CHAPTER - IV

OPERATIONAL POLICIES OF IDBI

Although the IDBI Act provides the maximum operational flexibility to the Bank, the management has formulated policies and schemes for the guidance of the executives engaged in the talk of providing assistance, and for ensuring that its present resources are diverted into socially desirable channels, and for augmenting resources—both financial and entrepreneurial—for a quicker realisation of our socio-economic objectives.

a) POLICY ON SANCTION AND UTILISATION OF FUNDS FOR PROJECT FINANCING

Once a project is found having satisfied all the criteria, as discussed in the preceding chapter, and the IDBI is ensured that the cost estimates have been properly drawn up, the assistance is sanctioned.

After assistance has been sanctioned for a project, the IDBI has devised policy to keep a close watch on its progress with a view to ensuring that the assistance is utilized for the purpose for which it was sanctioned, to assess whether construction is progressing according to the schedule, and to assess whether the project will be
completed within the original estimates of capital cost. If not, to what extent there is likely to be an overrun; and to evaluate production performance and working results against the original expectation is being impeded, and if so, to take the necessary remedial measures. Accordingly, following follow-up mechanism has been laid down:

a) Obtaining monthly production reports which the assisted concerns are required to submit to the concerned statutory/regulatory authorities;

b) Obtaining of periodical progress reports and copies of statements submitted by concerns to their bankers;

c) Calling of half-yearly/yearly statement of accounts, working results and financial position;

d) Carrying out periodical site visits;

e) Insisting upon a need-based management information system, and

f) Having reports from nominee directors/concurrent auditors/consultants, wherever appointed.

Further, the Bank has advised their functionaries to see that qualifies and experienced technical and managerial personnel are engaged by the assisted units. Where necessary, particularly in cases of over-run in costs and unsatisfactory working they must
exert pressure to bring about a suitable change in the personnel and help the units to hire suitable people.

So as to ensure proper use of foreign currency loan, the Bank has recently decided that disbursements will be made only after the projects achieve financial closure. Sanctions are normally extended to projects which have a natural hedge by way of exports.

b) POLICY ON INDUSTRIAL PROJECTS TO BE ASSISTED

The IDBI had pursued the policy of assisting the industrial units which were established as public limited companies in the private, joint, public, and co-operative sectors. It concentrates on projects involving a large capital outlay or sophisticated technology and promoted by technician-entrepreneurs located in less developed areas of the country, and/or on exploring the possibility of using new technology, which might not find ready support from other institutions. The IDBI assistance is usually granted to new projects as well as for the expansion, modernization or renovation of existing units.

The amendment of IDBI Act, which came into force with effect from August, 1986 has enlarged the definition of industry concern to cover diverse range of industrial activities including the services sector industries like informatics, health care, storage and distribution of energy and other services contributing to value
addition. The amendments have also widened the possible scope of business of IDBI by addition of such activities or consultancy, merchant banking and trusteeship activities. In 1990 road construction activity has also been made eligible for finance assistance from the IDBI.

c) **POLICY ON FORMS OF ASSISTANCE**

Keeping in view its objectives, tasks and strategies, the IDBI has made it a policy to provide financial support to both new as well as existing projects directly by way of project finance, equipment finance, asset credit, corporate loan, working capital loan, direct discounting of bills, equipment lease, venture capital fund, and indirectly by way of refinance for medium scale industries, bills rediscounting.

Project financial assistance is provided to long-term support to new projects and to existing projects for their expansion, diversification and modernization. This assistance is rendered by way of term loan underwriting, direct subscription to equity capital and deferred payment guarantee. However, project finance is provided subject to the condition that promoters’ contribution should be at least 25% of the project cost and debt-equity of 1.5:1.

Equipment finance is provided for requiring specific machinery/equipment to companies having been in operation for a minimum
period of 5 years, consistently profit making for last 3 years and dividend paying capacity of not less than two years.

The IDBI also provides asset credit to financially sound companies having been in operation for a minimum period of 5 years, consistently profit making for last 3 years, for acquiring new machinery/ equipment. This assistance is in the form of line of credit which is valid for one year-rupee loans. The promoter’s contribution must be 15% with net worth of above Rs. 5 crore and debt-equity ratio of 1.5:1 and current ratio of 1.33:1.

Corporate loan is provided for capital expenditure and long term working capital to financially sound companies with net worth of not less than Rs. 10 crore, having been in commercial operation for 5 years and making profit consistently for last 3 years with debt equity ratio of 1.5:1.

Working capital loan is provided to financially sound companies already assisted by the IDBI having net worth of Rs. 15 crore or more and debt – equity ratio of not more than 3:1 and current ratio of not less than 1.25:1. The Bank can grant assistance upto 80 percent of working capital gap subject to minimum of Rs. 2 crore or US$ 0.50 mn.

The Bank has also decided to provide facility of direct discounting of bills for selling machinery/ equipment of financially
sound companies having been in operation for at least 3 years. The assistance is in the nature of annual limit for discounting of bills.

The promoter’s contribution must not be less than 10% (advance by buyer). Debt-equity ratio for a seller company should be 1.5:1.

Equipment leasing facility is dispensed to financially sound companies for purchase of equipment on lease basis. The assistance is in the nature of financial lease only. The Bank’s policy in this regard is to avoid sales and lease back transactions.

For encouraging commercial application of indigenously developed technology or adapting imported technology to wider domestic applications, for encouraging projects involving higher than normal risk and bankable projects in the IT sector, the IDBI has decided to provide venture capital assistance in the form of equity, term loan and convertible debts. However, the promoter’s contribution must not be less than 25 percent.

Besides, the IDBI has made it a policy to render indirect financial support to medium sized industries in the form of refinance of SFCs/ SIDCs and Banks. Only concerns conforming to Section 1(c) of SFCs Act/ IDBI Act are eligible for the facility provided cost of project does not exceed Rs. 12 crore and Rs. 8 crore for financing by A and B category corporations respectively under LOC scheme.
The corporations whose performances have been poor are not eligible for LOC. However, the Bank has decided to extend refinance support to those corporations in C category for projects costing upto Rs. 5 crore. The companies should not be SSI. Promoter’s contribution must be 25 percent of project cost.

Another form of indirect financial support by the IDBI is bills rediscounting extended to cover or promote sale of indigenous machinery/equipment to commercial establishment or institutions. However, the bills/ promissory notes to be eligible for rediscounting by the IDBI must be drawn by/ upon an industrial concern as provided in Section 2(c) of IDBI Act.

Realising the crucial linkage between infrastructure development and growth in industrial economy, the IDBI has, of late, decided to treat infrastructure financing as a focus area and accordingly taken the lead in interacting with the Government and other concerned authorities for effective implementation of policy initiatives in this.

IDBI has also decided to extend financial assistance by way of grant and loans for pollution control and pollution measures undertaken by individual projects for Industrial Waste Water Recycling plants and Common Effluent Treatment Plan set up by
clusters of industrial units under the World Bank Industrial Pollution Control Projects and Industrial Pollution Prevention Projects lines.

d) POLICY ON SIZE OF ASSISTANCE

The IDBI’s policy in this respect is that it will assist all large and medium sized projects. However, the extent of assistance will differ depending on the form of assistance. Thus, there is no limit fixed in the case of assistance is limited to 70% of cost of equipment plus taxes/ duties, transportation and installation charges subject to maximum limit of Rs. 25 crore minimum being Rs. 3 crore. As regards asset credit, the IDBI can extend assistance upto 85% of cost of equipment including taxes, duties, transportation and installation charges subject to the maximum amount of Rs. 25 crore; minimum limit being Rs. 3 crore.

Corporate loan can be granted to the extent of 70% of the cost of capital goods or raw materials, components, etc. to be purchased or imported with a minimum limit of Rs. 5 crore.

The IDBI provides working capital loan to its already assisted concerns upto 80% of working capital gap with minimum of Rs. 2 crore or US$ 0.50 mm.

Direct discounting of Bills facility is provided to the extent of 90% of the total value of machinery/ equipment.
In the case of equipment lease, the IDBI provides assistance to the extent of 100% of cost of assets plus taxes/duties, transportation subject to the condition that aggregate lease assistance should be for minimum of Rs. 10 crore while individual equipment should cost not less than Rs. 25 lakhs.

Maximum limit for assistance under venture capital fund has been fixed as 75% of project cost. However, total exposure should not exceed Rs. 10 crore.

As regards bills rediscounting facility, a minimum amount of rediscounting of bills/promissory notes is fixed at Rs. 10,000–100% value of invoice.

The assistance under project finance scheme is granted by the IDBI for a period of 8 to 10 years and the assistance is repayable after a grace period of 2 to 3 years in quarterly installments to be fixed on case to case basis depending on projected cash flow of the borrower.

Equipment finance and asset credit facilities are provided for a maximum duration of 6 years including moratorium. Corporate loan is extended for a period of 5-5½ years, payable quarterly.

The Bank’s policy in regard to Working capital loan is to provide this facility for a period of 12-18 months with roll-over facility at its discretion.
Direct discounting of bills facility is provided for a period of 2-7 years while equipment lease is repayable within a period of 3-10 years.

Assistance under venture capital fund scheme is repayable upto 5 years after initial moratorium of 1-1½ years decided on case to case basis.

Refinance facility to medium scale industries is provided upto a maximum period of 10 years. Normal repayment period is 3-10 years.

The minimum and maximum deferred payment period under bills rediscounting is 2 years and 5½ years, respectively. Bills are drawn at quarterly rests.

With a view to managing the risks inherent in long-term lending, it has been the IDBI’s policy to spread its assistance over different industry/promoter groups. As per the prudential norms, IDBI’s exposure to any single company is kept within 25 percent to any single ‘business group’ within 50 percent of its net worth. The IDBI’s exposure to an industry cannot exceed 15 percent of its total portfolio.

e) POLICY ON SECURITY OF LOAN

Corporate loan is provided against demand promissory note and first charge on movable and immovable properties by way of
extension or executive charge, with a margin of 30% or hypothecation of raw material components to be acquired out of loan or pledge of marketable securities with 50% margin based on average of high and low of market quotations during the preceding six months and personal guarantees of promoters/directors wherever considered necessary.

Working capital loan is provided against first charge on the company’s fixed assets-present and future and any one or more of the following:

(i) First charge of the company’s movable properties.

(ii) Personal guarantee of the promoter-directors and/or corporate guarantee wherever considered necessary.

Direct discounting of bills is secured against bank guarantee/co-acceptance.

Venture capital assistance is extended against first mortgage charge on fixed assets-personal guarantee from promoters/pledge of shares held by promoters in the company.

Bills rediscounting facility is secured by bill of exchange/promissory notes.

While it cannot be denied that adequate security is in the interest of the bank in so far as it protects it against defaults, too much emphasis should not be placed on the nature and kind of
security and the value of the accommodation to be provided against that security. What is of crucial importance for a development bank is the profitability and repaying capacity of the loanee company because it is by this profitability and repaying capacity that the interest of the borrower is protected. It should rely more on quality, character and experience of the management and on the prospective contribution of the project to the overall economic growth rather than on the value of securities. It was in this spirit that the IDBI decided in 1982 to dispense with the requirement of mortgage/charge on fixed assets as security.

f) **POLICY ON PURPOSE OF ASSISTANCE**

It has been the policy of the IDBI to render financial support to new as well as existing projects. As regards the new projects, thrust of the institutions is on core and basic industries as also on infrastructural sectors. In respect of the existing projects, focus of these institutions is on those which sought assistance for expansion in capacities, diversification in new lines of production, balancing the plant and equipment as also for modernization in new lines of production, balancing the plant and equipment as also for modernization of existing units.

So as to facilitate the modernization, renovation and technological upgradation of infrastructural units to achieve higher
and more economic levels of production, the IDBI launched a modernization scheme in November, 1976. Initially the scheme was designed to meet the back-log of modernization in traditional industries such as cotton textile, jute, sugar, cement and engineering. Later in July, 1980 it was extended to other industries. In January, 1984, a modified scheme known as Soft Loan Scheme for modernization was introduced to cover to all industries.

To intensify further the modernization efforts in Jute, Sugar and Textile industries, special funds were created in the year 1986. Thus the IDBI set up Textile Modernisation Funds in August, 1986 to provide special loans to weak units (those having a negative net worth or whose accumulated losses have eroded 50% or more of their peak net worth during the immediately five accounting years). The woolen mills have also been covered under this scheme since 1987.

The Technology up-gradation fund scheme announced by the Government of India for modernization of textile, jute and cotton ginning and pressing industries, through technology up-gradation became operational for five years with effect from April 1, 1990. IDBI has been designated as the nodal agency under the scheme for textile industry (excluding SSI sector) and is coordinating with all other institutions/ banks as well as government agencies. Under the
Scheme, the beneficiary units are eligible for reimbursement of five percentage point in the interest charged by the lending agencies in respect of a project technology up-gradation.

**g) POLICY ON UNDERWRITING AND INVESTMENT**

It has been the policy of the IDBI to subscribe to the shares of smaller units, particularly of those units which are promoted by professionals with limited resources. This may take the shape of seed capital assistance. When assistance is given under the seed capital assistance scheme, the promoters are required to give an undertaking to the IDBI to buy back the shares on terms to be mutually agreed upon. Where the seed capital assistance takes the form of preference shares, these are expected to be redeemed by the company.

In respect of the underwriting of the shares, the IDBI’s policy is similar to the one followed by the IFCI and the ICICI. Accordingly, it places considerable emphasis on the long term viability of the enterprise and not on the immediate salability of the issue. The IDBI is presently contemplating to stipulate a condition that the promoters of projects, particularly the larger one, undertake to buy back, in due course, the equity shares held by the financial institutions, following their underwriting commitments, on terms to be mutually agreed upon. This is so because the Bank feels that financial institutions
underwrite not with the intention of making long term investments but with a view to ensuring that the projects do not fall through in the event of inadequate public support to capital issues.

h) **INTEREST RATE POLICY**

The IDBI fixed the minimum term lending rate (MTLR) from time to time (13.5% w.e.f March 17, 1999). Interest on specific loans is fixed within a band (3.5% at present) over the MTLR depending upon the risk perception of the project, the track record of the borrower and the industry outlook. Short and Medium Terms loans are sanctioned at rates related to the maturity. The IDBI has also introduced a minimum Short Term Lending Rate (MSTLR) being 12.5% w.e.f. March 17, 1999 which will be applicable to short term/working capital loan.

**LIQUIDITY AND INTEREST RATES**

During 2004-05, money supply (M3) increased by 12.8% as compared with 16.9% in the previous year. The growth in aggregate deposits of Scheduled Commercial Banks (SCBs) during the period at 14.1% was lower than 17.5% in the previous year. The lower deposits growth could be partly attributed to reduction in Non Resident Indian (NRI) deposits with the banking system.

During 2004-05, bank credit registered a strong increase of 26.0% as compared with 15.3% in the previous year. Food credit
went up by Rs. 5159 crore as against a decline of Rs. 13,518 crore in the previous year. The increase in food credit was mainly on account of higher food procurement by the Government. Non-food credit registered a robust growth owing mainly to the buoyancy in industrial activity. Non-food credit increased by 26.5% in 2007-08 as compared with 18.4% in the previous year. The rising demand for credit arose mainly from retail sector such as home and auto loans, as also demand from the corporate sector. Credit to the infrastructure sector was higher during 2007-08. There was also a higher flow of credit to industries such as food processing, cotton textiles, iron and steel, other metal & metal products, drugs & pharmaceuticals, gems & jewellery, automobiles, petroleum, electricity and construction during 2007-08.

**INTEREST RATES**

During 2007-08, financial markets remained generally stable. Although interest rates in money and Government securities markets rose intra-year, these were stabilized during the later part of the year, albeit at higher levels. The hardening of interest rates was mainly on account of higher inflationary expectations.

In the banking sector, the interest rates on term deposits over one year moved up marginally during 2007-08, whereas the benchmark prime lending rates (BPLR) of public sector banks
continued to remain more or less stable. Most banks increasingly resorted to lending at sub-BPLR rates given the competitive conditions in the credit market.

**EXCHANGE RATES**

During 2007-08, orderly conditions were observed in the Indian foreign exchange market. The Rupee depreciated marginally by about 0.8% against USD during 2007-08 from Rs. 43.39 per USD at end-March 2007 to Rs. 43.75 per USD at end March 2008.

**EQUITY MARKET**

Strong macro economic outlook, positive investment climate and encouraging corporate financial results were the main factors driving the overall market sentiment during 2007-08.

During 2007-08, investor interest in the public issues segment strengthened. Total domestic floatation during 2007-08 was comparatively higher at Rs. 59,916.3 crore as compared to Rs. 52,692.4 crore in 2006-07. Out of the total flotation, debt component was more at Rs. 31,423.6 crore during 2007-08 as compared with Rs. 30,660.6 crore in 2006-07.

On a daily average basis, the BSE Sensex rose by 27.8% while the S&P CNX Nifty witnessed an increased of 26.5% during 2007-08 as compared to 2006-07.
During the major part of the financial year 2008-09, financial markets remained generally stable. Interest rates softened, leading to reduction in both lending and deposit rates by major banks. However, during the last quarter of the financial year, financial markets, including the liquidity situation, turned volatile largely due to the contagion effect of uncertainty witnessed in global markets. The RBI maintained the reverse repo rate at 6.0%, while the repo rate was increased to the level of 7.75% as a part of the gradual monetary tightening measure. The RBI also hiked the Cash Reserve Ratio (CRR) to curb excessive liquidity in the system. The Liquidity Adjustment Fund (LAF) corridor increased with the widening of the spread between the reverse repo rate and the repo rate, which remained at 175 basis points at end March 2009.

Annual growth of money supply was at 21% in 2008-09. However, in contrast to money supply, credit growth of scheduled commercial banks slowed to 28.1% in 2007-08 and decelerated further to 21.6% in 2008-09. With deposit growth continuing to power well ahead of loan growth, credit deposit ratio dipped from 74.0% as at end March 2008 to 73.6% as at end March 2009.

**FUTURE OUTLOOK**

The Indian economy exhibited strong resilience to global happenings, which indeed would have dampening effect on the GDP
growth. The improved domestic investment, backed predominantly by domestic savings, is the single most important indicator, which augurs well for the continuity of the growth momentum. Buoyancy in the manufacturing sector and the services sector is expected to continue and would provide predominant impetus towards economic growth. The proposals in the Union Budget 2008-09 for effective reduction of the tax burden under personal income and excise is further expected to stimulate both private and government consumption. Inflationary pressures in the recent past have slightly altered general expectations about the economy. The prices of manufactured products are expected to harden largely tracking the lagged effects of increases in prices of basic products like food, energy and metals.

RBI policies are also geared to support the growth momentum by maintaining macro economic and financial stability and ensuring that there is smooth flow of credit to the productive sectors of the economy. Given the strong fundamentals of the Indian economy and the successful policies of RBI, there does not appear to be any major concern either for banks or for financial stability.

Though the economy is insulated from regional slowdown, there are visible dark clouds on the horizon. Global turbulence emanated from sub-prime crisis, and the increased prices may
stymie the growth agenda. A slow of reform measures and ramping up of infrastructure would indeed be required to achieve the growth expectations. The Government has appropriately assigned prime importance for the planned development of key infrastructure and implementation of flagship program ‘Bharat Nirman’. As the Bank is well poised and has put in place adequate system, going ahead the Bank would largely benefit from the emerging business opportunities.

**BUSINESS POLICIES**

*Retail Finance*

The upsurge in the Indian retail sector continued and the segment witnessed robust growth during the large part of the fiscal. The growth trajectory, though flattened due to international developments, could gather valuable space in business matrix. Increased disposable income, wider product range and improved credit delivery channels including the technological support enabled the retail sector to gain to a great extent. The Bank in its endeavor to benefit from the retail buoyancy, strategically emphasized to design innovative products and enlarge client base to increase its share, with improved yield.

The Bank in its stint to catering to the diversified needs of the retail customers offers an array of innovative Retail Asset Products,
both Secured (Housing Loan, Mortgage Loan, Loan against Securities) and Unsecured (Personal Loans, Educational Loans and Overdraft to Merchant Establishments). During the year, the Bank increased its bouquet of retail products by launching Loan against Rent Receivables, Loan against Commercial Property, Reverse Mortgage Loan, Holiday travel Loan and Loan to the Staff of IDBI-Assisted Units. During the year, the Bank successfully participated in various Property Exhibitions at major centers such as Mumbai, Vashi, Thane, Pune, Kolkata, Chennai, Delhi, Jaipur, Chandigarh and Hyderabad that gave a significant mileage to the Home Loan products of the Bank. The coverage of the Bank’s Education Loan Scheme has been extended by launching On-line Education Loan during the year. The Bank now has Retail Asset Centres across 30 cities. Retail Asset Centres at 24 more centres are proposed during the FY 2008-09. With a view to enhancing the geographic spread, product acceptance, operational efficiency and credit expertise, all the branches of the Bank have started lending retail asset products.

The Bank is continuously making innovation to offer value-added services to its esteemed clients and towards this endeavour the Bank has formalized tie-ups with IDBI Capital Market Services Limited, a 100% subsidiary of the Bank, and with Motilal Oswal
Securities Limited to offer state-of-the-art internet-based trading facility in Equities, Futures and Options markets. The clients can also purchase and redeem units of Mutual Funds and can subscribe to Initial Public Offerings of various corporates/institutions using this facility. This unique facility provides total convenience as all the above services can be availed with the click of a mouse and the complete process is seamless. The Bank has started selling life insurance products of IDBI Fortis Life Insurance Company Limited under the Bancassurance arrangement.

The Bank is also giving a thrust for expansion of its ATM network with the number of installed ATMs going up from 520 as on March 31, 2007 to 755 as on March 31, 2008. The momentum is expected to continue during the current financial year and the Bank is poised to have a network of about 1200 ATMs by the end of March 2009.

The Bank has always been at the forefront of promoting Alternate Channels for delivery of Banking products and services. As a part of these efforts, the Bank, during the financial year 2007-08, launched the Master Card Debit Card, re-launched the cash card product and upgraded its Net Banking architecture thereby enhancing customer experience.
**Corporate Finance**

The Bank provides project finance, both in rupee and foreign currencies, to boost capital formation and infrastructure development in the country. In addition to assistance for greenfield projects, the Bank also funds projects for expansion, diversification and modernization. In project appraisal and monitoring, the Bank follows global best practices and in the process has created sizeable and well diversified assets portfolio. In the recent years, the Bank has been increasingly providing non-project finance with short and medium term maturities in the form of Short term Loan, Working Capital and Treasury Products to meet the ongoing requirement of corporates.

The Bank offers a wide array of corporate banking products under various business segments such as Deposits, Cash Management Services, Central and State Government agency business (both direct and indirect taxes). Trade Finance and Treasury Products.

In respect, to trade services, the Bank has set up dedicated trade finance sales teams for product offerings at key locations and has been pursuing focused and specialized approach in this business segment. Trade Finance operations of the Bank are available through designated branches, which provide Trade
Finance Products viz. Letters of Credit, Bank Guarantees, Collections, Remittances, Forward Contracts, Packing Credit, Post Shipment Finance, Maturity Factoring, Invoice Discounting and Trade Advisory Services.

The Cash Management Services of the Bank have bagged several prestigious debt servicing, redemption and dividend deals from leading corporates. The Bank is the first bank to offer payment facility of direct taxes through Internet and is also the first bank to offer online payment of Central Excise Duty and Service Tax through the Internet. The Bank has the mandate to collect direct taxes at several branches and extension counters across the country and also to collect Excise Duty and Service Tax at select branches. Additionally, the Bank has the mandate to collect sales tax and stamp duty for certain State Governments and import/ export licence fees over the Internet.

With the major initiatives by Syndication, Structuring & Advisory Department (SSAD), the Bank has emerged as one of the leading players in Debt Syndication and Advisory arena. With a view to churn the Bank’s loan portfolio has also to generate fee-based income, SSAD started Securitisation activities during the financial year 2007-08 and earned the fame of being a leading public sector bank in the field of Securitisation.
Infrastructure Finance

The Bank continues to remain a prominent player in infrastructure financing. It has been actively participating in structuring and financing of infrastructure projects in the areas of power, telecom, roads, airports, seaports, railways and logistics as well as Special Economic Zones (SEZs), ever since the infrastructure sector was opened to private investment. Besides providing financial assistance, the Bank interacts with Government, other stakeholders and market participants, on policy and operational issues, facilitating smooth flow of funds to infrastructure sector. The Bank is a member of the Core Committee of the government set up for finalization of the Ultra Mega Power Projects. Further, it is also an active member of the Inter- Institutional Group for power sector, which meets to resolve various issues for achieving timely financial closure of identified power projects.

The Bank continues to provide assistance to road projects considering the imperatives of road infrastructure development for achieving higher growth in the national economy. The Bank has also taken initiatives in funding urban transit systems and seaports, under the Public–Private Partnership route.

Recognising the critical role of infrastructure development in the growth of national economy and also the huge investment
required in the sector, the Bank has created a separate vertical to assist the corporates taking up infrastructure projects. The vertical has been designed to provide end-to-end solutions to the infrastructure companies’ viz. corporate advisory, syndication of debt/ equity, financial structuring, term loans, working capital, securitization and other related services.

**SME Initiatives**

The Bank has placed thrust on increasing assistance to SMEs as it would be the engine of future business growth. Pursuant to this objective, the Bank is setting up City SME Centres (CSCs), which would serve pan India. The CSCs would provide support in terms of loan processing and would undertake back office related activities to buttress the credit delivery mechanism. The dedicated SME Relationship Managers at branches would provide a single customer touch point to provide a whole range of banking services with regard to SMEs. The first such CSC has been operative since March 2008.

The Bank has been continuously attempting to design customized products for SMEs from time to time and accordingly launched a special current account product for hosiery industry.

**Agriculture and Microfinance**

The Bank has set up a separate vertical for catering to the Agri Business. In its endeavor to reach out to the rural populace, 128
Branches are identified to cater to this sector. These Branches are classified in 12 Clusters, under six Regions, Pan India. In order to reduce turn around time and to have a uniform appraisal system, the Bank has set up Agri Processing Centers at the Cluster Level.

Branches are being equipped with requisite manpower and are making concerted efforts to look for opportunities in deepening the credit flow to farmers. The Officers recruited are being trained from time to time on different aspects of Agri Financing. Various products, both for Corporates engaged in Agri Business as well as for individual farmers were designed to meet the customer needs and garner good business on the asset side. This would also help to improve our liability side through savings and earn fee based income on third party products.

The Bank has also entered into a MoU with Service Providers for Collateral Management services for commodity financing to farmers, traders and processors. In order to give impetus to the retail-lending portfolio in Agri Business Sector, the Bank has also entered into a MoU with Tractor Manufacturing Companies for financing farmers to purchase tractors and implements. In an endeavour to reach the rural populace, the Bank is also catering to Microfinance Institutions in different regions of the country.
**Financing Inclusion**

In addition to its mandate of providing development finance, the Bank stands committed to financial inclusion and in this endeavour designs new products and services catering to wider sections of the society. As a first step in this endeavour, the Bank had launched the ‘Sabka’ savings account with an intention to make basic banking services accessible to a vast majority of the unbanked and underbanked population. The facility offers core-banking facilities and conveniences at a low average balance requirement. During the year, the Bank launched the mobile cash van in Satara to serve the surrounding areas. Further, 67 more branches were set up during the year 2007-08 to serve even in the remote areas.

**Technology Up-gradation Fund Scheme**

The Bank has been discharging the functions of the principal nodal agency for Technology Up-gradation Fund Scheme (TUFS) launched by the Ministry of Textiles, Government of India on April 1, 1999, initially for a period of Five years and subsequently extended by three years to cover sanctions up to March 31, 2007. The Ministry of Textiles, Government of India has further extended the TUFS scheme for five years to cover sanction upto March 31, 2012.

The scheme envisages a focused and time-bound approach for modernization through technology up-gradation in the textile
industry. TUFS is beneficial for all the inter-connected sectors of the industry such as spinning, weaving, knitting, processing and garmenting. The Bank, in its role as principal nodal agency for textile industry (non-SSI sector) under TUFS, examines the eligibility of loans sanctioned by Primary Lending Institutions as per the Scheme guidelines and administers the work pertaining to interest reimbursement out of funds provided by Government of India.

**Environment Protection Schemes**

The Bank as Financial Agent (FA) for the World Bank (WB) funded Ozone Depleting Substances (ODS) Phase-out projects and is responsible for disbursing grant out of Ozone Trust Fund (OTF) for implementation of the project aimed at phasing out the use of ODS in the industry.

As part of ongoing efforts towards Environment protection, the Bank is presently handling projects aimed at phase-out of ODS, which will be completed by 2010. The Bank entered into an agreement during FY 2000-01 with WB to channelize grant funds amounting to USD 80.80 mn under Chlorofluoro Carbon (CFC) Production Sector Gradual Phase-out Project (ODS-III). The Bank’s role under this project is that of a banker to facilitate transfer of grant funds upon authorization by WB. During the year, the Bank disbursed grant funds aggregating USD 5.26 million (Rs. 21.30
crore) to the beneficiaries of ODS-III project and earned FA fee of UD 0.053 million (Rs. 0.21 crore).

In addition, since August 2004, the Bank has been acting as FA for implementation of Carbon Tetra Chloride (CTC) Phase out project (ODS-IV) involving both Production ad Consumption Sector. During the year, the bank has disbursed grant funds aggregating USD 13.13 million (Rs. 54.40 crore) to the beneficiaries of ODS-IV project and earned FA fee of USD 0.19 million (Rs. 0.81 crore).

Global warming has become an important international environmental issue during the last 15-20 year. With the objective of controlling emission of Green House Gases (GHG) at global level the third conference of parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Kyoto Protocol in December 1997. Under this Protocol, Clean Development Mechanism (CDM) is one of the initiatives for providing incentives to the companies, which develop GHG abatement projects. Credits for GHG abatements are awarded in terms of Certified Emission Reduction (CER). These CERs are tradable and purchase of the same entitles the buyer to have fulfillment of its commitments under the protocol. The Bank has been active in providing the following services in the field of CDM projects and carbon trading advisory:
(i) Identification of CDM projects.
(ii) Funding of CDM projects.
(iii) Aiding the process of registration of CDM projects with UNFCCC.
(iv) Commercialisation/ Sale of CERS, and
(v) Provision of any other related banking products/ services.

During the year, the Bank completed four such mandates and is presently working on more than a dozen mandates.

**Treasury Operations**

The new state-of-the-art Treasury at the Bank Head Office became operational during the financial year. With this, all the segments viz., Money Market, Foreign Exchange, Derivatives, Equity and Liquidity Management were placed under one roof for better management of funds and enhanced customer service. With the single integrated IT platform, online treasury services were extended to more branches.

The Bank’s Treasury successfully managed to keep pace with the balance sheet growth by adopting pro-active strategies to manage the liquidity requirements of the Bank. Liquidity was well managed by raising resources to meet the maturing bonds as well as disbursements by using judicious mix of domestic and foreign currency liabilities.
The Bank also used instruments of varying maturities to manage the Asset Liability mismatch as well as to meet the liquidity requirements. These instruments included Certificate of Deposits, Inter Bank borrowing, Bonds, Refinance from various institutions, lines of credit, bulk deposits and foreign currency borrowings.

Treasury invested in Central and State Government securities to progressively build the SLR portfolio for the Bank. The volatility in the domestic interest rate market was effectively used to optimize the yield on investments. Further, the SLR portfolio was also used sporadically to manage the short term liquidity mismatches.

The year witnessed weakness in USD against INR and all other major currencies. Although USD/INR stabilized around 40.00 during the fourth quarter, the Dollar’s slide against other major currencies like EUR, CHF, JPY and CAD continued. USD fell to its lowest against EUR and CHF; it also touched multi-year low against GBP and JPY.

The Bank provided various types of customized solutions to cater to customers in their foreign exchange requirements, hedging of their interest rate risks, exchange rate risks and to manage the cash flows. In the volatile currency market the Bank’s Treasury provided competitive rates for various requirements of corporate clients or their foreign exchange transactions, thereby ensuring a
quantum jump in customer volumes as well as revenues. The Bank’s Treasury has a full fledged marketing team, which interacts constantly provides them with views on various currencies to enable them efficiently manage the volatilities in the currency markets.

In the Derivative segment of the market, the Bank sourced new clients and broad-based the product offering not only in Rupee Interest Rate Derivatives but also in the Foreign Currency Interest rates. The weakness in the US Dollar provides good business opportunity for improving the derivative business. The Derivative structures were offered within the Regulatory guidelines so that clients manage the interest rate and currency exposure in the best possible way. With the combination of the interest rate as well as currency structures, the Bank’s Treasury helped the clients to manage the interest rate as well as the foreign currency risks. Option structures were also offered to the clients after due assessment and understanding of the clients requirements.

The Bank is in the process of setting up a system of offer the ‘on-line foreign exchange dealing platform’ to corporate clients. This will enable the Bank to further enhance business volumes and also widen the client base.
**Foreign Currency Resources**

During the year 2007-08, the Bank raised a sum of USD 460 million equivalents from overseas banks/overseas branches of Indian Banks by way of syndicated/bilateral loan and inter bank deals under the Inter-bank dealing scheme of RBI. The outstanding amount under the scheme was within the permitted overall limit of 25% of Tier-I capital as on March 31, 2007. The aforesaid borrowings were raised in JPY and USD and utilized as rupee funds for domestic lending. During FY 2007-08, the Bank filed an Euro Commercial Paper Medium Term Note (ECP MTN) programme of USD 1.5 billion with Singapore Stock Exchange, which will facilitate raising Foreign Currency funds by way of senior debt and also perpetual Tier-I and Upper Tier–II capital in conformity with RBI Guidelines. The funds to be raised under the ECP MN programme will be utilized for meeting the requirement of FC funds for financing Indian & Overseas Corporates as also to meet the funding requirements of the proposed overseas branches. The Bank also raised FC resources through NRI deposits including FCNR (B), RFC and EEFC.

**Cross Border Branches**

With the larger pace of globalization, many of the Bank’s valuable customers require cross border finance. The Bank has
decided to make a foray into the overseas markets and also leverage the domestic banking strengths to offer competing products internationally, Reserve Bank of India has accorded approval for setting up a Wholesale Bank Branch at Bahrain, an Offshore Banking Unit at Singapore, a Category branch at Dubai International Financial Centre, Dubai International Financial Centre, Dubai and Representative Offices at Shanghai and Moscow. The Bank has submitted applications to Monetary Authority of Singapore (MAS) and Central Bank of Bahrain (CBB) during FY 2007-08 and received in-principal confirmation from the CBB for setting up a Wholesale Bank Branch at Bahrain. CBB has intimated the Bank to submit documents/ information after being reviewed by an external consultant. The Bank is taking steps to complete all the formalities and commence operations at Bahrain branch within the stipulated period. The Bank is also in the process of submitting applications with the China Banking Regulatory Commission (CBRC) and Dubai Financial Services Authority (DFSA) during the current year for setting up offices / branches at Shanghai and Dubai. The Board has also approved a proposal to set up a Representative Office at London in substitution of proposed Representative Office at Moscow.
**Ratings**

The Bank obtains credit rating for both domestic and foreign currency borrowings. The ratings for rupee resources, as indicated in Table 4.1, reflect high safety with respect to timely payment of interest and principal.

### Table 4.1

<table>
<thead>
<tr>
<th>Domestic Currency Borrowing Ratings</th>
<th>CRISILI</th>
<th>ICRA</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>(As on March 31, 2008)</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-Term Rupee Bonds</td>
<td>AA+/ Stable</td>
<td>LAA+</td>
<td>AA+(ind)</td>
</tr>
<tr>
<td>Fixed Deposit</td>
<td>FAAA</td>
<td>MAA+</td>
<td>AA+(ind)</td>
</tr>
<tr>
<td>Short Term Borrowings</td>
<td>PI+</td>
<td>AI+</td>
<td>FI+(ind)</td>
</tr>
</tbody>
</table>

The FC borrowings of the Bank are rated by international rating agencies viz. Moody’s Investor Services (Moody’s). Standard & Poor’s (S&P) an Fitch Ratings. The long term foreign currency
ratings and Bank Financial Strength Ratings (BFSR) assigned by the international rating agencies are indicated in Table 4.2.

Table 4.2

<table>
<thead>
<tr>
<th>Foreign Currency Borrowing Ratings</th>
<th>(as on March 31, 2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s Investor Services (Moody’s)</td>
<td>Baa2</td>
</tr>
<tr>
<td>Standard &amp; Poor’ (S&amp;P)</td>
<td>BBB-</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>BBB-</td>
</tr>
</tbody>
</table>

While the Foreign Currency debt rating for the Bank as assigned by S&P and Fitch Ratings are at par with the sovereign ratings the rating assigned by Moody’s is one notch higher than the sovereign rating.

Asset Quality

As at end March 2008, 98.7% of the Bank’s loan assets were standard assets. As at end March 2008, sub-standard assets formed 0.92%, while doubtful assets constituted 0.38% of the Bank’ loan
assets, for which adequate provisions were made in conformity with extant prudential regulations. The Bank continues to pursue various recovery efforts to improve the bottom line of the Bank. During the year, the Bank initiated several steps to settle the Non-performing Assets/ Fully written off (NPA/FWO) cases in its portfolio. Among the various steps undertaken were restructuring of liabilities. One Time Settlement / Negotiated Settlement (OTS/NSI), legal action, action under the SARFAESI Act, change of management, sale of assets to Asset Reconstruction Companies (ARCs), induction of strategic investors etc. depending on the specific requirements of each case.

**RISK POLICIES**

Robust Risk Policy is a key element of the Bank’s business strategy. The philosophy of the Bank with regard to risk is guided by the twin objectives of enhancement of shareholders’ value and optimum allocation of capital. Spreading the awareness across the Bank, identification, measurement, monitoring and controlling of risk, efficiently and effectively, in a manner geared toward yielding sustained economic value is amongst the highest priorities of the Bank.

The Bank has an integrated risk management function that look after all aspects of enterprise wide risk management. Overall risk management is the responsibility of Risk Management
Committee of the Board. Appropriate structure, policies and review processes are in place in the area of risk management. A well established, effective and independent internal control mechanism exists in the Bank for supplementing the risk management systems.

**Implementation of Base I-II norms**

RBI issued guidelines on implementation of the new capital adequacy framework (Base I – II) in April 2007. The guidelines stipulate that Indian banks having operational presence outside India will have to migrate to the specified approaches (Standardised Approach for credit risk and Basic Indicator Approach for operational risk) with effect from March 31, 2008. All other scheduled commercial banks, including the Bank, are required to migrate to these approaches by March 2009. The Bank is regulatory undertaking parallel runs by applying the Base I–II guidelines and is well equipped to comply with these requirements.

As part of its preparation in respect of Base I–II norms. The Bank has put in place a Disclosure Policy. The disclosures as articulated in the Policy would enable the market participants to access key information on capital, risk exposures, risk assessment process and adequacy of capital of the Bank. An Internal Capital Adequacy and Assessment Process Policy (ICAAP) will also be implemented shortly. The ICAAP policy would enable the Bank to
internally assess the risks it may be confronted with and decided on an appropriate strategy to identify measure and manage the risks to the satisfaction of stakeholders. A collateral Management Policy has also been formulated so as to adopt requisite credit risk mitigation techniques.

The Bank views the implementation of the Base I–II framework as a means to adopt the best practices in risk management and has taken initiatives to upgrade systems, processes and skills to enable the Bank to migrate to the advanced approaches at an early date.

**Credit Risk**

The Bank recognizes the significance of credit risk in banking operations and has put in place a Credit Risk Management System with appropriate risk management skill sets, which provides not only a competitive advantage in the market place, but also positions the Bank to capitalize on the opportunities for growth. The Bank follows a proactive Credit Policy, which is regularly reviewed and updated to take into account the developments in the credit scenario. Best practices are employed through appropriate credit delivery processes and portfolio & account monitoring. Sector exposures and target business are monitored regularly, especially for exposure to sensitive sectors.
Under the parallel run of the new capital adequacy framework (Base I–II), the Bank has adopted the Standardised Approach for credit risk. The Bank is in the process of modernizing and upgrading its Credit Risk Management System in steps with the market developments to meet Base I–II requirements.

**Market Risk**

The Bank addresses all form of market risks, viz., liquidity risk, interest rate risk and forex risk through a well defined set of policies and processes. Separate treatment is given to the management of risks in trading book and banking book recognizing their differential impact on the balance sheet. The trading book risks, which are more susceptible to market movements, are continuously measured and managed by marking the position to the prevalent market rates. In order to assess the likely impact of market movements, periodic analysis of the trading book is carried out on the basis of position based on changes in market rates, past trends, stress tests through rate shocks, scenario analysis, etc. Market risks in the banking book are analysed and managed through liquidity and interest rate sensitivity, gap duration and scenario analysis. The overall positions and functions of market risks are run under the policy framework defined in Asset Liability Management Policy, Market Risk Policy and Investment Policy.
In order to implement the Base I–II norms in respect of market risk, the Bank is upgrading its software capability to assess the liquidity and interest rate risks under various scenarios, including stress testing. The Bank is also implementing Value at Risk (VaR) model for the entire Treasury trading portfolio with a view to assessing capital requirement for market risks based on advanced approach under Base I–II. Also, the capital charge for interest rate risk in banking book will be fine-tuned through duration gap analysis.

**Operational Risk**

The Bank measures, monitors and controls operational risk though a software system ‘ORBIT’ (Operational Risk Business Intelligence Tool). Branches are being rated for their operational risk profile through an embedded branch-rating model. The Bank has put in place a policy for Know Your Customer’ (KYC) and ‘Anti-Money Laundering’ (AML) requirements. As a measure of Operational Risk Management, the Bank also conducts appropriate training programmes to sensitise line managers across the Bank on operational risk inherent in each function.

As a part of implementation of Base I–II guidelines, the Bank has commenced computation of the capital requirements for operational risk under the Basic Indicator Approach (BIA). Also steps
have been initiated to upgrade the existing system and practices to migrate to Advanced Measurement Approach.

Recognising the importance of Business Continuity Planning (BCP) for minimizing the adverse effects of business disruption and system failure, the Bank has put in place a Board – approved broad framework of BCP. In addition, in order to provide continued and uninterrupted customer service even during natural disasters, a Disaster Recovery Site has been installed and Disaster Recovery (DR) drill exercises are conducted periodically to test the efficacy of the DR Plan.

SIGNIFICANCE OF ACCOUNTING POLICIES

a) **Basis of Preparation**

The financial statements have been prepared on the historical basis and conform, in all materials aspects, to Generally Accepted Accounting Principles (GAAP) in India which encompass applicable statutory provisions, regulatory norms prescribed by Reserve Bank of India, Accounting Standards (AS) and prevailing practices in banking industry.

b) **Use of Estimates**

The preparation of financial statements requires the management to make estimates and assumptions that affect the
reported amount of assets, liabilities and disclosure of contingent liabilities as at the date of the financial statements. Management believes that these estimates and assumptions are reasonable and prudent. However, actual results could differ from estimates.

c) **Revenue Recognition**

C.1 Interest income and lease rentals are accrued except in the case of non performing assets where it is recognized upon realization as per the prudential norms of RBI.

C.2 Commission on LC/guarantee are reckoned as accrued, upfront in cases where the commission does not exceed Rs. 1 lakh and, in other cases, accrued over the period of LC/Guarantees.

C.3 Fee based income are accrued on certainty of receipt.

C.4 Income on discounted instruments is recognized over the tenure of the instrument on a constant yield basis.

C.5 Dividend is accounted on accrual basis when the right to receive the dividend is established.

d) **Advances and Provisions**

Advances are classified into Standard, Sub-standard, Doubtful and Loss assets and provision are made in accordance with the prudential norms prescribed by RBI. Advances are stated net of provisions towards non-performing advances.
e) **Investments**

E.1 In determining acquisition cost of an investment:

- Brokerage, commission, stamp duty and other taxes paid are included in cost of acquisition in respect of acquisition of equity instruments from the secondary market whereas in respect of other investments, including treasury investments, such expenses are charged to revenue.

- Interest accrued upto the date of acquisition of securities (i.e. broken period interest) is excluded from the acquisition cost and charged as interest expense.

E.2 In terms of extant guidelines of the RBI, the entire investment portfolio is categorized as ‘Held to Maturity’, ‘Available for Sale’ and ‘Held for Trading’. Investments under each category are further classified as

- Government Securities
- Other Approved Securities
- Shares
- Debentures and Bonds
- Subsidiaries/ Joint Ventures
- Others (CP, Mutual Fund Units, etc.)
E.3 The debentures/bonds/preference shares deemed to be in the nature of advance, are subject to the usual prudential norms of asset classification and provisioning that are applicable to advances.

E.4 Investments acquired with the intention to hold till maturity are categorized under Held to Maturity. Such investments are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the remaining period of maturity. Diminution, other than temporary, in the value of investments in subsidiaries/joint ventures under this category is provided for each investment individually. Profits on sale of investments in this category are first credited to Profit and Loss account and thereafter appropriated to the Capital Reserve Account at the year end.

E.5 Investments acquired with the intention to trade by taking advantage of the short term price/interest rate movements are categorized under Held for Trading Investments which do not fall within the above two categories, are categorized under ‘Available for Sale’.
E.6 Investments classified as ‘Held for Trading’ and ‘Available for Sale’ are marked to market scrip-wise and the resultant net depreciation, if any, in each category is recognized in the Profit and Loss account, while the net appreciation, if any, is ignored.

E.7 Investments categorized as Held for Trading and Available for sale are valued in the following manner.

- Treasury Bills are valued at carrying cost.
- In respect of trade / quoted investments, the market price is taken from the trades/quotes available on the stock exchanges. Government Securities are valued at market prices or prices declared by Primary Dealer Association of India (PDAI) jointly with Fixed Income Money Market and Derivative Association of India (FIMMDA) and
- The unquoted shares/units are valued at break-up value/repurchase price or at Net Asset Value. The unquoted fixed income securities are valued on Yield to Maturity (YTM) basis with appropriate market up over the YTM rates for Central Government securities of equivalent maturity.
E.8 Investments are shown net of provisions.

E.9 Upfront incentives received on subscription to securities are recognized as income.

E.10 Investments are shown net of securities given against borrowing and include securities received against lending under Repo/Reverse Repo arrangements respectively.

f) **Derivate Transactions**

In Transactions designated as ‘Hedge’

F.1 Net interest payable/receivable on derivative transactions is accounted on accrual basis.

F.2 On premature termination of Hedge swaps, any profit / losses are recognised over the remaining contractual life of the swap or the residual life of the asset/ liability whichever is lesser.

F.3 Redesignation of hedge swaps by change of underlying liability is accounted as the termination of one hedge and acquisition of another.

F.4 Hedge contracts are not marked to market unless the underlying is also marked to market. In respect of hedge contracts that are marked to market, changes in the market value are recognized in the profit and loss account.
F.5 Outstanding derivative transactions designated as ‘Trading’, which includes interest rate swaps, cross currency swaps, cross currency options and forward rate agreements, are measured at their fair value. The resulting profits/losses are included in the profit and loss account. Premium on options is recorded as a balance sheet item and transferred to profit and Loss Account on maturity/cancellation.

g) **Fixed Assets and Depreciation**

G.1 Fixed assets are carried at historical cost except wherever revalued. The appreciation on revaluation, if any is credit to the ‘Revaluation Reserve’ Account. In respect of revalued assets, the additional depreciation consequent to revaluation is transferred from Revaluation Reserve to the Profit and Loss account.

G.2 Fixed assets individually costing less than Rs.5000 are fully depreciated in the year of addition.

G.3 Depreciation is provided on Straight Line Method (SLM) from the date of addition. The rates of depreciation prescribed in Schedule XIV of the Companies Act, 1956 are considered as the minimum rates. If the management’s estimate of useful life of a fixed asset at
the time of acquisition of asset or of the remaining useful life on a subsequently review is shorter, depreciation is provided at a higher rate base on management’s estimates of the useful life/remaining useful life. Pursuant to this policy, depreciation has been provided using the following rates;

<table>
<thead>
<tr>
<th>Assets</th>
<th>Depreciation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>1.63%</td>
</tr>
<tr>
<td>Furniture &amp; Fixture</td>
<td>8.33%</td>
</tr>
<tr>
<td>Electrical Installation and Machinery</td>
<td>8.33%</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>20%</td>
</tr>
<tr>
<td>Computers</td>
<td>33.33%</td>
</tr>
<tr>
<td>Automated Teller Machines</td>
<td>12.50%</td>
</tr>
<tr>
<td>VSAT Equipments</td>
<td>10%</td>
</tr>
<tr>
<td>Consumer durables with employees</td>
<td>20%</td>
</tr>
</tbody>
</table>

G.4 Depreciation on additions/sale of fixed assets during the year is provided for the actual period.

G.5 Leasehold land is amortised over the period of lease.
G.6 Computer Software individually costing more than Rs.2.50 lakh is capitalized and depreciated over its useful life, not exceeding 5 years.

h) **Assets given on lease**

H.1 Assets given on finance lease by the Bank on or before March 31, 2001 are classified as “Leased Assets” under “Fixed Assets”. Depreciation thereon is provided on SLM basis at the rates prescribed under Schedule XIV of the Companies Act, 1956. the amount of “Lease Equalisation” representing the difference between the annual lease charge and the depreciation is adjusted in the Profit & Loss Account.

H.2 Assets given finance lease after March 31, 2001 are accounted in accordance with provisions of AS 19 and included under “Other Assets”.

i) **Securitisation Transactions**

Securitisation of various consumer loans result in sale of these assets to Special-Purpose Vehicles (‘SPVs’), which, in turn issue securities to investors. Financial assets are partially or wholly derecognized when the control of the contractual rights in the securitised assets is lost. The Bank accounts for any loss arising on sale immediately at the time of sale and the profit / premium
arising on account of sale is amortised over the life of the securities issued or to be issued by the SPV to which the assets are sold.

j) **Sale of financial assets to Securitisation Companies/Reconstruction Companies**

Sale of financial assets to Securitisation Companies (SCs)/Reconstruction Companies (RCs) is reckoned at the lower of the redemption value of the financial asset. Gains arising on such sale or realization are not recognized in the profit and loss account but earmarked as provisions for meeting the losses/shortfall arising on the sale of other financial assets to SCs/RCs or sale/realization of other SRs/PTCs. Losses arising on such sale or realisation are first set off against balance of provisions, if any created out of earlier gains and residual amount of losses are charged to profit and loss account. The PTCs are carried at this value till their sale of realisation. The SRs and carried, in the aggregate, at book value or at latest NAV, whichever is lower.

k) **Foreign Currency Transactions**

K.1 The Bank does not have any foreign operations. Foreign currency transactions, on initial recognition are recorded at the exchange rate prevailing on the date of
transaction. Monetary assets and liabilities are translated at the closing rates prescribed by Foreign Exchange Dealers Association of India (FEDAI) and the resultant gain or loss is recognized in the profit and loss account. Exchange differences arising on the settlement of monetary items are recognized as income or expense in the period in which they arise.

K.2 Premium or discount arising at the inception of Forward Exchange Contracts which are not intended for trading or speculation is amortised as expense or income over the life of the contract. Premium or discount on other Forward Exchange Contracts is not recognized.

K.3 Outstanding Forward Exchange Contracts which are not intended for trading or speculation are revalued at closing FEDAI rates. Other outstanding Forward Exchange Contracts are revalued at rates of exchange notified by FEDAI for specified maturities or at interpolated rates for in-between maturities. The resultant profit/loss are included in the profit and loss account.

K.4 Profit/Losses arising on premature termination of Forward Exchange Contracts, together with unamortized
premium or discount, if any, is recognized on the date of termination.

K.5 Contingent liability in respect of outstanding forward exchange contracts is calculated at the contracted rates of exchange and in respect of guarantees, acceptances, endorsements and other obligations are calculated at the closing FEDAI rates.

I) **Employee Benefits**

L.1 Post-employment benefit plans.

- Payments to defined contribution schemes are charged as expense as they fall due.

- For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each Balance Sheet date. Actuarial gains or losses are recognized in full in the profit and loss account for the period in which they occur. Past Service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortised on a straight line basis over the average period until the benefit become vested.
The retirement benefit obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the value of available refunds and reduction in future contributions to the scheme.

L.2 Short-term employee benefits.

L.3 Transitional Liability

L.4 The intrinsic value of options under Employee Stock Option Plan (ESOP) is expensed on a straight line basis over the vesting period of the ESOP.

m) **Voluntary Retirement Scheme**

Expenditure towards ex-gratia and additional contribution in respect of gratuity and pensions under Voluntary Retirement Scheme (VRS) is amortized over a period of five years in terms of RBI guidelines.

n) **Income Tax**

N.1 Tax expense comprises of current, deferred and fringe benefit tax.
N.2  Minimum Alternate tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Bank will pay normal income tax during the specified period.

N.3  Deferred tax for timing differences between the book and tax profits for the year is accounted for using the tax rates and laws that have been substantively enacted as of the balance sheet date. Deferred tax assets arising from timing differences are recognized to the extent there is reasonable certainty that these would be realized in future.

N.4  Deferred tax assets in case of unabsorbed losses are recognized only if there is virtual certainty that such deferred tax asset can be realized against future taxable profits.

N.5  Disputed taxes not provided for, are included under ‘Contingent Liabilities’.

o)  **Earnings per Share**

O.1  The Bank reports basic and diluted Earning Per Share in accordance with AS 20. Basic Per Share is computed by dividing the net profit tax by weighted average number of equity shares outstanding for the period.
O.2 Diluted Earnings Per Share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the period. Diluted Earnings Per Share is computed by dividing the net profit after tax by the sum of the weighted average number of equity shares and dilutive potential equity shares outstanding during the period.

p) **Impairment of Assets**

The carrying amounts of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/external factors. An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss, if any, is charged to Profit and Loss Account in the year in which an asset is identified as impaired. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses no longer exist or have decreased.

q) **Provisions, Contingent Liabilities and Contingent Assets**

Q.1 A provision is recognized when is a present obligation as a result of past event and it is probable that an outflow of
resources will be required to settle the obligation, in respect of which is reliable estimate can be made.

Q.2 Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date.

Q.3 Reimbursement expected in respect of expenditure required to settle a provision is recognized only when it is virtually certain that the reimbursement will be received.

Q.4 Contingent Liabilities are disclosed by way of notes.

Q.5 Department appeals in respect of cases won by the Bank are also considered as Contingent Liabilities.

Q.6 Contingent Assets are not recognized.