold improvements are depreciated over the original period of the lease.

Depreciation is charged on a pro-rata basis from the date of purchase of an asset and/or till the date of sale of an asset.

Fixed assets costing less than Rs. 5,000/- are fully depreciated in the year of purchase.

**5.4. Impairment of Assets**

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment losses, if any, are provided in the Profit and Loss Account to the extent the carrying amount of assets exceeds their estimated recoverable amount

**5.5. Foreign Exchange Transactions**

Monetary foreign currency assets and liabilities outstanding at the Balance Sheet date are translated to Indian Rupees at spot rates notified by Foreign Exchange Dealers Association of India ('FEDAI'). All profits/losses resulting from the year end revaluations are recognised in the Profit and Loss Account.

Income and expenses are translated to Indian Rupees at the rates prevailing on the date of the transactions.

Outstanding forward exchange contracts (excluding currency swaps undertaken to hedge foreign currency assets/liabilities which are not revalued) and spot exchange contracts are revalued at year end exchange rates notified by FEDAI for specified maturities and at interpolated rates for contract of interim maturities. The resulting gains or losses on revaluation are included in the Profit and Loss Account in accordance with RBI/FEDAI guidelines. The net unrealised profits or losses are reflected in the Balance Sheet under Other Assets or Other Liabilities respectively.

Premium/discount on foreign currency swaps undertaken to hedge foreign currency assets and liabilities is recognised as interest income/expense and is amortised on a pro-rata basis over the period of the underlying swap.

Contingent liabilities on account of foreign exchange contracts, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed in Indian Rupees at spot rates of exchange notified by FEDAI as at the reporting date.

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**5.6. Derivative transactions**

The only derivative instrument dealt by the bank in the current year is Interest Rate Swaps.

Currently, all derivative transactions are classified as trading derivatives and are remeasured as at the balance sheet date as per rates notified by FEDAI. The unrealized gains/losses are incorporated in the Profit and Loss Account and the corresponding amounts are reflected as trading assets /liabilities respectively in the Balance Sheet.

In terms of the RBI guidelines, amounts due to the Bank under derivative contracts which remained unpaid in cash for a period of 90 days or more from the specified date of payment are classified as non-performing assets and accordingly provision is made for the same.

**5.7. Employee benefits**

**Gratuity**

The Bank has a defined benefit plan for post employment benefit in the form of gratuity for all its employees. In terms of the revised Accounting Standard-15 on Retirement Benefits issued by ICAI, the Bank has made a provision towards Gratuity based on an actuarial valuation done by an independent actuary as at the year end, using the Projected Unit Credit Method. The Gratuity plan is not funded by the Bank and any increase/decrease in the gratuity liability is accounted for in the financial statements through the Profit and Loss account.

**Provident fund**

Contribution to Provident Fund is a defined contribution calculated at the designated rate (currently 12% of employee's basic salary) and is charged to the Profit and Loss Account on an accrual basis. Both the employer and employee contributions are made to the Employees' Provident Fund Organisation (EPFO) of the Government of India.

**Other Employee Benefits**

The undiscounted amount of short-term employee benefits to be paid for services rendered is recognized as an expense in the profit and loss account of the period in which the services are rendered. Expenses are accrued as liability if not already paid. These benefits include performance incentives.

**5.8. Revenue recognition**

Interest income is recognized in the Profit and Loss Account on an accrual basis, except in the case of non-performing assets where it is recognized upon realization as per RBI norms.

Fees for services are recognized at the time the services are rendered and a binding obligation to receive the fees has arisen.

Discount and commission income on bills discounted and guarantees issued respectively by the Bank are amortized over the life of the instruments, except guarantee commission of less than Rs. 200 ('000), which is recognized in the Profit and Loss Account in the year in which the guarantee is issued.

Income on discounted instruments is recognized over the tenure of the instrument on a constant yield basis.

**5.9. Income Taxes**

Income tax comprises current tax provision, wealth tax and the net change in the deferred tax asset or liability in the year.

Deferred tax assets and liabilities arising on account of timing differences are recognised in the Profit and Loss Account and the cumulative effect thereof is reflected in the Balance Sheet. Deferred tax assets and liabilities are measured using the enacted or substantially enacted tax rates at the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the Profit and Loss Account in the period of change.

Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future, except in case of unabsorbed depreciation or carried forward loss under taxation laws which are recognized only to the extent there is virtual certainty of realization of such assets.

Deferred tax assets are reviewed and reassessed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably/virtually certain to be realized.

**5.10. Accounting for Provisions, Contingent Liabilities and Contingent Assets**

In Accordance with AS - 29 relating to Provisions, Contingent Liabilities and Contingent Assets issued by the ICAI, the Bank recognizes provisions only when it has a present obligation as a result of a past event that requires that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

Provisions are determined based on management estimate required to settle the obligation at the Balance Sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements

No provision is recognized and a disclosure of contingent liability is made when:

- there is a possible obligation that may arise from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the Bank; or
- any present obligation that arises from past events where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Such obligations are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable is provided for except in the extremely rare circumstances where no reliable estimate can be made.

Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognised in the financial statements. However contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**5.11. Net Profit**

The net profit/loss disclosed in the Profit and Loss statement is after

- Specific provision for advances and provision for standard advances
- Country risk provision
- Income tax and Wealth Tax provision
- Other usual or necessary provisions.

## 6. NOTES TO FINANCIAL STATEMENTS

### 6.1. Capital

In terms of RBI guidelines for implementation of New Capital Adequacy Framework (NCAF) issued on 27th April 2007, RBI had directed Indian Branches of Foreign Banks to migrate to the revised framework (commonly referred to as Basel II) for capital computation with effect from 31st March 2008. The migration was required to be carried out in a phased manner wherein, banks were required to compute their capital requirement in terms of both Basel I and Basel II norms until 31st March 2010. The minimum capital to be maintained by the banks under the revised framework was subject to the prudential floor of 100%, 90% and 80% of the capital requirement under Basel I over the years ended 31st March 2008, 2009 and 2010 respectively. RBI vide circular DBOD.BP.BC.No.71 /21.06.001/2010-11 dated 31st December 2010 has advised banks to continue with the parallel run with the prudential floor of 80% of the capital requirement under Basel I till 31st March 2013.

The capital adequacy ratios of the Bank calculated as per RBI guidelines for Basel II (being higher capital requirement when compared to Basel I) are as follows:

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| CRAR (%) | 94.81% | 74.73% |
| CRAR - Tier I Capital (%) | 94.61% | 74.69% |
| CRAR - Tier II Capital (%) | 0.20% | 0.04% |

During the year, the Head Office of the Bank has infused additional Tier I capital of USD 50 Million to further augment the operations in India.

The bank has not raised any capital by issue of IPDI or Upper Tier II instruments during the year ended 31st March 2011 or 31st March 2010.

### 6.2. Investments

The details of investments are given below:

**(Rs. In ′000s)**

| Particulars | 31-Mar-11 Book Value | 31-Mar-10 Book Value |
|---|---|---|
| Value of Investments (*) | | |
| Gross Value of Investments | 4,936,710 | 2,091,239 |
| Less: Provision for Depreciation | --- | --- |
| Net Value of Investments | 4,936,710 | 2,091,239 |

(*) All investments are held in India.

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**6.3. Repo transactions**

The details of face value of securities purchased/sold under repo agreements for the year ended 31st March 2011 (previous year figures are shown in brackets) are as follows:

**(Rs. In '000s)**

| Particulars | Minimum outstanding during the year* | Maximum outstanding during the year | Daily Average outstanding during the year* | As on 31-Mar-11 |
|---|---|---|---|---|
| Securities sold under Repo | | | | |
| 1. Government securities | 187,800 | 1,216,400 | 5,443 | --- |
| | (---) | (586,700) | (8,949) | (---) |
| 2. Corporate debt securities | --- | --- | --- | --- |
| Securities purchased under Reverse Repo | | | | |
| 1. Government securities | --- | --- | --- | --- |
| 2. Corporate debt securities | --- | --- | --- | --- |

* For calculation of minimum and average outstanding, days with nil outstanding have been excluded for the current year.

The above does not include Repurchase and Reverse Repurchase deals done under Liquidity Adjustment Facility (LAF) with the Reserve Bank of India or Collateralized Borrowing and Lending Obligation (CBLO) transactions concluded with Clearing Corporation of India (CCIL).

**6.4. Non-SLR investment portfolio**

a. Issuer composition of Non SLR investments as at 31st March 2011 (Previous Year: Nil):

**(Rs. In '000s)**

| Issuer | Amount | Extent of private placement | Extent of below investment grade securities | Extent of unrated securities | Extent of unlisted securities |
|---|---|---|---|---|---|
| Public sector undertakings (PSUs) | --- | --- | --- | --- | --- |
| Financial Institutions (FIs) | --- | --- | --- | --- | --- |
| Banks | 2,407,424 | 2,407,424 | --- | --- | 2,407,424 |
| Private Corporates | --- | --- | --- | --- | --- |
| Subsidiaries/Joint Ventures | --- | --- | --- | --- | --- |
| Others | --- | --- | --- | --- | --- |
| Provision held towards depreciation | --- | --- | --- | --- | --- |
| **Total** | **2,407,424** | **2,407,424** | **---** | **---** | **2,407,424** |

b. Non performing Non-SLR Investments as on 31st March 2011 and 31st March 2010 were Nil.

**6.5. Derivatives**

a. **Forward Rate Agreement/Interest Rate Swap**

During the year, the bank has dealt only in Indian Rupee interest rate swaps and the details are as follows (Previous Year: Nil)

**(Rs. In '000s)**

| Particulars | 31-Mar-11 |
|---|---|
| Notional principal of swap agreements | 3,750,000 |
| Loss which would be incurred if counterparties failed to fulfill their obligations under the agreements | 13,572 |
| Collateral required by the bank upon entering into swaps* | --- |
| Concentration of credit risk arising from the swaps | Banks – 100% |
| Fair value of the swap book | 6,519 |

* As per prevailing market practice, the Bank does not insist on collateral from the counterparties to these contracts

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Nature and terms of interest rate swaps:

| Terms (NSE MIBOR*) | Nature** | Number of deals | Notional principal (Rs. In '000s) |
|---|---|---|---|
| Floating Receivable v/s Fixed Payable | Trading Swaps | 11 | 3,000,000 |
| Floating Payable v/s Fixed Receivable | Trading Swaps | 3 | 750,000 |

* *MIBOR - Mumbai Interbank Offer Rate*

** *Daily Reset*

There were no forward rate agreements traded during the current and previous year.

b. **Exchange traded interest rate derivatives**

During the current and previous year, the Bank has not dealt in exchange traded derivatives.

c. **Disclosures on risk exposure in derivatives**

**Qualitative disclosure**

The bank transacts in derivative products both as a market maker and as a tool for risk management purposes to hedge the interest rate and foreign currency risk arising out of balance sheet. The products are also offered to clients as part of corporate banking business for hedging various types of risk exposures.

The Products available are Interest Rate Swap (IRS), Forward Rate Agreement (FRA), Foreign Currency Forward, Currency Swap & Option and Currency Futures. However during the current and previous year, only IRS was transacted.

The derivative transactions expose the bank primarily to counterparty credit risk, market risk, operational risk, interest rate and foreign exchange risk.

**Organisational structure for management of risk in derivatives trading**

The derivative products and activities undertaken by the bank are governed by the Treasury Trading Mandate and the Market Risk Mandate, framework and limit structures which are approved by the Head Office.

Treasury front office deals in derivative transactions and the bank has independent teams for monitoring and managing market risk, credit risk and operational risk. Treasury back office undertakes activities such as confirmation, settlement and documentation. Segregation of duties and functions is therefore achieved and effective control is exercised over the activity.

The Asset Liability Committee (ALCO) is responsible for oversight and supervision of all derivative activities including an understanding of the nature of risks taken in order to limit the potential loss of earnings or capital. The ALCO determines that the potential risk exposure of the Bank with respect to derivative products and structured products are within the overall risk appetite and consistent with its strategic objectives.

**Policies for mitigating risk**

The derivative transactions are as per the internal Derivative Policy document which is framed in compliance with Head Office and RBI guidelines. The policy sets the guidelines to identify, measure and manage risks associated with derivative instruments.

Any product, instrument or activity not already approved and covered by the Treasury Trading Mandate is deemed to be a new product and is presented to the Deal Conclusion Forum (DCF) for approval and sign off. The DCF is appropriately represented by risks, compliance, operations, accounting & finance.

The bank also has a Customer Suitability framework in place to safeguard the banks interests and limit the risk of liability.

**Risk measurement and monitoring**

The risks arising out of derivative products are measured using various tools such as Value at Risk (VaR), Expected Tail Loss (ETL), open positions, structural liquidity analysis, interest rate sensitivity etc. The risk monitoring reports are regularly submitted to MANBO and ALCO for deciding the further course of action.

Prudential limit in respect of derivative transactions is prescribed as per RBI guidelines as the gross PV01 of all outstanding non-option Rupee derivative contracts to be within 0.25% of the net worth of the bank as on the last Balance Sheet date.

Market Risk department independently identifies, measures and monitors market risk associated with derivative transactions, and appraises the Management Board (MANBO) and the ALCO on the compliance with the risk limits.

The Bank applies the Current Exposure method to assess credit risk associated with Derivatives contracts. Credit risk on a contract is computed as the sum of its marked-to-market value if positive and its potential future exposure which is calculated based on its notional value and its residual maturity.

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**Credit risk mitigation, provisioning and accounting**

The Bank has an independent Credit Risk Management unit which is responsible for setting up counterparty limits for all transactions including derivatives. While setting up these limits, the Bank follows rigorous appraisal principles and procedures similar to those for loan limits. All exposures are monitored in accordance with the RBI regulations on single/group borrower limits.

Provisions are made to reflect the risk tendency of the portfolio. Also provisions as applicable to the loan assets in the 'Standard' category are made on the net positive marked to market credit exposures computed as per the current market value of the contracts, at a counterparty level, as prescribed by RBI. Specific provisions are made based on management's assessment of the degree of impairment with respect to derivative transactions subject to minimum provisioning norms laid down by RBI.

In respect of derivative transactions, any overdue receivables representing positive mark-to-market, value due to the Bank, which remains unpaid in cash for a period of 90 days from the specified due date for payment, are classified as non-performing assets as per the 'Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to the Advances Portfolio', issued by RBI, and reversed to the Profit and Loss Account

Derivative transactions which are classified as Trading Derivatives are valued at the estimated realisable market price (fair value). The resulting gains or losses are recognised in the Profit and Loss Account with the corresponding net unrealized amounts reflected in Other Assets or Other liabilities in the Balance Sheet. For the year ended 31st March 2011, all derivatives were classified as Trading.

**Quantitative Disclosure**

The details for interest rate swaps for the year ended 31st March 2011 are given below (Previous Year: Nil):

**(Rs. In '000s)**

| Particulars | 31-Mar-2011 |
|---|---|
| i) Derivatives (Notional Principal Amount) | |
| a) For Hedging | --- |
| b) For Trading | 3,750,000 |
| ii) Marked to Market Positions | |
| a) Asset | 13,572 |
| b) Liability | (7,053) |
| iii) Credit Exposure | --- |
| iv) Likely impact of one percentage change in interest rate (100*PV01) | |
| a) On Hedging Derivatives | --- |
| b On Trading Derivatives | 9,546 |
| Maximum and Minimum of 100*PV01 observed during the year | |
| a) On Hedging | --- |
| b) On Trading | 12,519 - Max<br>(2,455) - Min |

The bank did not transact in any currency derivatives during the current and previous year.

**6.6. Asset Quality**

**a. Non-Performing Assets:**

Bank did not have any Non-Performing exposure as at 31st March 2011 or as at 31st March 2010.

**b. Particulars of Accounts Restructured:**

There were no instances of restructuring of loan assets during the current year or previous year.

**c. Details of financial assets sold to Securitization/Reconstruction Company for Asset Reconstruction:**

There were no instances of sale of financial assets to Securitization/Reconstruction company for asset reconstruction in the current year and previous year.

**d. Details of non-performing financial assets purchased/sold**

There were no instances of purchase/sale of non-performing assets during the current year and previous year.

**e. Provision on Standard Assets**

**(Rs. In '000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Provision towards Standard Assets | 7,224 | 800 |

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**f. Business Ratios**

| Sr.No. | Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|---|
| 1 | Interest Income to working funds $ | 5.47% | 3.25% |
| 2 | Non-interest income to working funds $ | 3.63% | 6.86% |
| 3 | Operating profits to working funds $ | (1.31)% | (21.45)% |
| 4 | Return on Assets # | (1.37)% | (21.45)% |
| 5 | Business (deposits plus advances) per employee (**in Rs. 000's**) @ | 36,555 | 7,161 |
| 6 | Net Profit/(loss) per employee (**in Rs. 000's**) * | (1,966) | (10,664) |

$ Working funds represent average of total assets as reported to RBI in Form X under Section 27 of the Banking Regulation Act, 1949 during the year.

# Net Profit as a percentage to average working funds

@ Business means total of net advances and deposits, excluding interBank deposits

* Productivity ratio is based on year end employee numbers

The provisioning coverage ratio of the Bank computed in terms of RBI guidelines as on 31st March 2011 is Nil. (Previous Year: Nil).

**g. Asset Liability Management**

Maturity pattern of certain items of assets and liabilities

**(Rs. In '000s)**

| Particulars (31st March 2011) | Deposits | Advances | Investments | Borrowings* | Foreign Currency Assets** | Foreign Currency Liabilities** |
|---|---|---|---|---|---|---|
| Day 1 | 54,202 | 15,019 | 2,442,623 | --- | 2,128 | 26,494 |
| 2 to 7 days | --- | 3,077 | 1,476 | 1,848,474 | 265,296 | 18,963 |
| 8 to 14 days | 106 | 11,478 | 25 | --- | 9,399 | --- |
| 15 to 28 days | --- | 1,532 | 1,755 | --- | 1,532 | --- |
| 29 days to 3 months | 200,142 | 455,606 | 1,034,776 | 624,330 | 362,271 | 626,634 |
| Over 3 months & up to 6 months | --- | 227,159 | 754,017 | 468,248 | 200,678 | 469,328 |
| Over 6 months & up to 1 year | --- | 450,000 | 700,315 | --- | --- | --- |
| Over 1 year & up to 3 years | --- | 100,000 | 2 | --- | --- | --- |
| Over 3 years & up to 5 years | --- | 150,000 | --- | --- | --- | --- |
| Over 5 years | --- | --- | 1,721 | --- | 48,386 | --- |
| **TOTAL** | **254,450** | **1,413,871** | **4,936,710** | **2,941,051** | **889,689** | **1,141,419** |

**(Rs. In '000s)**

| Particulars (31st March 2010) | Deposits | Advances | Investments | Borrowings* | Foreign Currency Assets** | Foreign Currency Liabilities** |
|---|---|---|---|---|---|---|
| Day 1 | 419 | --- | 782,978 | 809,172 | 1,365 | --- |
| 2 to 7 Days | 102 | --- | 136 | --- | 67,350 | --- |
| 8 to 14 days | --- | --- | 1,049,251 | --- | --- | --- |
| 15 to 28 days | 102 | --- | 23 | --- | --- | --- |
| 29 days to 3 months | 50,000 | 200,000 | 192,395 | 53,880 | --- | 53,884 |
| Over 3 months & up to 6 months | --- | --- | 63,239 | 224,500 | --- | 224,584 |
| Over 6 months & up to 1 year | --- | --- | 2,417 | --- | --- | --- |
| Over 1 year & up to 3 years | --- | --- | --- | --- | --- | --- |
| Over 3 years & up to 5 years | --- | --- | --- | --- | --- | --- |
| Over 5 years | --- | --- | 801 | --- | 51,635 | --- |
| **Total** | **50,623** | **200,000** | **2,091,239** | **1,087,552** | **120,350** | **278,467** |

* Borrowings include Foreign Currency Borrowings which are also reported under Foreign Currency Liabilities

** Assets and liabilities in foreign currency exclude off–balance sheet assets and liabilities.

Classification of assets and liabilities under the different maturity buckets are compiled by the Bank as per the guidelines issued by the RBI and are based on the same estimates and assumptions as used by the Bank for compiling the structural liquidity return submitted to the RBI.

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h. **Exposures**

i. **Exposure to Real Estate Sector**

There was no exposure to real estate sector as at 31st March 2011 or as at 31st March 2010.

ii. **Exposure to Capital Market**

There was no exposure to capital market sector as at 31st March 2011 (Previous Year: Nil).The bank has not provided any finance for margin trading during the year ended March 2011 (Previous Year: Nil)

iii. **Risk Category wise Country Exposure**

The Bank had an exposure of Rs 592,942 (000's) (Previous Year: Nil) to countries falling within 'Insignificant' risk category. The country risk provision held on 31st March 2011 is Rs 371(000's) in terms of RBI guidelines.

iv. **Details of Single Borrower Limit (SBL)/ Group Borrower Limit (GBL) exceeded by the Bank**

The Bank did not exceed the prudential exposure limits on single and group borrowings and during the current year and previous year.

v. **Unsecured Advances**

The Bank does not have any intangible collaterals in the form of rights, licences, authority etc. for its Advances which are classified as Unsecured in Schedule 9 of the Balance Sheet as on 31st March 2011 (Previous Year: Nil).

i. **Miscellaneous**

i. **Amount of Provision made for Income tax during the period**

Bank has not created income tax provision during the year ended 31st March 2011 in view of taxable losses (Previous Year: Nil).

ii. **Disclosure of Penalties imposed by RBI**

During the year ended 31st March 2011, no penalty has been imposed by RBI on the Bank (Previous Year: Nil).

**7. DISCLOSURES IN TERMS OF THE ACCOUNTING STANDARD ISSUED BY THE ICAI:**

**7.1. Employee Benefits**

The disclosure required under AS - 15 (Revised) "Employee Benefits" issued by ICAI are given below:

a. **Provident Fund:** The Bank's contribution to the employees' Provident Fund for the current year was Rs. 11,712 (in 000's) and Previous Year: was Rs. 9,240 (in 000's).

b. **Gratuity:**

**Principal actuarial assumptions as at balance sheet date:**

| | |
|---|---|
| Discount Rate: | 8.00% |
| Salary Escalation Rate: | 8.00% |
| Employee Attrition Rate | 0.70% |
| Expected Average Remaining service | 22.39 |

**(Rs. In '000s)**

| Sr. No. | Particulars | Gratuity (Funded) 31-Mar-11 | Gratuity (Funded) 31-Mar-10 |
|---|---|---|---|
| (i) | **Changes in present value of obligation** | | |
| | Opening Defined Benefit Obligation | 2,709 | --- |
| | Interest Cost | 217 | --- |
| | Current Service Cost | 1,479 | 1,857 |
| | Actuarial (Gains)/Losses | (702) | 852 |
| | Benefits Paid | – | – |
| | Closing Defined Benefit Obligation | **3,703** | **2,709** |
| (ii) | **Changes in the fair value of Plan Assets** | | |
| | Fair value of Plan Assets at beginning of period | --- | --- |
| | Expected return on Plan Assets | --- | --- |
| | Contributions | --- | --- |
| | Benefits paid | --- | --- |
| | Actuarial Gains/(Losses) | --- | --- |
| | Fair value of Plan Assets at the end of the period | --- | --- |

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| Sr. No. | Particulars | Gratuity (Funded) 31-Mar-11 | Gratuity (Funded) 31-Mar-10 |
|---|---|---|---|
| (iii) | **Fair value of Plan Assets** | | |
| | Fair value of Plan Assets at beginning of period | --- | --- |
| | Actual return on Plan Assets | --- | --- |
| | Contributions | --- | --- |
| | Benefits paid | --- | --- |
| | Fair value of Plan Assets at the end of the period | --- | --- |
| | Funded Status | **(3,703)** | **(2,709)** |
| | Excess of Actual over estimate return on Plan Assets | --- | --- |
| (iv) | **Actuarial Gain/(Loss) recognized** | | |
| | Actuarial Gain/(Loss) for the period – obligation | (702) | (852) |
| | Total Gain/(Loss) for the period | (702) | (852) |
| | Net Actuarial Gain/(Loss) recognized for the period | (702) | (852) |
| (v) | **Amount to be recognized in Balance Sheet and Profit and Loss Account** | | |
| | PVO at end of period | 3,703 | 2,709 |
| | Fair value of Plan Assets as at the end of the period | --- | --- |
| | Funded Status | (3,703) | (2,709) |
| | Unrecognized Actuarial Gain/(Loss) | --- | --- |
| | Net Asset/(liability) recognized in Balance Sheet | (3,703) | (2,709) |
| (vi) | **Expenses Recognized in Profit and Loss Account** | | |
| | Current Service Cost | 1,479 | 1,857 |
| | Interest Cost | 217 | --- |
| | Expected return on Plan assets | --- | --- |
| | Net Actuarial loss recognized in the period | (702) | 852 |
| | Expenses Recognized in Profit and Loss Account | **994** | **2,709** |
| (vii) | **Movements in the Liability recognized in Balance Sheet** | | |
| | Opening Net Liability | 2,709 | 2,709 |
| | Expenses as above | 994 | --- |
| | Contribution paid | --- | --- |
| | Closing Net Liability | 3,703 | 2,709 |

7.2. **Segmental Reporting**

In line with RBI guidelines, the Bank has identified "Treasury & Markets" and "Corporate Banking" as the primary reporting segments. The Bank does not have a Retail Banking segment.

**Treasury & market** activity comprise trading in bonds, derivatives and foreign exchange operations on proprietary account and for customers. Treasury includes income from investment portfolio, profit/loss on sale of investments, profit/loss on foreign exchange transactions, income from derivatives and money market operations.

**Corporate Banking** primarily comprises Corporate Banking, trade finance and Institutional Banking. Revenues for the segment are derived from interest and fee income on loans and advances, float income and fee based income for non funded transactions.

The expenses of both the segments comprise funding costs, personnel costs and other direct and allocated overheads.

**(Rs. In '000s)**

| Business Segments | Treasury | | Corporate/Wholesale Banking | | Total | |
|---|---|---|---|---|---|---|
| | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year |
| **Particulars** | | | | | | |
| Revenue | 428,608 | 107,261 | 158,398 | 68,609 | 587,006 | 175,870 |
| Result | 64,616 | (195,000) | (129,071) | (177,450) | (64,455) | (372,450) |
| Unallocated Expenses | – | – | – | – | 26,816 | 800 |
| Deferred Tax (Credit) | – | – | – | – | 2,813 | – |
| Operating Profit | – | – | – | – | (88,458) | (373,250) |
| Income Taxes | – | – | – | – | – | – |
| Extraordinary Profit/Loss | – | – | – | – | – | – |
| **Net Profit** | – | – | – | – | **(88,458)** | **(373,250)** |
| **Other Information** | | | | | | |
| Segment Assets | 5,391,063 | 2,382,607 | 1,460,278 | 377,450 | 6,851,341 | 2,760,057 |
| Unallocated Assets | | | | | 133,900 | 285,602 |
| **Total Assets** | **5,391,063** | **2,382,607** | **1,460,278** | **377,450** | **6,985,241** | **3,045,659** |
| Segment Liabilities | 6,609,974 | 2,860,717 | 261,675 | 50,623 | 6,871,649 | 2,911,340 |
| Unallocated Liabilities | – | – | – | – | 113,592 | 134,318 |
| **Total Liabilities** | **6,609,974** | **2,927,325** | **261,675** | **118,334** | **6,985,241** | **3,045,659** |

*Geographical segments*

The Bank does not have overseas operations and it operates only in the domestic segment

**7.3. Related party disclosure**

Related party disclosures as required by Accounting Standard 18 – 'Related Party Disclosures' prescribed by the Companies (Accounting Standards) Rules, 2006 ('CASR') and in accordance with the guidelines issued by the Reserve Bank of India are given below:–

**Relationships during the period**

**a. Head office and Branches**

FirstRand Bank and its branches and subsidiaries

**b. Associate**

Momentum Group Limited

**c. Key management personnel**

Mahendren Moodley, Chief Executive Officer, India

As there is only one related party in each category, details are not disclosed in accordance with RBI guidelines.

**7.4. Lease Accounting**

The Bank has entered into operating leases in the form of leave and licence agreements for office premises and staff accommodation.

Lease payments for assets taken on operating lease are recognized in the Profit and Loss Account over the term of the lease in accordance with the AS-19 on Leases, issued by the ICAI

The total of future minimum lease payments under non-cancellable operating leases as determined by the lease agreements are as follows:

**(Rs. In ′000s)**

| Particulars | March 2011 | March 2010 |
|---|---|---|
| Not later than one year | 11,200 | 18,089 |
| Later than one year and not later than five years | 11,137 | – |
| Later than five years | – | – |
| **Total** | **22,337** | **18,089** |
| Total minimum lease payments recognized in the Profit and Loss Account | 50,490 | 46,575 |

**7.5. Deferred Tax**

Component of deferred tax assets arising out of timing differences are as under:

**(Rs. In ′000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Depreciation on fixed assets | 1,249 | --- |
| Provision for gratuity | 1,564 | --- |
| **Total** | **2,813** | **---** |

**8. ADDITIONAL DISCLOSURES**

**8.1. Provisions and Contingencies comprises of**

**(Rs. In ′000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Provision for Standard Assets | 6,425 | 800 |
| Provision for Country Risk | 371 | --- |
| Provision for Wealth Tax | 11 | --- |
| Provision /(Write back) for Deferred Tax | (2,183) | --- |
| **Total** | **3,994** | **800** |

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**8.2. Floating Provisions**

Bank has not created floating provisions during the year ended 31st March 2011 (Previous Year: Nil).

**8.3. Draw Down from Reserves**

Bank did not have draw downs from reserves during the year ended 31st March, 2011 (Previous Year: Nil).

**8.4. Disclosure of complaints**

During the current year Bank has not received any customer complaints (Previous Year: Nil).

**8.5. Awards passed by the Banking Ombudsman**

During the year no awards were passed by the Banking Ombudsman and there are no unimplemented awards outstanding as on 31st March 2011 (Previous Year: Nil).

**8.6. Disclosure of Letters of Comfort (LoCs) issued by Banks**

Bank has not issued any Letters of Comfort during the year ended 31st March, 2011 (Previous Year: Nil).

**8.7. Concentration of Deposits, Advances, Exposures and NPA's**

**a. Concentration of Deposits**

**(Rs. In '000s)**

| | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Total Deposits of twenty largest depositors | 254,450 | 50,623 |
| Percentage of Deposits of twenty largest depositors to Total Deposits of the bank | 100% | 100% |

**b. Concentration of Advances***

**(Rs. In '000s)**

| | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Total Advances to twenty largest borrowers | 1,423,733 | 200,000 |
| Percentage of Advances to twenty largest borrowers to Total Advances of the bank | 100% | 100% |

* Advances for this disclosure have been computed as per the definition of Credit Exposure including derivatives as prescribed in RBI's Master Circular DBOD.No.Dir. BC.14/13.03.00/2010-11 dated 1st July 2010.

**c. Concentration of Exposures****

**(Rs. In '000s)**

| | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Total Exposure to twenty largest borrowers/customers | 1,750,863 | 400,000 |
| Percentage of Exposures to twenty largest borrowers/customers to Total Exposure of the bank on borrowers/customers | 100% | 100% |

** Exposures are computed based on Credit and Investment exposure as prescribed in RBI's Master Circular DBOD. No.Dir.BC.14/13.03.00/2010-11 dated 1st July 2010.

**d. Concentration of Non-Performing Assets (NPAs), Sector-wise NPAs, Movement in NPAs**

The Bank does not have any NPAs during the current and previous year.

**8.8. Overseas Assets, NPAs and Revenue**

**(Rs. In '000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Total Assets | 264,346 | 68,715 |
| Total NPAs | --- | --- |
| Total Revenue | 201 | 27 |

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**8.9. Off-Balance Sheet Special Purpose Vehicles sponsored (which are required to be consolidated as per accounting norms)**

The Bank does not have any off-balance sheet sponsored Special Purpose Vehicles as at 31st March 2011 (Previous Year: Nil).

**8.10. Disclosure under Micro, Small and Medium Enterprises Development Act, 2006**

Under the Micro, Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from 2 October 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. On the basis of the information and records available with the management, principal amount, interest accrued and remaining unpaid and interest paid during the year to such enterprises is NIL.

**8.11. Other Expenses**

Details of other expenses included in Other Expenditure in Schedule 16, exceeding 1% of the total income are:

**(Rs. In ′000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Professional Fees | 14,947 | 17,136 |
| Travel Expense | 12,099 | 8,101 |
| Information Services- Broad Band Lease Lines | 6,552 | 5,470 |
| Entertainment Expense | 6,419 | --- |
| Membership & Subscription Fees | --- | 2,333 |
| Software Licence Fees | --- | 2,243 |

**8.12. Prior period comparatives**

Previous year's figures have been regrouped where necessary to confirm to this year classification.

**8.13. Margin Trading**

During the year ended 31st March 2011 the bank did not finance margin trading. (Previous Year: Nil).

For **FirstRand Bank India Branch**

Sd/-
**Mahendren Moodley**
Chief Executive Officer

Place: Durban, South Africa
Date : 22nd June 2011

Sd/-
**Rohit Wahi**
Chief Financial Officer

Place: Mumbai
Date: 27th June 2011

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**DISCLOSURES UNDER PILLAR 3 OF THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES) FOR THE YEAR ENDED 31st MARCH 2011**

**1. Scope of application**

FirstRand Bank Limited India operates in India as a branch of FirstRand Bank Limited South Africa (the Head Office), a banking entity incorporated under the laws of South Africa. The Basel II Pillar 3 disclosures contained herein relate to FirstRand Bank – India Branch ('the Bank') for the year ended 31st March 2011. The disclosures have been compiled in accordance with Reserve Bank of India's (RBI) Master Circular on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) reference RBI/2010-11/62 DBOD.No.BP.BC.15/ 21.06.001/ 2010-11 dated 1st July 2010 and the amendments thereto issued from time to time.

As the Bank is a branch operation of FirstRand Bank, South Africa, it operates in line with the Group principles and policies on risk management which are aligned to local regulations wherever required.

The Bank does not have any subsidiaries, nor does it hold any stake in any companies and is not required to prepare consolidated financial statements. Furthermore, it does not have any interest in Insurance entities in India.

**2. Capital Structure**

This is the second year of operations of the Bank in India and Tier I capital comprises only of interest-free funds provided by Head Office. During the year the Head Office of the Bank has infused an additional amount of USD 50 million as Tier I capital to further augment the Bank's operations in India.

Tier II capital of the Bank comprises of General Provisions on Standard Assets and Country risk provision created in accordance with RBI guidelines.

**Composition of Capital**

**(In Rs. '000s)**

| Particulars | 31-Mar-11 | 31-Mar -10 |
|---|---|---|
| **Tier I Capital** | | |
| Capital (Interest free funds from Head Office) | 4,091,540 | 1,773,165 |
| Less: Debit balance in Profit & Loss account | 461,708 | 373,250 |
| Less: Intangible assets | 16,651 | 22,465 |
| Less: Deferred tax Asset | 2,813 | – |
| **Total Tier I Capital** | **3,610,367** | **1,377,450** |
| **Tier II Capital** | | |
| Provision for Standard Assets/ Derivatives | 7,225 | 800 |
| Provision for Country risk | 371 | – |
| **Total Tier II Capital** | **7,595** | **800** |
| **Total eligible capital (Tier I + Tier II)** | **3,617,963** | **1,378,250** |

**Capital adequacy**

FirstRand believes that effective risk and capital management is of primary importance to the success of the Group and is a key component of the delivery of sustainable returns to its stakeholders. It is, therefore, deeply embedded in the Group's tactical and strategic decision making. The Group measures and aligns its strategy against internal and external stakeholder considerations.

| External considerations | Internal considerations |
|---|---|
| Regulators | Strategic options |
| Depositors | Earnings and earnings volatility |
| Counterparties | Capital adequacy |
| Peer group analysis | Growth |

To execute on its strategies the Group will actively assume certain risks – including credit and market. As a consequence of its banking activities it also incurs funding and liquidity, operational, interest rate and reputational risks.

In addition to the above risks the Group's strategy is also affected by external risks such as regulatory changes, political shifts and macroeconomic conditions.

Depending on certain macro dynamics or specific internal issues, the Group assesses, on a regular basis, whether the risk profile or business mix within its portfolio is optimal to deliver on its strategy. If not it will take actions to adjust accordingly.

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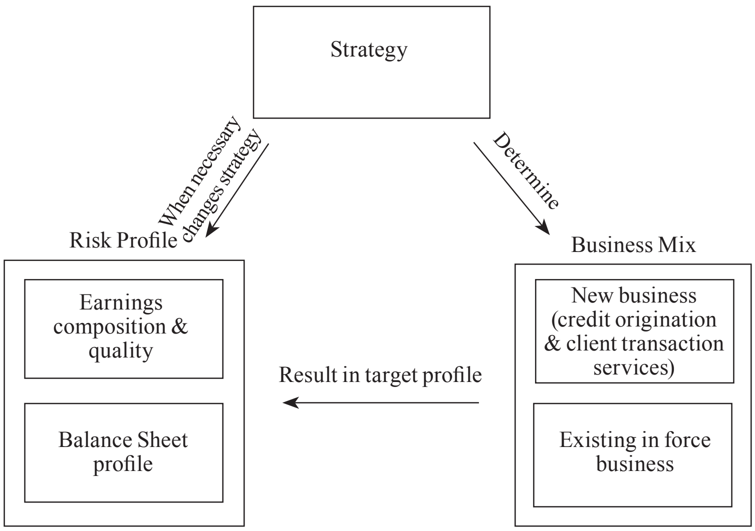
Detailed below is a diagrammatical representation of the relationship between risk, capital and strategy.

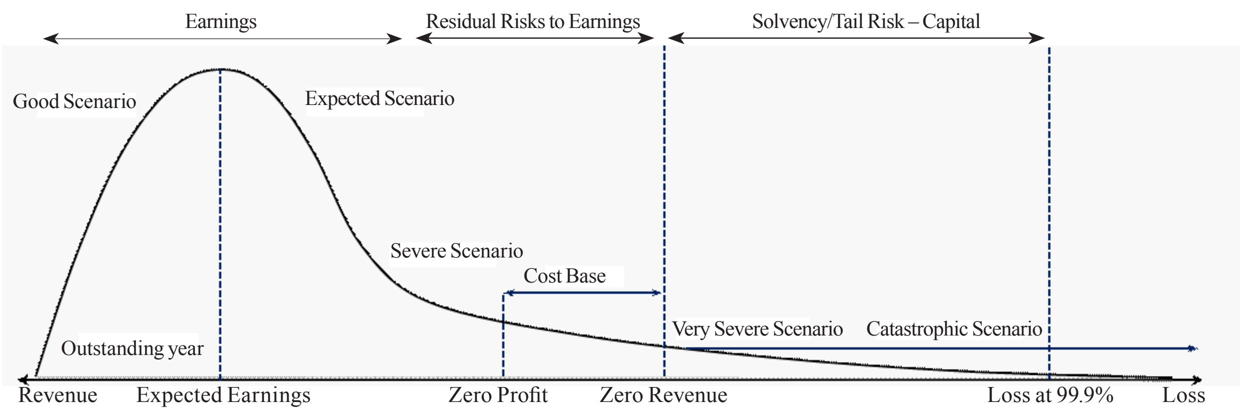



Significant shifts in the macro environment are also critical to any strategic adjustments. Management of the business is based on a single 'house view' which inputs into the budgeting and forecasting process, informs credit origination strategies and capital stress testing, directs the interest rate positioning of the banking book and is used for tail risk strategies. The stress test process enhances this process further by identifying instances that will result in a change in the risk profile given changes in key drivers.

From a capital perspective, the capital strategy mirrors the business strategy in that:

- Earnings are seen as the primary source of loss absorptions under adverse conditions. Thus, the bank's capacity to absorb earnings volatility and fluctuations is supported by the generation of sustainable profits; and
- The earnings buffer and capital provide protection against unexpected events for the stakeholders.

The diagram below contextualises capital as the final element available to mitigate unexpected losses after earnings and residual risk hedging strategies have been exhausted.




| Earnings | Residual Risks | Capital |
|---|---|---|
| • Operating businesses seek to maximise returns within acceptable earnings volatility constraints | | • Capital acts as buffer against catastrophic outcomes |
| • Earnings acts as the first buffer against losses and financial underperformance | • Group functions manage and mitigate these where economically feasible<br>• Tail risk to earnings resilience/sustainability | |

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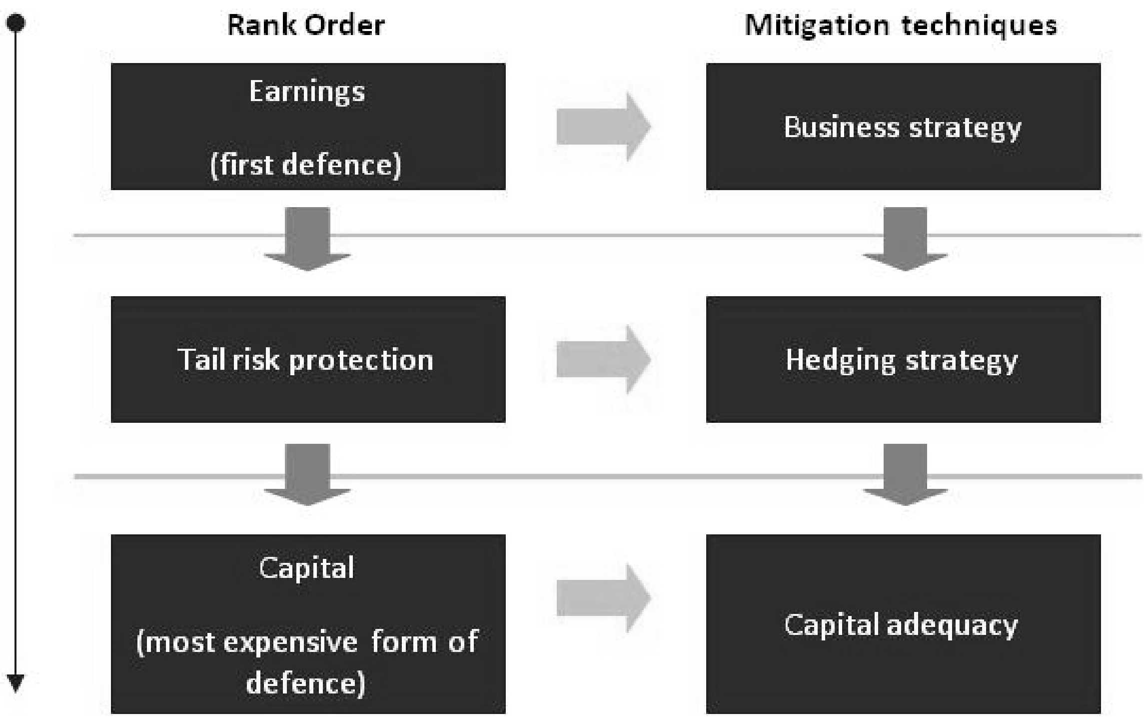
The group's overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency of the bank during calm and turbulent periods in the economy and financial markets.

The philosophy above is synonymous with FirstRand approach with respect to management actions given unexpected or adverse outcomes.




The optimal level and composition of capital is determined after taking into account organic growth plans – provided financial targets are met – as well as targeted capital ratios, future business plans, and plans for the issuance of additional capital instruments and the need for appropriate buffers in excess of minimum requirements. The Bank seeks to hold limited excesses above the capital required to support its short term growth plans (including appropriate buffers).

The Bank's capital planning efforts ensure that the total capital adequacy and Tier 1 ratios remain within the approved ranges or above target levels across the economic and business cycles.

The Bank's minimum capital requirements at 9% of Risk Weighted assets and capital ratios are as follows:

**(In Rs. '000s)**

| Particulars | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Capital requirement for credit risk (Standardised Approach) | 241,027 | 130,819 |
| Capital requirement for market risk (Standardised Duration Approach) | | |
| – Interest rate risk | 43,334 | 2,151 |
| – Foreign exchange risk (including gold) | 8,100 | 8,100 |
| – Equity risk | – | – |
| Capital requirement for operational risk (Standardised approach) | 50,981 | 24,917 |
| **Total** | **343,442** | **165,987** |

| Particulars | 31-Mar -11 | 31-Mar -10 |
|---|---|---|
| Tier I Capital Adeqacy ratio | 94.61% | 74.69% |
| Total (Tier I + Tier II) Capital adequacy ratio | 94.81% | 74.73% |

The capital adequacy ratio (CRAR) of the Bank is 94.81% as computed under Basel II norms and 109.74% under Basel I. The ratio under both guidelines is higher than the minimum regulatory CRAR requirement of 9%.

# FIRSTRAND BANK LIMITED – INDIA BRANCH

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**3. Risk Exposure & Assessment**

The Management Board of the Bank retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. FirstRand believes that a culture focused on risk paired with an effective governance structure is a prerequisite for managing risk effectively.

In addition, effective risk management requires multiple points of control, or safeguards that should be applied consistently at various levels throughout the organisation. There are three primary lines of control across the operations:

- **Risk ownership** – Risk taking is inherent in the individual businesses' activities and, as such, business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing it appropriately.
- **Risk control** – Business heads are supported in this by deployed risk management functions that are involved in all business decisions and that are represented at an executive level. These are overseen by an independent, Head Office central risk control function, namely Enterprise Risk Management.
- **Independent assurance** – The third major control point involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the Group. These are the internal audit functions at a business and at a Group level and external auditors who are also present at relevant board committee meetings.

The risk management and governance structure explicitly recognises these lines of control and embeds them as a policy of the Board. The risk management structure described above is set out in the Business Performance and Risk Management Framework, a policy of the Board.

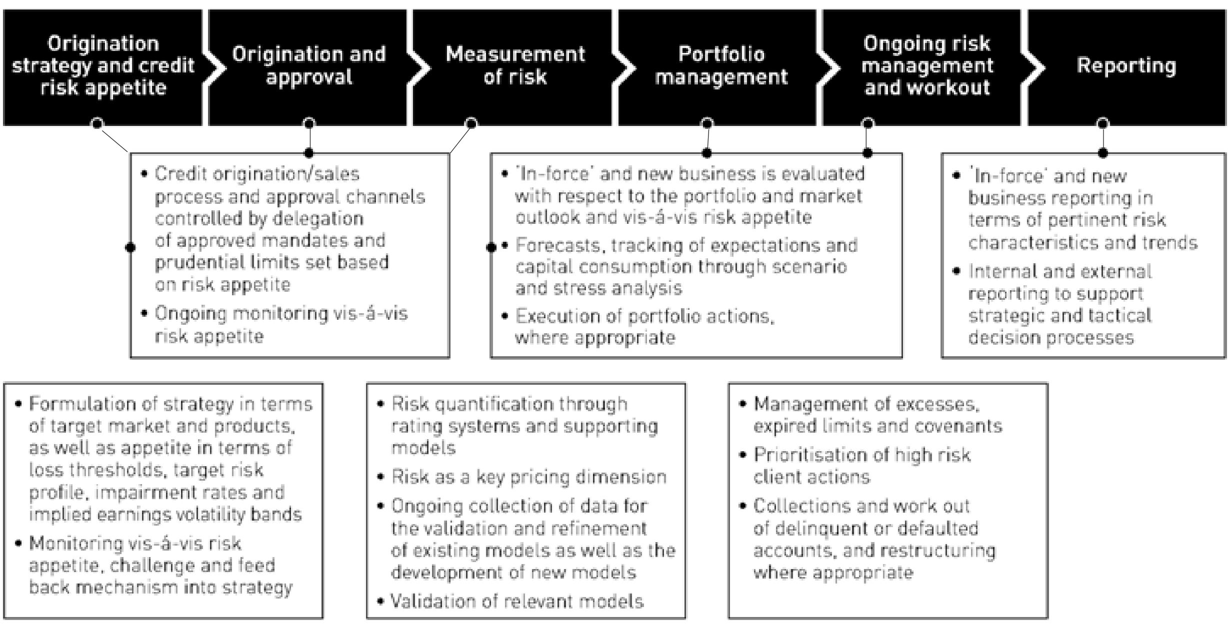
**3.1. Credit risk**

Credit risk is the risk of loss due to the non performance of a counterparty in respect of any financial or performance obligation.

The objectives of the Bank's credit risk management practices are two-fold:

- **Risk control**: Appropriate limits need to be placed on the assumption of credit risk and steps have to be taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- **Management:** Credit risk needs to be taken within the constraints of the Bank's risk appetite and the credit portfolio is managed at an aggregate level to optimise FirstRand's exposure to this risk.

The scope of credit risk identification and management practices across the Group therefore spans the entire credit value chain, and is illustrated in the diagram below:




The management of individual credit exposures and the credit portfolio as a whole is a core competence of the Bank with commensurate responsibilities shared across business and risk teams as well as deployed and central functions. The individual businesses seek to optimise the risk/return profile of their respective credit portfolios and control their risk exposure through the processes and within the risk appetite constraints set out by the Bank.

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Central risk control functions provide the appropriate oversight of this management process. The primary components of the management process are thus shared and consist of control mechanisms, risk mitigation strategies, approaches to managing credit risk concentrations and a consistent framework for the monitoring of weak and high risk exposures.

Concentration risk is managed in the respective credit portfolios with aggregate monitoring taking place at Head Office. In the wholesale credit portfolio, concentrations are managed primarily through single name limits for large exposures as well as the evaluation of country and industry concentrations.

Credit exposures are actively monitored throughout the life of the respective transactions.

Across the wholesale credit portfolios, watch lists of high risk clients are maintained alongside specific and detailed action plans for each client. These are actively monitored and updated at least on a monthly basis through the respective credit committees in the business area. The Bank seeks to reduce or mitigate its exposure to such clients through the restructuring of facilities where appropriate, and ultimately, through an efficient workout and the realisation of collateral value in the event of default.

Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Head Office level.

**Credit quality**

Advances are considered past due where a specific payment date has not been met or where regular instalments are required and such payments have not been received. A loan payable on demand is classified as overdue where a demand for repayment has been served but repayment has not been made in accordance with the stipulated requirements.

**Policy for impaired assets**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

With respect to assets carried at amortised cost, FirstRand assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following events:

- significant difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the Bank, including:
  - adverse changes in the payment status of issuers or debtors in the Bank; or
  - national or local economic conditions that correlate with defaults on the assets

When a loan is uncollectible, it is written off. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

As the Bank has been in operations only for two years and is in the process of building the balance sheet, as at 31st March 2011, there were neither past due loans nor any impairment realised.

Analysis of Credit exposures: Fund based and non fund based; Geography distribution

**(Rs. In '000)**

| **Category** | **31-Mar-11** | **31-Mar-10** |
|---|---|---|
| Domestic | | |
| Loans and Advances | 1,413,871 | 200,000 |
| **Total Fund-based Exposures** | **1,413,871** | **200,000** |
| Guarantees given on behalf of customers | 3,001,560 | 3,282,094 |
| Derivatives | 15,966,025 | 9,232,988 |
| **Total Non-fund based Exposures** | **18,967,585** | **12,515,082** |
| **Overseas** | **---** | **---** |

# FIRSTRAND BANK LIMITED – INDIA BRANCH

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**Industry Type distribution of exposures as at 31st March 2011 and 31st March 2010**

**(Rs. In '000)**

| Industry | Fund-based | | Non-fund based | | Total | | Percentage of Total | |
|---|---|---|---|---|---|---|---|---|
| | 2010-11 | 2009-10 | 2010-11 | 2009-10 | 2010-11 | 2009-10 | 2010-11 | 2009-10 |
| Banking | – | – | 18,560,143 | 12,515,082 | 18,560,143 | 12,515,082 | 91% | 98% |
| Food & beverages | 450,000 | 200,000 | – | – | 450,000 | 200,000 | 2% | 2% |
| Pharmaceuticals | 379,059 | – | – | – | 379,059 | – | 2% | 0% |
| Financial Institution | 100,000 | – | – | – | 100,000 | – | 0% | 0% |
| Silk & Synthetics Fibres | 178,380 | – | – | – | 178,380 | – | 1% | 0% |
| Trade Others | 150,000 | – | – | – | 150,000 | – | 1% | 0% |
| Rubber | 94,195 | – | 41,942 | – | 136,137 | – | 1% | 0% |
| Others | 62,238 | – | 365,500 | – | 427,738 | – | 2% | 0% |
| **Grand Total** | **1,413,871** | **200,000** | **18,967,585** | **12,515,082** | **20,381,456** | **12,715,082** | **100%** | **100%** |

**Residual maturity of assets as at 31st March 2011**

**(Rs. In '000)**

| Particulars | Cash | Balance with RBI | Balance with Banks | Investments | Advances | Fixed Assets | Other Assets |
|---|---|---|---|---|---|---|---|
| Day 1 | 2 | 1,351 | 6,389 | 2,442,623 | 15,019 | – | 2,593 |
| 2 to 7 days | – | – | 262,219 | 1,476 | 3,077 | – | – |
| 8 to 14 days | – | 117,240 | – | 25 | 11,478 | – | 355 |
| 15 to 28 days | – | 242 | – | 1,755 | 1,532 | – | 1,245 |
| 29 days to 3 months | – | 4 | – | 1,034,776 | 455,606 | – | 59,388 |
| Over 3 months & upto 6 month | – | 288 | – | 754,017 | 227,158 | – | 4,727 |
| Over 6 month & upto 1 year | – | 8,274 | – | 700,315 | 450,000 | – | 29,117 |
| Over 1 year & upto 3 years | – | 3,662 | – | 2 | 100,000 | – | 25,957 |
| Over 3 years & upto 5 years | – | 1,467 | – | – | 150,000 | – | 375 |
| Over 5 years | – | 283 | – | 1,721 | – | 41,046 | 530,142 |
| **Total** | **2** | **132,811** | **268,609** | **4,936,710** | **1,413,871** | **41,046** | **653,900** |

**Residual maturity of assets as at 31st March 2010** **(Rs. In '000)**

| Particulars | Cash | Balance with RBI | Balance with Banks | Investments | Advances | Fixed Assets | Other Assets |
|---|---|---|---|---|---|---|---|
| Day 1 | 6 | 12,042 | 10,125 | 782,978 | – | – | 0 |
| 2 to 7 days | – | 9 | 67,350 | 136 | – | – | 3 |
| 8 to 14 days | – | – | – | 1,049,251 | – | – | – |
| 15 to 28 days | – | 2 | – | 23 | – | – | 782 |
| 29 days to 3 months | – | 2,343 | – | 192,395 | 200,000 | – | 124,807 |
| Over 3 months & upto 6 month | – | 4,105 | – | 63,239 | – | – | 9,677 |
| Over 6 month & upto 1 year | – | 335 | – | 2,417 | – | – | 3,261 |
| Over 1 year & upto 3 years | – | – | – | – | – | – | 19,542 |
| Over 3 years & upto 5 years | – | – | – | – | – | – | 567 |
| Over 5 years | – | 52 | – | 801 | – | 63,096 | 63,067 |
| **Total** | **6** | **18,887** | **77,475** | **2,091,239** | **200,000** | **63,096** | **221,705** |

This is only the second year of operation of the Bank and it is in the process of building a balance sheet. The following parameters therefore, are currently NIL or not applicable to the bank.

- Amount of Gross Non Performing Assets
- Amount of Net Non Performing Assets
- Non Performing Assets ratios
- Movement of Non Performing Assets
- Movement of provision for Non Performing Assets
- Amount of Non Performing Investments
- Amount of Provision held for Non Performing Investments
- Movement in Provision for Depreciation on Investments

# FIRSTRAND BANK LIMITED – INDIA BRANCH

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**3.1.1 Credit risk – Disclosure of Portfolios subject to the Standardised Approach**

**Credit rating agencies**

The Bank uses external ratings agencies that are approved by RBI for capital adequacy, viz, CRISIL, ICRA, FITCH India and CARE for domestic exposures and S&P, Moody's & Fitch for overseas exposures.

The bank also has an independent internal ratings model. These internal ratings are used for ascertaining credit worthiness of a client, setting internal prudential limits, determining pricing and capital requirement etc. The internal and external ratings do not have a one to one mapping and for the purpose of calculation of capital for credit risk under the standardized approach, the external ratings are used.

**Exposure amounts after risk mitigation subject to the standardised approach on the basis of Risk weightage is provided below:**

**(Rs. In '000)**

| Categorisation of Advances | 31-Mar-11 | 31-Mar-10 |
|---|---|---|
| Under 100% risk weight | 807,437 | --- |
| 100% risk weight | 512,238 | 200,000 |
| Above 100% risk weight | 94,195 | --- |
| **Total** | **1,413,871** | **200,000** |

**3.1.2. Credit risk mitigation policy**

Since the taking and managing of credit risk is a core component of the Bank's business, it aims to optimise the amount of credit risk it takes to achieve its return objectives. The mitigation of credit risk is an important component of this process, which begins with the structuring and approval of facilities for only those clients and within those parameters that fall within the risk appetite.

In addition, various instruments are used to reduce the Bank's exposure in case of a counterparty default. These include, amongst others, financial or other collateral, netting agreements and guarantees. The type of security used typically depends on the portfolio, product or customer segment.

**Collateral valuation and management**

The Bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally so as to ensure that the Bank retains title over collateral taken over the life of the transaction. All items of collateral are valued at inception of a transaction and at various points throughout the life of the transaction, either through physical inspection or indexation methods, as appropriate.

As stipulated by RBI guidelines, the Bank uses the Comprehensive Approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral.

**Types of collaterals taken by the bank and main types of guarantor counterparties and Credit risk concentration within the mitigation taken**

The Bank accepts security in the form of charge on receivables / inventories for working capital facilities, charge on fixed assets in certain cases, besides guarantees from other related parties. In certain cases, facilities to obligors may be supported by partial/full insurance protection purchased. Since there are varied sources of credit protection acquired through different guarantors, there is no concentration of guarantor risk.

The total exposure covered by eligible financial collateral after application of haircuts as on 31st March 2011 and 31st March 2010 is Nil.

**3.2. Securitisation Exposures: Disclosure for Standardised approach**

Not applicable as the Bank has not undertaken any securitization transactions during the current period.

**3.3. Market risk in trading book**

Market risk is the risk of adverse valuation of any financial instrument as a consequence of changes in market prices or rates.

Market risk is managed on the basis of the Bank's Market Risk Framework. It sets out a governance structure consistent with the overall risk management approach of the bank as well as applicable lines of accountability, reporting procedures and policies.

The Bank has detailed treasury policies covering investments, foreign exchange risk management and derivatives.

**Market risk Measurement and Techniques**

Market risk exposures are assessed and managed against limits calculated on the basis of liquidity adjusted distressed expected tail losses ("ETLs"). Additional soft liquidity-adjusted Value at Risk (VaR) triggers are used to highlight positions that need to be reviewed by management.

**Value-at-Risk** - For market risk, VaR is calculated at the 99% 10 day holding period level in order to best reflect the current business ("business as usual") environment.

**Expected Tail loss** – The measure of risk used to determine utilisation of risk against limits is the ETL metric at the 99% 10 day holding period level under the full revaluation methodology using historical risk factor scenarios (i.e. under the historical simulation method).

In order to accommodate the stress loss imperative, the scenario set used for revaluation of the current portfolio is historical scenarios which incorporate both the past 250 trading days and at least one period of market distress. This results in a 500 day scenario set. A multiplication factor of 1.5 is applied to the resulting ETL as it is recognized that this stress period may still be a conservative representation of other stress periods.

**Risk Monitoring and Reporting**

Risk concentrations in the market risk environment are controlled by means of appropriate sub-limits for individual asset classes (interest rate and foreign exchange) and the maximum allowable exposure for each business unit.

The assessment and management process with respect to Market risk can be described as follows:

- Exposures are quantified daily and monitored against the respective limits;
- The causes of any limit breaches are investigated immediately and relevant reports are escalated to the respective business and risk heads as well as the independent risk control functions and board committees with corrective action, as appropriate; and
- Risk management also tracks and reports daily P&L movements and their attribution to individual risk factors to ensure that all risk exposure is appropriately identified;

**Capital requirements for market risk**

**(In Rs. '000)**

| **Particulars** | **31-Mar -11** | **31-Mar -10** |
|---|---|---|
| Capital requirement for market risk | | |
| – Interest rate risk | 43,334 | 2,151 |
| – Foreign exchange risk (including gold) | 8,100 | 8,100 |
| – Equity risk | --- | --- |
| **Total** | **51,434** | **10,251** |

**3.4. Operational risk**

**Overview**

Operational risk denotes the risk of loss resulting from inadequate or failed internal processes, controls and systems, human factors or from external events.

Operational risk is governed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub-framework of the BPRMF.

**Risk Management**

In line with international best practice, the bank employs a variety of approaches and tools in the assessment of operational risk. The most pertinent of these are:

- **Key risk indicators ("KRIs")** – KRIs have been put in place across all businesses as an early warning measure to highlight areas of increasing potential exposure to operational risk. KRI reports are included in regular management reports to support ongoing risk identification and mitigation efforts by the business;
- **Self assessment** – risk and control self assessments are integrated in the business and risk management processes to assist risk managers in identifying key risk areas and to assess the effectiveness of existing controls. Other risk self assessments include business continuity self assessments, risk effectiveness reports for IT and physical security self assessments;
- **Audit findings** – Group Internal Audit acts as the third line of risk controls across the organisation and audit findings are used to verify whether controls put in place by the businesses are acceptable in mitigating the risks associated with their key and supporting processes. The number of findings issued, as well as audit findings that have not been resolved before the due date, are tracked, monitored and reported on through the risk committee structures;
- **Internal loss data** – loss data reporting and analyses are used by risk managers to understand the root causes of loss incidents and to understand where corrective action should be taken to mitigate losses;

# FIRSTRAND BANK LIMITED – INDIA BRANCH

(Incorporated in South Africa with Limited Liability)

- **External data** – external loss databases are used to derive lessons from other organisations and loss events and to inform quantitative operational risk assessments through risk scenario analyses; and
- **Incident and issue reporting** – a well defined and embedded process for the reporting of incidents and potential issues is in place to ensure that operational risk losses can be managed and potentially mitigated and to facilitate a feedback of any lessons learned into the organisation's operational risk management practices.

**3.5. Interest rate risk in the banking book**

Interest rate risk in the banking book ("IRRBB") is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates. The bank identifies and categorises this risk further in the following components:

- Repricing risk arises from the differences in timing between repricing of assets, liabilities and off balance sheet positions;
- Yield curve risk arises when unanticipated changes in the shape of the yield curve adversely affect the bank's income or underlying economic value;
- Basis risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different instruments with similar repricing characteristics; and
- Optionality, which is the right, but not the obligation, of the holder to alter the cash flow of the underlying position, which may adversely affect the bank's position as the counterparty to such a transaction.

**Risk Management**

The control and management of interest rate risk is governed by the Framework for the Management of IRRBB, which is an ancillary framework to the BPRMF

Presently the bank uses the following tools for monitoring and managing the interest rate risk:

**Gap Analysis:** The Bank monitors interest rate risk on monthly intervals through a statement of Interest Rate Sensitivity prepared as at the last reporting Friday of each month as per RBI guidelines. This analysis measures mismatches between rate sensitive liabilities and rate sensitive assets. The bank has internal limits for the Interest Rate gaps.

**Duration Gap Analysis:** The economic value of Banks assets, liabilities and off balance sheet position gets affected by the change in interest rate. The bank applies the modified duration approach to monitor the impact of the parallel shift in interest rate curve on the capital position.

**Interest rate Risk in banking book as on 31st March 2011**

| Currency | Rate Change | Change in Equity Value (INR '000s) | Impact in % |
|---|---|---|---|
| INR* | 2.00% | (28,902) | -0.80% |
| USD** | 2.00% | (5,038) | -0.14% |
| Total Impact | | (33,940) | -0.94% |

* *The impact on Economic Value of Equity for INR includes the Bank's exposure in INR, JPY, CHF, GBP and EURO.*

** *The Bank's turnover in USD is more than 5% of the total turnover (Bank's balance sheet size) in the Banking Book and hence as per regulatory guidelines the impact for USD assets and liabilities is shown separately.*

**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.

Impact on Net Interest Income (with 1% change in interest rates for both assets and liabilities) is INR 21,763 ( '000s) which is 0.59% of the total equity as of 31st March 2011.

The Asset Liability management committee reviews the interest rate risk periodically and controls the risks and returns.

For **FirstRand Bank India Branch**

Sd/-
**Mahendren Moodley**
Chief Executive Officer

Place: Durban, South Africa
Date : 22nd June 2011

Sd/-
**Rohit Wahi**
Chief Financial Officer

Place: Mumbai
Date: 27th June 2011