



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### AUDITORS' REPORT ON THE ACCOUNTS OF THE INDIAN BRANCHES OF AMERICAN EXPRESS BANKING CORP. - UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949.

1. We have audited the Balance Sheet of American Express Banking Corp. - India Branch as at March 31, 2011 and also the Profit and Loss Account and Cash Flow Statement for the year ended on the even date annexed thereto.
2. Management is responsible for the preparation of these financial statements. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
3. Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with auditing standards issued by the Institute of Chartered Accountants of India. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
6. The Balance Sheet and the Profit and Loss Account are drawn up in conformity with provision of Section 29 of the Banking Regulation Act, 1949, read with provision of sub-section (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, of India.
7. We report that:
  - a) 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;
  - b) The financial accounting system of the Bank is centralized and therefore accounting returns for the purpose of preparing financial statements are not required to be submitted by the maiden branch;
  - c) The transactions of the Bank which have come to our notice have been within the powers of the Bank;
  - d) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
  - e) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - f) In our opinion and to the best of our information and according to explanations given to us, the said accounts give the information required by the Companies Act, 1956 of India, in the manner so required for banking companies and guidelines issued by Reserve Bank of India from time to time; and
  - g) The requirements of Section 274 (1) (g) of the Companies Act, 1956 of India are not applicable, considering the bank is a branch of American Express Banking Corp., which is incorporated with limited liability in the United States of America.
8. We further report that in our opinion, the financial statements comply with the accounting standards, referred to in sub section 3(C) of Section 211 of the Companies Act, 1956 of India to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.
9. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements, together with the notes thereon, and attached thereto, give in the prescribed manner, the information required under the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view in conformative with the accounting principles generally accepted in India:
  - (i) In the case of the Balance Sheet, of the state of affairs of the Bank as at March 31, 2011;
  - (ii) In the case of Profit and Loss Account, of the profit for the year ended on March 31, 2011; and
  - (iii) In the Cash Flow Statements, of the cash flows for the year ended March 31, 2011.

For and on behalf of  
**Kalyaniwalla & Mistry**  
*Chartered Accountants*  
Firm Registration No. 104607W

Sd/-  
**Vinayak M. Padwal**  
*Partner*  
Membership No. 49639

Gurgaon  
June 16, 2011



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

BALANCE SHEET AS AT MARCH 31, 2011				PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011			
(Amount in Rs. '000)				(Amount in Rs. '000)			
Schedule	As on March 31, 2011	As on March 31, 2010	Schedule	Year ended March 31, 2011	Year ended March 31, 2010		
<b>CAPITAL AND LIABILITIES</b>			<b>INCOME</b>				
Capital	1	6,177,194	4,808,819	Interest Earned	13	621,933	638,220
Reserves and Surplus	2	66,791	1,560	Other Income	14	3,977,905	3,146,017
Deposits	3	5,194,243	5,689,800	<b>Total</b>		<b>4,599,838</b>	<b>3,784,237</b>
Borrowings	4	1,752,681	450,000	<b>EXPENDITURE</b>			
Other Liabilities and Provisions	5	4,199,332	3,707,359	Interest Expended	15	381,231	321,462
<b>Total</b>		<b>17,390,241</b>	<b>14,657,538</b>	Operating Expenses	16	4,162,140	3,214,165
<b>ASSETS</b>			<b>PROFIT/(LOSS)</b>				
Cash and Balances with Reserve Bank of India	6	598,697	496,205	Provisions and Contingencies	17	(204,456)	751,835
Balances with Banks and Money at Call and Short Notice	7	1,493,230	550,032	<b>Total</b>		<b>4,338,915</b>	<b>4,287,462</b>
Investments	8	2,389,757	2,213,244	<b>APPROPRIATIONS</b>			
Advances	9	10,781,075	8,746,679	Transfer to Statutory Reserve		65,231	–
Fixed Assets	10	455,759	678,762	Transfer to Other Reserves		–	–
Other Assets	11	1,671,723	1,972,616	Transfer to Government/proposed dividend		–	–
<b>Total</b>		<b>17,390,241</b>	<b>14,657,538</b>	Balance carried over to Balance Sheet		(1,351,438)	(1,547,130)
Contingent Liabilities	12	62,423	57,229	<b>Total</b>		<b>(1,286,207)</b>	<b>(1,547,130)</b>
Bills for Collection		–	–	Significant Accounting Policies and Notes to Accounts	18		
Significant Accounting Policies and Notes to Accounts	18						

The schedules referred above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our Report of even date.

For and on behalf of  
**Kalyaniwalla & Mistry**  
Chartered Accountants

Sd/-  
**Vinayak M. Padwal**  
Partner  
Membership No. F49639

Place: Gurgaon  
Date: June 16, 2011

The schedules referred above form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our Report of even date.

For and on behalf of  
**American Express Banking Corp.- India Branch**

Sd/-  
**Shailesh Baidwan**  
Chief Executive Officer

Sd/-  
**Sunil Chowdhry**  
Financial Controller

Place: Gurgaon  
Date: June 16, 2011



# AMERICAN EXPRESS BANKING CORP.

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

(Amount in Rs. '000)

	Year ended March 31, 2011	Year ended March 31, 2010
<b>Cash Flow from Operating activities</b>		
Net profit/(loss) before taxes	137,501	(503,759)
<b>Adjustments for :</b>		
Provision for doubtful advances and receivables	(313,869)	49,034
Depreciation on assets (including amortization of Goodwill)	274,656	307,738
Net (profit)/loss on sale of land, building and other assets	(2,705)	(4,094)
<i>Operating profit before working capital changes</i>	<i>95,583</i>	<i>(151,081)</i>
(Increase)/decrease in investments	(176,513)	(79,347)
(Increase)/decrease in advances	(2,040,142)	(1,755,357)
Increase/(decrease) in borrowings	1,302,681	(500,000)
Increase/(decrease) in deposits	(495,557)	2,391,300
(Increase)/decrease in other assets	105,201	(63,963)
Increase/(decrease) in other liabilities and provisions	811,590	508,587
(Total taxes paid)/Refund received [net]	123,422	534
<b>A Net Cash Flow from/(used in) operating activities</b>	<b>(273,735)</b>	<b>350,673</b>
<b>Cash Flow from Investing activities</b>		
Fixed assets purchased	(58,351)	(66,696)
Proceeds from sale of fixed assets	9,401	15,188
Redemptions/repayments of HTM securities (net)	-	-
<b>B Net Cash Flow from/(used in) Investing activities</b>	<b>(48,950)</b>	<b>(51,508)</b>
<b>Cash Flow from Financing activities</b>		
Injection of capital	1,368,375	-
Long term borrowing	-	-
<b>C Net Cash Flow from Financing activities</b>	<b>1,368,375</b>	<b>-</b>
<b>Net Increase/(Decrease) in cash and cash equivalents (A+B+C)</b>	<b>1,045,690</b>	<b>299,165</b>
Cash and cash equivalents at beginning of year	1,046,237	747,072
Cash and cash equivalents at end of year	2,091,927	1,046,237
Increase/(decrease) in cash and cash equivalents	1,045,690	299,165

#### Notes to the Cash Flow Statement

1. Cash and cash equivalents represents cash and balances with banks as disclosed in Schedule 6 and 7
2. The above Cash Flow Statement has been prepared under the "Indirect method" as set out in the Accounting Standard (AS-3) on Cash Flow Statements issued by the Institute of Chartered Accountants of India

This is the Cash Flow Statement referred to in our Report of even date.

For and on behalf of  
**Kalyaniwalla & Mistry**  
Chartered Accountants

Sd/-  
**Vinayak M. Padwal**  
Partner  
Membership No. F49639

Place: Gurgaon  
Date: June 16, 2011

For and on behalf of  
**American Express Banking Corp.- India Branch**

Sd/-  
**Shailesh Baidwan**  
Chief Executive Officer

Sd/-  
**Sunil Chowdhry**  
Financial Controller

Place: Gurgaon  
Date: June 16, 2011



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rs. '000)			(Amount in Rs. '000)		
	As on March 31, 2011	As on March 31, 2010		As on March 31, 2011	As on March 31, 2010
<b>SCHEDULE 1 – CAPITAL</b>			<b>SCHEDULE 4 – BORROWINGS</b>		
Amount of deposit kept with RBI under section 11 (2) of the Banking Regulation Act, 1949 as per contra.	3,560	3,560	I. BORROWINGS IN INDIA		
	<u>3,560</u>	<u>3,560</u>	Reserve Bank of India	–	–
HEAD OFFICE ACCOUNT			Other banks	1,752,681	450,000
Opening balance	4,808,819	4,808,819	Other institutions and agencies	–	–
Additions during the year	1,368,375	–	II. BORROWINGS OUTSIDE INDIA	–	–
Closing balance	<u>6,177,194</u>	<u>4,808,819</u>	Secured borrowings included in I and II above	<u>1,752,681</u>	<u>450,000</u>
			Nil	Nil	Nil
<b>SCHEDULE 2 – RESERVES AND SURPLUS</b>			<b>SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS</b>		
I. STATUTORY RESERVES			Bills payable	–	–
Opening balance	1,560	1,560	Inter-office adjustments (net)	–	–
Additions during the year	65,231	–	Interest accrued	118,596	34,824
Closing balance	<u>66,791</u>	<u>1,560</u>	Others (including provisions)	4,080,736	3,672,535
II. CAPITAL RESERVES				<u>4,199,332</u>	<u>3,707,359</u>
Opening balance	–	–	<b>SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA</b>		
Additions during the year	–	–	I. Cash in hand (including foreign currency notes)	–	8
Closing balance	–	–	II. Balances with Reserve Bank of India		
III. REVENUE AND OTHER RESERVES			i) In current account*	598,697	496,197
Opening balance	–	–	ii) In other accounts	–	–
Additions during the year	–	–	Total I and II	<u>598,697</u>	<u>496,205</u>
Closing balance	–	–			
IV. Balance in Profit and Loss Account	–	–			
	<u>66,791</u>	<u>1,560</u>			
<b>SCHEDULE 3 - DEPOSITS</b>			<b>SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE</b>		
A. In India			I. In India		
I. DEMAND DEPOSITS			Balances with banks		
From banks	–	–	i) In current accounts	1,093,230	550,032
From others	–	–	ii) In other deposit accounts	400,000	–
II. SAVINGS BANK DEPOSITS	–	–	Money at call and short notice		
III. TERM DEPOSITS			i) With banks	–	–
From banks	–	–	ii) With other institutions	–	–
From others (Institutional)	5,194,243	5,689,800		<u>1,493,230</u>	<u>550,032</u>
	<u>5,194,243</u>	<u>5,689,800</u>	II. Outside India		
B. (i) Deposits of branches in India	–	–	i) In current accounts	–	–
(ii) Deposits of branches outside India	–	–	ii) In other deposit accounts	–	–
	–	–	iii) Money at call & short notice	–	–
	–	–		–	–
	–	–		<u>1,493,230</u>	<u>550,032</u>

\* Includes Rs. 3,560 ('000s) (Previous Year - Rs. 3,560 ('000s)) deposit with RBI u/s 11(2) (b) (ii) of the Banking Regulation Act, 1949 as per contra



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### SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rs. '000)			(Amount in Rs. '000)		
	As on March 31, 2011	As on March 31, 2010		As on March 31, 2011	As on March 31, 2010
<b>SCHEDULE 8 – INVESTMENTS</b>			<b>SCHEDULE 10 – FIXED ASSETS</b>		
I. Investment in India in			I. PREMISES		
i) Government Securities (Treasury Bill)	2,389,757	2,213,244	At cost as on 31 March of the preceding year	–	–
ii) Other approved securities	–	–	Additions during the year	–	–
iii) Shares	–	–	Deductions during the year	–	–
iv) Debentures and Bonds	–	–		–	–
v) Subsidiaries and/or joint ventures	–	–	Depreciation to date	–	–
vi) Others	–	–	Total Net Book Value I	–	–
	<b>2,389,757</b>	<b>2,213,244</b>	II. OTHER FIXED ASSETS (Including Furniture & Fixtures)		
II. Investment outside India in			At cost as on March 31 of the preceding year	1,316,720	1,272,619
i) Government Securities (including local authorities)	–	–	Additions during the year	58,351	66,696
ii) Subsidiaries and/or joint ventures abroad	–	–	Deductions during the year	(26,048)	(22,595)
iii) Others	–	–		<u>1,349,023</u>	<u>1,316,720</u>
	<b>2,389,757</b>	<b>2,213,244</b>	Depreciation to date	(893,264)	(637,958)
			Total Net Book Value II	<u>455,759</u>	<u>678,762</u>
			Net Book Value I and II	<b>455,759</b>	<b>678,762</b>
<b>SCHEDULE 9 – ADVANCES</b>			<b>SCHEDULE 11 - OTHER ASSETS</b>		
A. i) Bills purchased and discounted	–	–	I. Inter-office adjustments (net)	–	–
ii) Cash credits, overdraft and loan repayable on demand	10,776,540	8,740,472	II. Interest accrued	20,996	21,428
iii) Term loans- Staff	4,535	6,207	III. Tax paid in advance / tax deducted at source	4,307	3,900
	<b>10,781,075</b>	<b>8,746,679</b>	IV. Stationery and Stamps	–	–
B. i) Secured by tangible assets	3,227	3,502	V. Non-banking assets acquired in satisfaction of claims	–	–
ii) Covered by bank/ government guarantees	–	–	VI. Deferred tax asset	124,176	–
iii) Unsecured	10,777,848	8,743,177	VII. Others* (Including Debit Balance in Profit and Loss Account Rs. 1,351,438 ('000s) - Previous year Rs. 1,547,130 ('000s))	1,522,244	1,947,288
	<b>10,781,075</b>	<b>8,746,679</b>		<b>1,671,723</b>	<b>1,972,616</b>
C. I. Advances in India			<b>SCHEDULE 12 - CONTINGENT LIABILITIES</b>		
i) Priority sector*	–	–	I. Claims against the bank not acknowledged as debts	62,423	57,229
ii) Public sector	–	–	II. Liability for partly paid investments	–	–
iii) Banks	–	–	III. Liability on account of outstanding forward exchange contracts	–	–
iv) Others	10,781,075	8,746,679	IV. Guarantees given on behalf of constituents		
	<b>10,781,075</b>	<b>8,746,679</b>	a) In India	–	–
II. Advances Outside India			b) Outside India	–	–
i) Due from banks	–	–	V. Acceptances, endorsements and other obligations	–	–
ii) Due from others	–	–	VI. Other items for which the bank is contingently liable	–	–
(a) Bills purchased and discounted	–	–		<b>62,423</b>	<b>57,229</b>
(b) Syndicated loans	–	–			
(c) Others	–	–			
	<b>10,781,075</b>	<b>8,746,679</b>			

\* Not applicable to the Bank vide RBI letter no. RPCD.  
CO.Plan.11642/04.09.09/2008-09 dated 11/05/2009



# AMERICAN EXPRESS BANKING CORP.

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(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rs. '000)			(Amount in Rs. '000)		
	Year ended March 31, 2011	Year ended March 31, 2010		Year ended March 31, 2011	Year ended March 31, 2010
<b>SCHEDULE 13 – INTEREST EARNED</b>			<b>SCHEDULE 16 – OPERATING EXPENSES</b>		
Interest/discount on advances/bills	495,063	565,529	Payments to and provisions for employees	1,019,856	862,603
Income on investments	126,025	71,276	Rent, taxes and lighting	139,319	136,940
Interest on balances with the Reserve Bank of India and other inter-bank funds	845	1,415	Printing and stationery	38,442	39,129
Others	–	–	Advertisement and publicity	1,274,970	596,076
	<u>621,933</u>	<u>638,220</u>	Depreciation on Bank's property*	274,656	307,738
<b>SCHEDULE 14 – OTHER INCOME</b>			Director's fee, allowances and expenses	–	–
Commission, exchange and brokerage	3,657,256	2,890,592	Auditors' fees and other expenses	3,000	2,200
Net Profit/(Loss) on sale of investments	–	–	Law charges	3,604	4,680
Net Profit/(Loss) on revaluation of investments	–	–	Postage, telegram, telephones etc.	135,930	127,503
Profit on sale of land, building and other assets	5,619	7,587	Repairs and maintenance	73,864	95,996
Less: Loss on sale of land, building and other assets	(2,914)	(3,493)	Insurance	5,584	5,400
Net profit on exchange transactions	–	–	Other expenditure	1,192,915	1,035,900
Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	–	–		<u>4,162,140</u>	<u>3,214,165</u>
Miscellaneous Income	317,944	251,331			
	<u>3,977,905</u>	<u>3,146,017</u>			
<b>SCHEDULE 15 – INTEREST EXPENDED</b>			<b>SCHEDULE 17 – PROVISIONS AND CONTINGENCIES</b>		
Interest on deposits	331,800	257,546	Depreciation in the value of securities	–	–
Interest on Reserve Bank of India/ interbank borrowings	49,431	62,999	Provision for doubtful advances and receivables	(81,034)	752,369
Others	–	917	Provision for income tax and wealth tax:		
	<u>381,231</u>	<u>321,462</u>	Income Tax	754	748
			Fringe Benefit Tax	–	(1,282)
			Deferred Tax	(124,176)	–
				<u>(204,456)</u>	<u>751,835</u>

\* Includes Rs.66,181 ('000s) being amortization of goodwill (Previous year Rs. 72,197 ('000s))

#### Schedule – 18 - Significant Accounting Policies and Notes to Accounts

**I. Background:** American Express Banking Corp. ('the Bank') has been granted licence by Reserve Bank of India ('RBI') to carry on banking business in India. The licence authorises the Bank to conduct credit card business, distribute traveller cheques and accept institutional deposits. The financial statements for the year ended March 31, 2011 comprise the accounts of the India Branch of American Express Banking Corp. (the "Bank"), which is incorporated in New York, United States of America. The Bank's ultimate holding company is American Express Company, which is incorporated in the United States of America.

#### II. Significant Accounting Policies

**1. Basis of preparation:** The financial statements are prepared under the historical cost convention on the accrual basis of accounting, except where otherwise stated and comply with Generally Accepted Accounting Principles (GAAP) in India, statutory requirements prescribed under The Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, the Accounting Standards (AS) notified by the Companies (Accounting Standard) Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.



# AMERICAN EXPRESS BANKING CORP.

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### SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2011

#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

2. **Use of Estimates:** The preparation of financial statements, in conformity with the generally accepted accounting principles, requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates and these differences are recognized prospectively in the current and future periods.
3. **Revenue Recognition**
  - (i) Fees and commissions are recognized upon the occurrence of the transactions. Annual fees on cards are amortized over the period of one year.
  - (ii) Interest income is recognised as it accrues, except in the case of non-performing assets, where it is recognised on realisation, as per the prudential norms of the RBI.
  - (iii) Income from cheque bounce charges and delayed charges are recognised as income when the ultimate collection is no longer uncertain.
  - (iv) Direct identifiable cost incurred for issuance of card is amortised over a period of one year.
4. **Foreign Currency transactions and balances**

Transactions denominated in foreign currencies are recorded on the date of transactions at the standard exchange rate determined by the Bank. Exchange differences arising on the foreign currency transactions settled during the year are recognised in the Profit and Loss Account of the year.

Monetary Assets and Liabilities denominated in foreign currencies as at the balance sheet date are restated at the closing rates notified by Foreign Exchange Dealers Association of India (FEDAI) and the resultant exchange differences are recognised in the Profit and Loss Account
5. **Investments**
  - (i) **Classification**

In accordance with Reserve Bank of India ('RBI') guidelines, all investments are categorised as 'Held to Maturity', or 'Held for Trading' or 'Available for Sale'.

Investments that the Bank intends to hold to maturity are classified as 'Held to Maturity'. Investments that are held principally for resale within ninety days from the date of purchase are classified as 'Held for Trading'. All other investments are classified as 'Available for Sale'. An Investment is classified as 'Held to Maturity', 'Available for Sale' or 'Held for Trading' at the time of its purchase.
  - (ii) **Valuation**

Investments classified as 'Held to Maturity' are carried at their acquisition cost. The premium paid on acquisition of debt instruments, if any, is amortised over the period remaining to maturity.

Investments classified as 'Available for Sale' are marked to market at quarterly intervals based on the prices / yields declared by Fixed Income Money Market and Derivatives Association ('FIMMDA') jointly with Primary Dealers Association of India. The net depreciation, if any, on a transaction basis is recognized in the Profit and Loss account and the net appreciation, if any, is not recognized.

Investments classified as 'Held for Trading' are marked to market on monthly basis and depreciation, if any, on a transaction basis is recognized in the Profit and Loss account. The net appreciation, if any, is not recognized.

Treasury Bills, being discounted instruments are valued at carrying cost. Discount to face value of the instrument is recognised over remaining period to maturity.
  - (iii) Brokerage, commission, etc., paid at the time of acquisition of securities are charged to Profit and Loss account.
6. **Advances**

Loans and Advances comprises card outstandings and loans to staff. Loans and Advances are stated net of specific provision and unrealised income from non performing assets.

Provision for Non-Performing Assets on card outstandings is made at card level in compliance with the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued by the Reserve Bank of India and are monitored and tracked at a portfolio level.

Provision for Standard Assets is made in compliance with the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued by the Reserve Bank of India and disclosed under Other Liabilities and Provisions.



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### SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2011

#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

The Bank also maintains a general provision to cover credit losses which are inherent in any loan portfolio but not yet identified and discloses the same under Other Liabilities and Provisions.

The Bank also identifies all card accounts with delinquencies and writes off in the books of accounts, the outstanding card receivables which are 180 days past due from the billing date. In addition, accelerated write off is effected where it is evident that the outstanding is unlikely to be recovered.

Receivables from overseas group entities on account of card payments made in India have been classified under Other Assets in the Financial Statements

#### 7. Fixed assets and depreciation

- (i) Fixed assets are stated at cost less accumulated depreciation. The Bank capitalizes all costs relating to acquisition and installation of fixed assets. However, fixed assets costing less than Rs.5,000/- are expensed out. All assets costing upto Rs.10,000 are fully depreciated in the year of purchase.
- (ii) Carrying amounts of cash generating assets are reviewed at each balance sheet date to determine whether there is any impairment. Impairment loss, if any, is recognised whenever the carrying amount exceeds the recoverable amount.
- (iii) Depreciation on fixed assets is provided on pro-rata basis over the period of the estimated useful life of the asset on Straight Line Method, subject to the minimum rate of depreciation prescribed in Schedule XIV to the Companies Act, 1956.
- (iv) The fixed assets are depreciated as per the rates given in the table below:

Asset	Depreciation rate
Buildings	2.50%
Leasehold	Over the lease period
Buildings Improvements	10%
Data processing equipments	33.33%
Transport equipments	33.33%
Furniture and fixtures	12.50%
Machinery and equipments (Other than headsets and mobile phones)	12.50%
Headsets and mobile phones	33.33%
Electronic Data Capture (EDC) Devices	20%

- (v) The excess of the consideration paid over the net assets acquired in a business acquisition is reckoned as Goodwill. As per Management Policy, the amount of this Goodwill is amortised over a period of three years on prorata basis. The unamortized amount of Goodwill is reckoned as an Intangible Asset and is reduced from the Capital Funds for the purpose of Capital Adequacy computation.
- (vi) The Bank assess at each Balance Sheet date whether there is any indication that an asset, including Goodwill, may be impaired and provides for impairment loss, if any, in the profit and loss account.

#### 8. Accounting for Leases

Lease payments for assets taken on operating leases are recognized as an expense in the profit and loss account over the lease term on a straight line basis.

#### 9. Employee Benefits

##### a) Provident fund

The Bank contributes to recognized provident funds which are defined contribution schemes. The contributions are accounted for on an accrual basis and recognized in the profit and loss account.

##### b) Pension

The Bank has a pension scheme, which is a defined contribution plan. Employees of the Bank are entitled to receive retirement benefits under the Bank's Superannuation scheme either under a cash-out option through salary or under a defined contribution plan to the pension fund. Contributions under these schemes are recognised in the Profit and Loss Account in the period in which they accrue.



# AMERICAN EXPRESS BANKING CORP.

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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

In addition to the above arrangement, there are deferred (left employees) and employees who had opted for the defined benefit scheme, for whom, the Bank provides for the pension liability based on actuarial valuation as at the Balance Sheet date, carried out by an independent actuary and contributes to the pension fund. Pension contributions are recognised in the Profit and Loss Account in the period in which they accrue.

The Bank has set up a Pension Trust viz. American Express Banking Corp. India Staff Superannuation Fund to manage the contributions to the pension fund. As per the Business Purchase Agreement, the corpus relating to the employees who were transitioned to the Bank as part of the Business Purchase agreement has been transferred to this Pension Trust from the Pension Trust of the erstwhile American Express Bank Limited.

#### c) **Gratuity**

The Bank provides for its gratuity liability based on actuarial valuation of the gratuity liability as at the Balance Sheet date carried out by an independent actuary and contributes to the gratuity fund. The contributions to the gratuity fund are managed by a trust set up by the Bank viz. American Express Banking Corp. India Employees Gratuity Fund.

#### d) **Leave encashment**

The Bank provides for leave encashment liability, which is payable on separation or termination of service. The liability for leave encashment, which is a defined benefit scheme, is provided based on actuarial valuation as at the Balance Sheet date, carried out by an independent actuary.

#### 10. **Income Taxes**

- (i) Current tax is determined as the amount of tax payable in respect of taxable income for the year.
- (ii) Deferred tax is recognized, subject to the consideration of prudence in respect of deferred tax asset, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

#### 11. **Membership Reward Points**

The Membership Reward programme is a card-based rewards programme through which eligible card members can earn points for purchases charged on the Bank's card products. Membership Rewards points can be redeemed for a broad variety of rewards. The Bank establishes balance sheet reserves, that represent the estimated cost of points earned to date that are ultimately expected to be redeemed, based on the management's judgement. The cost of Membership Reward points is included in the card member service expenses.

#### 12. **Accounting for Provision, Contingent Liabilities and Contingent Assets**

As per Accounting Standard 29, on Provision, Contingent Liabilities and Contingent Assets, issued by The Institute of Chartered Accountants of India (ICAI), provisions are recognised only when there is a present obligation as a result of past event, which would result in a probable outflow of resources embodying economic benefits which will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

No provision is recognized for :

- a) Any possible obligation that arises 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 not wholly within the control of the bank; or
- b) Any present obligation that arises from past events but is not recognized because:
  - 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 obligation cannot be made.

Such obligations are disclosed as contingent liabilities. These 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.

Contingent assets are not recognized in the financial statements.



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

#### III. NOTES TO ACCOUNTS

##### 1. Statutory Disclosures as per RBI norms:

##### a) Capital Adequacy Ratio

In terms of the RBI guidelines on New Capital Adequacy Framework, the Bank is required to maintain a minimum Capital to Risk-weighted Asset Ratio (CRAR) of 9 percent. Further, the minimum capital to be maintained by the Bank is subject to a prudential floor of 80% of the capital requirement under Basel I. The Bank's Capital Adequacy Ratio, calculated as per the New Capital Adequacy Framework being higher, is as follows:

Particulars	2010-11	2009-2010
CRAR - Tier I Capital	23.26%	17.85%
CRAR - Tier II Capital	0.35%	1.25%
CRAR - Total Capital	23.61%	19.10%
Amount raised by issue of IPDI	–	–
Amount raised by issue of Upper Tier II Instruments	–	–

##### b) Business/Information Ratios:

	Particulars	2010-11	2009-10
a.	Interest income as a percentage to working funds (%)	3.98	5.37
b.	Non-interest income as a percentage to working funds (%)	25.45	26.48
c.	Operating profit as a percentage to working funds (%)	0.36	2.06
d.	Return on assets (%)	1.67	(4.24)
e.	Business (deposits plus advances) per employee (Amount in Rs. '000)	16,766	13,758
f.	Profit per employee (Amount in Rs. '000)	269	Nil**

##### Definitions:

- Working funds is the average of total assets during the year as per the returns submitted to Reserve Bank of India
- Operating profit = (Interest income + other income – interest expenses – operating expenses – amortization of premia on investments – profit / (loss) on sale of fixed assets)
- “Business” is the total of advances and deposits (net of inter bank deposits)
- Productivity ratios are based on number of employees at year end.
- \*\* Nil, in view of losses for the year.

##### c) Asset Liability Management - Maturity Pattern

Classification of assets and liabilities under the different maturity buckets are based on the estimates and assumptions used by the Bank. These estimates and assumptions are based on the guidelines on Asset Liability Management issued by Reserve Bank of India.

(Amount in Rs. '000)

Particulars	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months and upto 6 months	Over 6 months and upto 12 months	Over 1 year and upto 3 years	Over 3 years and upto 5 years	Over 5 years	Total
<b>Deposits -</b>											
Current Year	-	300,000	-	250,000	1,253,500	1,604,100	1,786,643	-	-	-	5,194,243
Previous Year	-	650,000	-	200,000	2,025,000	1,850,000	964,800	-	-	-	5,689,800
<b>Advances -</b>											
Current Year	290,255	1,663,004	1,953,386	3,906,646	1,842,357	160,855	597,668	167,091	195,278	4,535	10,781,075
Previous Year	230,310	1,319,558	1,549,996	3,099,863	1,520,952	161,590	517,906	167,855	172,442	6,207	8,746,679
<b>Investments -</b>											
Current Year	2,155	246,228	232,710	492,495	333,767	457,271	431,138	193,469	-	523	2,389,757
Previous Year	-	206,017	502,150	527,748	552,821	301,406	7,771	114,784	-	547	2,213,244
<b>Borrowings -</b>											
Current Year	-	-	-	-	-	-	1,752,681	-	-	-	1,752,681
Previous Year	-	-	-	450,000	-	-	-	-	-	-	450,000
<b>Foreign Currency Assets -</b>											
Current Year	-	882	988	-	-	-	-	1	-	-	1,871
Previous Year	-	3,445	43,690	-	-	-	-	-	-	-	47,135
<b>Foreign Currency Liabilities -</b>											
Current Year	-	-	1	-	-	-	-	-	-	-	1
Previous Year	-	91,477	448,571	-	-	-	-	36	-	-	540,084

Maturity Pattern of Assets and Liabilities has been compiled by the Management and relied upon by the auditors.



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

##### d) Provisions and Contingencies : Break-up of Provisions and Contingencies shown under Schedule 17.

(Amount in Rs. '000)

Particulars	2010-2011	2009-2010
Provision for depreciation on Investment	–	–
Provision towards Non Performing Assets	5,747	(40,935)
Provision towards Standard Assets	8,046	(98,874)
Provision for general loan loss	(329,248)	188,843
Write-offs	341,213	723,665
Recoveries	(106,868)	(89,409)
Others	76	69,079
Provision made towards Income tax (including Fringe Benefit Tax and Deferred Tax)	(123,422)	(534)
<b>Total</b>	<b>(204,456)</b>	<b>751,835</b>

##### e) Investments

(Amount in Rs. '000)

Value of investments	2010-2011	2009-2010
Gross value of Investments		
In India	2,389,757	2,213,244
Outside India	–	–
Provision for depreciation		
In India	–	–
Outside India	–	–
Net value of investment		
In India	2,389,757	2,213,244
Outside India	–	–

##### f) Asset Quality - Non-performing assets ('NPAs')

###### Non-Performing Assets (NPAs)

(Amount in Rs. '000)

	Particulars	Current Year – 2010-11		
		Movement of NPAs (Gross)	Movement of provisions NPAs (excluding provision on standard assets)	Movement of Net NPAs
(a)	Opening Balance	173,845	34,769	139,076
(b)	Additions during the year	263,079	5,747	22,987
(c)	Reductions during the year*	234,345	–	–
(d)	Closing Balance	202,579	40,516	162,063
	Net NPAs to Net Advances (%)	<b>1.50 %</b>		

\* Reduction in respect of: (a) NPAs is write-offs, net of recoveries, and  
(b) Provision is Write-off / write-back of excess provisions.

(Amount in Rs. '000)

	Particulars	Previous Year 2009-10		
		Movement of NPAs (Gross)	Movement of provisions NPAs (excluding provision on standard assets)	Movement of Net NPAs
(a)	Opening Balance	378,518	75,703	302,815
(b)	Additions during the year	429,583	–	–
(c)	Reductions during the year*	634,256	40,934	163,739
(d)	Closing Balance	173,845	34,769	139,076
	Net NPAs to Net Advances (%)	<b>1.59 %</b>		

\* Reduction in respect of: (a) NPAs is write-offs, net of recoveries, and  
(b) Provision is Write-off / write-back of excess provisions.



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

##### g) Category-wise NPAs (funded)

(Amount in Rs. '000)

Non performing asset category	2010-11		2009-10	
	Gross NPAs	Provisions	Gross NPAs	Provisions
Sub standard	202,579	40,516	173,845	34,769
Doubtful	–	–	–	–
Loss	–	–	–	–
<b>Total</b>	<b>202,579</b>	<b>40,516</b>	<b>173,845</b>	<b>34,769</b>

##### h) Single Borrower Limit (SBL) and Group Borrower Limits (GBL) :

During the year, the Bank's credit exposure to single borrowers and group borrowers were within the limits prescribed by Reserve Bank of India.

##### i) Disclosure of complaints:

###### Customer complaints

	Particulars	2010-11	2009-10
1	No. of complaints pending at the beginning of the year / period	68	58
2	No. of complaints received during the year / period	1277	1251
3	No. of complaints redressed during the year / period	1303	1241
4	No. of complaints pending at the end of the year / period	42	68

##### j) Concentration of Deposits, Advances, Exposures and NPAs :

###### Concentration of Deposits

(Amount in Rs. '000)

	Particulars	2010-11	2009-10
1	Total Deposits of twenty largest depositors	5,194,243	5,689,800
2	Percentage of Deposits of twenty largest depositors to Total Deposits of the Bank	100%	100%

###### Concentration of Advances

(Amount in Rs. '000)

	Particulars	2010-11	2009-10
1	Total Advances of twenty largest borrowers	1,991,608	1,945,184
2	Percentage of Advances of twenty largest borrowers to Total Advances of the Bank	18.40%	22.15%

###### Concentration of Exposures

(Amount in Rs. '000)

	Particulars	2010-11	2009-10
1	Total Exposure to twenty largest borrowers / customers	1,991,608	1,945,184
2	Percentage of Exposures to twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	18.40%	22.15%

###### Concentration of NPAs

(Amount in Rs. '000)

	Particulars	2010-11	2009-10
1	Total Exposure to top four NPA accounts	48,762	23,804



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

##### Sector-wise NPAs

Sl. No.	Sector	Percentage of NPAs to Total Advances in that sector	
		2010-11	2009-10
1	Agriculture and allied activities	-	-
2	Industry (Micro & small, Medium and Large)	-	-
3	Services	-	-
4	Personal Loans	1.87%	1.98%

##### Movement of NPAs

(Amount in Rs. '000)

	Particulars	2010-11	2009-10
1	Gross NPAs - Opening Balance	173,845	378,518
2	Additions – Fresh NPAs during the year	263,079	429,583
3	Sub-Total [ A ] ( 1 + 2 )	436,924	808,101
4	Less :		
	(i) Upgradations	-	-
	(ii) Write-offs – (Net of recoveries)	234,345	634,256
	Sub-Total [ B ]	234,345	634,256
5	Gross NPAs – Closing Balance	202,579	173,845

#### k) Provisioning Coverage Ratio (PCR)

In terms of the RBI guidelines, the Bank's Provisioning Coverage Ratio as of September 30, 2010 was 82.88%. The provisioning coverage ratio of the Bank as on March 31, 2011, computed as per the RBI guidelines was 63.69%. (March 31, 2010 – 147.06%).

#### l) The Bank has no disclosure to make in respect of the following items as the relevant items are either Nil or Not Applicable.

(i)	<b>Investments :</b>	Repo Transactions. Non-SLR Investment Portfolio. Non performing Non-SLR Investments. Movement of provisions held towards depreciation in Investments
(ii)	<b>Derivatives :</b>	Forward Rate Agreements / Interest Rate Swaps. Exchange Traded Interest Rate Derivatives. Disclosure on risk exposure in derivatives.
(iii)	<b>Asset Quality :</b>	Particulars of Accounts Restructured Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction. Details of non-performing financial assets purchased / sold. Unsecured Advances: Assets for which intangible securities have been taken as collateral
(iv)	<b>Exposures :</b>	Exposure to Real Estate Sector. Exposure to Capital Market. Risk Category wise Country Exposure. Receivables and payables from overseas group entities are not treated as exposures for the purpose of country risk exposure.
(v)	Awards passed by the Banking Ombudsman	
(vi)	Letter of Comforts issued by the Bank.	
(vii)	Overseas Assets, NPAs and Revenue	
(viii)	Off-Balance Sheet SPVs sponsored	
(ix)	Draw down from Reserves	
(x)	Penalties imposed by Reserve Bank of India	



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

#### 2. Deferred Taxes

As of March 31, 2011 the Bank had a net deferred tax assets of Rs.124,176 thousand which has been included under Other Assets. Deferred Tax Assets (DTA) for timing differences has been recognised subject to the consideration of prudence and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such DTA can be realised. Further, DTA on carried forward unabsorbed tax losses has not been recognised. The major components giving rise to the deferred tax assets and liabilities are as under:

(Amount in Rs. '000)

Particulars	2010-11
<b>Deferred Tax Assets</b>	
– On depreciation on fixed assets	26,086
– On provision for doubtful advances	98,158
– On provision for other contingencies	1,850
<b>Deferred Tax Liabilities</b>	
– On provision for employee benefits	(1,918)
<b>Net Deferred Tax Assets</b>	<b>124,176</b>

#### 3. Segment Reporting

##### Business Segment

The Bank has recognised Banking Operations and Treasury operations, as the primary reporting Business Segments, in accordance with the RBI guidelines on compliance with Accounting Standard – 17 issued by Institute of Chartered Accountants of India.

Treasury activities include the Investments to meet the SLR requirement and maintenance of Cash Balances to meet the CRR requirement and the corresponding funding to meet these requirements. The interest income and interest expenses related to these activities comprise the revenue and expense of this segment.

Banking Operations include card operations, travellers' cheque distribution and institutional deposits. Interest income and expense (other than those identified with the Treasury Operations), other identified income and operating expenses are reckoned in the operating results of this segment.

(Amount in Rs. '000)

Segmentation	Banking Operations		Treasury		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Segment revenue	4,473,813	3,712,961	126,025	71,276	4,599,838	3,784,237
Segment expense	4,336,312	4,216,720	126,025	71,276	4,462,337	4,287,996
<b>Segment result</b>	<b>137,501</b>	<b>(503,759)</b>	-	-	<b>137,501</b>	<b>(503,759)</b>
<b>Unallocated expenses</b>						
Operating Profits					137,501	(503,759)
Income taxes					(123,422)	(534)
Extraordinary profit / (loss)						
<b>Net profit (loss)</b>					<b>260,923</b>	<b>(503,225)</b>
<b>Other information:</b>						
Segment assets	14,273,304	11,944,189	2,988,454	2,709,449	17,261,758	14,653,638
Unallocated assets (Taxes)					128,483	3,900
<b>Total assets</b>	<b>14,273,304</b>	<b>11,944,189</b>	<b>2,988,454</b>	<b>2,709,449</b>	<b>17,390,241</b>	<b>14,657,538</b>
Segment liabilities	14,401,787	11,948,089	2,988,454	2,709,449	17,390,241	14,657,538
Unallocated liabilities (Taxes)						
<b>Total liability</b>	<b>14,401,787</b>	<b>11,948,089</b>	<b>2,988,454</b>	<b>2,709,449</b>	<b>17,390,241</b>	<b>14,657,538</b>

The Bank does not have any overseas operations and hence there is no geographical segment reporting.



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

#### 4. Related Party Disclosures

In the terms of the Accounting Standard 18 on 'Related Party Disclosures' issued by the Institute of Chartered Accountants of India and the related guideline issued by the RBI, the details pertaining to related parties are as under:

##### Related party relationship:

Sr. No.	Relationship	Party Name
1.	Parent - Head Office	American Express Banking Corp., New York.
2.	Ultimate Holding Company	American Express Company.
3.	Fellow Subsidiaries of Ultimate Holding Company	American Express (India) Private Limited. American Express International (India) Private Limited. American Express Services India Limited. American Express Foreign Exchange Services India Limited. American Express International Inc.
4.	Associates/Joint Venture	-
5.	Key Management Personnel **	Shailesh Baidwan as Chief Executive Officer (with effect from May 31, 2010).  Rajesh Saxena as Chief Executive Officer (up to May 31, 2010).

(Amount in Rs. '000)

Items/Related Party	Fellow Subsidiaries of Ultimate Holding Co.	
	2010-11	2009-10
Borrowings as on March 31	-	-
<i>Maximum Outstanding</i>	-	-
Deposits as on March 31	5,150,000	5,675,000
<i>Maximum Outstanding</i>	(8,525,080)	(6,017,884)
Placement of Deposits	-	-
<i>Maximum Outstanding</i>	-	-
Advances as on March 31	-	-
<i>Maximum Outstanding</i>	-	-
Receivables as of March 31	6,504	53,589
Payables as of March 31	515,773	557,657
Transfer of assets	(1,010)	3,555
Interest Paid	331,800	257,546
Income Received	-	-
Revenue from Services Rendered	720,358	756,950
Cost of Services Received	1,218,842	1,384,476

(The outstanding amounts at the year / period-end have been disclosed. The amount in bracket represents the maximum outstanding during the year / period.)

\*\* No disclosure has been made in respect of Key Management Personnel, keeping in view the secrecy clauses and the provisions of the RBI guidelines.

#### 5. Other Liabilities include:

(Amount in Rs. '000)

Particulars	2010-2011	2009-2010
Provisions towards Standard Assets	42,476	34,430
General Provisions	117,888	447,136



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

6. **Floating Provisions:** The Bank has no policy of making floating provision.

7. **Leases**

The Company's significant leasing arrangements are in respect of operating leases for commercial and residential premises. Lease expenditure for operating leases is recognized on a straight-line basis over the primary period of lease.

(Amount in Rs. '000)

Particulars	2010-11	2009-10
Future minimum lease payments under non-cancellable operating leases		
• Not later than 1 year	240	34,585
• Later than 1 year and not later than 5 years	311,658	339,265
• Later than 5 years	-	-
Lease payments recognized in the Profit and Loss Account in respect of operating leases	100,817	106,607

8. **Provision, Contingent Liabilities and Contingent Assets**

Movement in provision for membership reward points:

(Amount in Rs. '000)

Particulars	2010-11	2009-10
Opening	422,639	381,605
Additions	732,177	305,100
Utilisations / Write backs	449,166	264,066
<b>Closing Balance</b>	<b>705,650</b>	<b>422,639</b>

The bank estimates provision for card reward points by applying historic redemption on points eligible for redemption by a card member and relied upon by the auditors.

9. **Taxes**

The income tax expenses comprise the following:

(Amount in Rs. '000)

Particulars	2010-11	2009-10
Current Income tax expense *	754	748
Deferred Income tax (benefit) / expense	(124,176)	-
Fringe Benefit Tax	-	(1,282)
<b>Total</b>	<b>(123,422)</b>	<b>(534)</b>

\* Includes Wealth Tax.

10. **Description of contingent liabilities**

Contingent Liabilities	Brief Description
1. Claims against the bank not acknowledged as debts	The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial condition, result of operations and cash flows.

\* Also refer Schedule 12 – Contingent Liabilities



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#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

#### 11. Employee Benefits

The disclosures as required as per the revised AS 15 are as under:

##### Brief description of the Plans

The Bank has various schemes for long-term benefits such as provident fund, pension, and gratuity and leave encashment. The Bank's defined contribution plans are provident fund and employees' pension scheme (under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952), and the Bank has no further obligation beyond making the contributions. The Bank's defined benefit plans include gratuity and leave encashment.

(Amount in Rs. '000)

<b>A Charge to the Profit and Loss Account based on contributions:</b>		
	<b>2010-11</b>	<b>2009-10</b>
Provident fund	34,076	31,070
Superannuation	2,760	29,378
<b>TOTAL</b>	<b>36,836</b>	<b>60,448</b>

#### **B Contribution towards Pension for deferred / vested pensioners (left employees):**

The above employee benefit is covered under Pension Trust and as detailed under Paragraph II 9 (b) of Schedule 18 above.

#### **Pension: The components of net benefit expenses recognized in the profit and loss account and balance sheet and the funded status for the pension benefit plan are summarised below:**

(Amount in Rs. '000)

		<b>As at 31st March, 2011</b>	<b>As at 31st March, 2010</b>
<b>I</b>	<b>Assumptions</b>		
	Mortality	LIC (1996-98)	LIC (1996-98)
	Discount Rate	8.00%	7.65%
	Rate of increase in compensation	Not Applicable	Not Applicable
	Rate of return(expected) on plan assets	7.50%	7.50%
<b>II</b>	<b>Changes in present value of obligations</b>		
	Defined Benefit Obligation at beginning of the Year	30,509	-
	Interest Cost	2,334	-
	Current Service Cost	-	-
	Actuarial gain / (loss) on obligation	(4,698)	-
	Addition: Transfer to Trust at the Bank	-	30,509
	Defined Benefit Obligation at end of the Year	28,145	30,509
<b>III</b>	<b>Changes in fair value of plan assets</b>		
	Fair Value of Plan Assets at beginning of the Year	68,890	-
	Expected return on plan assets	5,167	-
	Actuarial gain / (Loss)	(3,147)	-
	Addition: Transfer to Trust at the Bank	-	68,890
	Fair Value of Plan Assets at end of the Year	70,910	68,890
<b>IV</b>	<b>Amounts to be recognised in the balance sheet</b>		
	Defined Benefit Obligation the end of Year	28,145	30,509
	Fair Value of Plan Assets at end of Year	70,910	68,890
	Amount not recognised as an Asset	-	(13,046)
	Surplus Assets	42,765	25,335
<b>V</b>	<b>Expense Recognised</b>	-	-

The Pension Fund assets are invested in government securities, corporate bonds and other eligible investments.



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2011

#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

#### C Contribution towards Gratuity:

The above employee benefit is covered under a Gratuity Trust and as detailed under Paragraph II 9 (c) of Schedule 18 above.

#### Gratuity: The components of net benefit expenses recognized in the profit and loss account and balance sheet and the funded status for gratuity benefit plan are summarised below:

(Amount in Rs. '000)

	As at 31st March, 2011	As at 31st March, 2010
<b>I Assumptions</b>		
Mortality	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate
Discount Rate	8.00%	7.65%
Rate of increase in compensation	6.00% p.a.	6.00% p.a.
Rate of return(expected) on plan assets	7.50%	7.50%
Withdrawal rates	Up to age 30 - 34%, age 31-40 - 12% age 41-50 - 10% age 51 and above - 5%	Up to age 30 - 34%, age 31-40 - 12% age 41-50 - 10% age 51 and above - 5%
<b>II Changes in present value of obligations</b>		
PBO at beginning of the Year	44,818	47,668
Interest Cost	3,256	3,371
Current Service Cost	7,812	8,123
Benefits Paid	(4,521)	(2,341)
Actuarial gain / (loss) on obligation	9,507	(12,002)
Liabilities extinguished on settlements	-	-
PBO at end of the Year	60,872	44,818
<b>III Changes in fair value of plan assets</b>		
Fair Value of Plan Assets at beginning of the Year	53,616	48,491
Expected Return of Plan Assets	3,852	3,434
Contributions	-	6,500
Benefits paid	(4,521)	(2,341)
Assets distributed in settlements	-	-
Actuarial gain / (loss) on plan assets	(2,021)	(2,468)
Fair Value of Plan Assets at end of the Year	50,926	53,616
<b>IV Amounts to be recognised in the balance sheet</b>		
PBO at the end of the Year	60,872	44,818
Fair Value of Plan Assets at end of the Year	50,926	53,616
(Funded) / Unfunded Status	(9,946)	-
Unrecognised Actuarial Gain / (Loss)	-	98
Net Asset / (Liability) recognised in the balance sheet	(9,946)	8,700
<b>V Expense Recognised</b>		
Current Service Cost	7,812	8,123
Interest Cost	3,256	3,371
Expected Return on Plan Assets	(3,852)	(3,434)
Net Actuarial Gain / (Loss) recognised for the Year	11,527	(9,535)
Expense recognised in the statement of P&L A/c	18,743	(1,377)

The estimate of future salary increases, considered in actuarial valuation take account of inflation, seniority, promotion and other relevant factors such as supply and demand in employee market.

The Gratuity Fund assets are invested in government securities, corporate bonds and other eligible investments.



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2011

#### Schedule 18 – Significant Accounting Policies and Notes to Accounts (Contd.)

##### **D Leave Encashment**

The amount charged to Profit and Loss Accounts during the year towards Leave Encashment – Rs. 12,898 thousand.  
(Previous Period Rs.4,080 thousand)

The liability for leave encashment and compensated absences as on March 31, 2011 is Rs. 68,729 thousand  
(Previous Period Rs. 61,057 thousand).

#### **12. Disclosure under Micro, Small and Medium Enterprises Development Act, 2006:**

There have been no reported cases of delays in payments in excess of 45 days to Micro, Small and Medium Enterprises or of interest payments due to delays in such payments.

#### **13. Details of fees / remuneration received in respect of bancassurance business:**

(Amount in Rs. '000)

Particulars	2010-2011	2009-2010
Others – Income from Insurance Referral Business	12,364	8,829

#### **14. Previous years figures have been reclassified and regrouped wherever considered necessary to conform to current year's presentation.**

Signature to Schedules 1 to 18

For and on behalf of  
**Kalyaniwalla & Mistry**  
*Chartered Accountants*

Sd/-  
**Vinayak M Padwal**  
*Partner*  
Membership No. F49639

Place: Gurgaon  
Date: June 16, 2011

For and on behalf of  
**American Express Banking Corp.- India Branch**

Sd/-  
**Shailesh Baidwan**  
Chief Executive Officer

Sd/-  
**Sunil Chowdhry**  
Financial Controller

Place: Gurgaon  
Date: June 16, 2011



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### Disclosures under Basel II Framework for the year ended March 31, 2011

#### 1. Scope of Application

The Basel II disclosures contained herein relate to American Express Banking Corp. – India Branch, herein after referred to as “the Bank” for the year ended March 31, 2011. American Express Banking Corporation (AEBC) is a New York State Investment Company chartered under Article XII of the New York State Banking Law. AEBC is a wholly owned subsidiary of American Express Company, and conducts business through a branch office in India. AEBC is governed under an Agreement of Supervision between American Express Company, AEBC, and the New York State Banking Department (NYSBD). In India, AEBC holds a banking license issued by the Reserve Bank of India (RBI) and is subject to the provisions of the Banking Regulation Act.

The disclosures have been compiled in accordance with Reserve Bank of India’s Prudential Guidelines on Implementation of New Capital Adequacy Framework vide their Circular DBOD.No.BP.BC.73/ 21.06.001/2009-10 dated February 8, 2010 and the amendments thereto issued from time to time.

The Bank does not have any subsidiaries, nor does it hold any significant stake in any companies. Further, the Bank is not required to prepare consolidated financial statements.

No quantitative disclosures are required to be made, as the Bank has no subsidiaries. The Bank also does not have any interest in insurance entities.

#### 2. Capital Structure

Summary information of the capital funds included under Tier 1 and Tier II capital under the capital adequacy framework is as under:

The Tier 1 Capital of the Bank comprises of the following:

- (a) The interest-free funds provided by Head Office - American Express Banking Corp., New York, and
- (b) Statutory Reserves of the Indian Operations.

The Tier II Capital of the Bank comprises the General Provisions for Standard Assets.

#### Quantitative Disclosure

Amount of Eligible Capital	(Amount Rs.’000)	
Particulars	2010-11	2009-10
<b>Tier – 1 capital</b>		
Paid up share capital (Head Office Funds)	6,177,194	4,808,819
Reserves	66,791	1,560
Total	6,243,985	4,810,379
Amounts deducted from Tier 1 capital		
Intangible Assets	125,032	66,494
Losses upto the current period	1,351,438	1,547,130
Total Tier I Capital	4,767,515	3,196,755
<b>Tier – II Capital</b>		
General Provisions for Standard Assets.	71,864	223,845
Total Tier II Capital	71,864	223,845
<b>Total Eligible Capital</b>	<b>4,839,379</b>	<b>3,420,600</b>

During the year, the Bank has not issued any Debt capital instruments eligible for inclusion in Upper Tier 2 capital (or) in Lower Tier 2 capital. The Bank has not raised any capital in India.

#### 3. Capital Adequacy

The Bank’s operations are confined to three business areas viz. card operations, distribution of travellers’ cheques and acceptance of institutional deposits. The Bank has put in place policies and procedures to address the various risks associated with these business segments. Independent committees manage relevant risk areas and define the requirement of the capital that the bank may have to maintain to cover these risks. The Bank has implemented an Internal Capital Adequacy Assessment Process to assess all the material risks associated with its business and to ensure that it meets its objective to maintain adequate capital of sufficient quality and quantity at all times to act as a safety net for the variety of risks the Bank is exposed to in its ordinary course of business and to meet all regulatory requirements. While the RBI prescribed regulatory Capital to Risk Weighted Asset Ratio (CRAR) sets the minimum floor, the Bank strives to keep its CRAR above the statutory requirement, with the buffer serving as a cushion to meet any unforeseen event.



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

(INCORPORATED IN THE UNITED STATES OF AMERICA WITH LIMITED LIABILITY)

### Disclosures under Basel II Framework for the year ended March 31, 2011

As prescribed in the prudential guidelines issued by the Reserve Bank of India, for computing capital requirement, the Bank has adopted: (a) Standardised Approach (SA) for credit risk, (b) Standardised Duration Approach (SDA) for market risk, and (c) Basic Indicator Approach (BIA) for operational risk. However, as the Bank has commenced operations only from March 2008 and in the absence of previous years data, Reserve Bank of India has permitted the Bank's projected financial results to be used in the place of previous years data, to the extent applicable, while computing the capital requirement for operational risk.

As part of the transitional arrangement to the Basel II Framework, Reserve Bank of India (RBI) has directed banks' to compute capital adequacy under both Basel I and Basel II framework. Further, as of March 31, 2011, the Bank is required to maintain capital based on the higher of the minimum capital required under Basel II or at 80 % of the minimum capital requirement under Basel I for credit and market risks. For the year ended March 31, 2011, the minimum capital required to be maintained by AEBC India as per Basel II guidelines is higher than that under Basel I guidelines.

#### Quantitative Disclosure:

(Amount Rs.'000)

	2010-11		2009-10	
	RWA	Min. Cap. Req.	RWA	Min. Cap. Req.
Credit Risk	14,340,803	1,290,672	12,037,410	1,083,367
Market Risk	91,465	8,232	92,326	8,309
Operational Risk	6,063,353	545,702	5,777,817	520,003
<b>Total</b>	<b>20,495,621</b>	<b>1,844,606</b>	<b>17,907,553</b>	<b>1,611,679</b>

\* RWA = Risk Weighted Assets.

\* Min. Cap. Req. = Minimum Capital Requirement at 9%.

Capital Adequacy Ratio	2010-11	2009-10
<b>Basel II</b>		
Tier I Ratio	23.26%	17.85%
Total Capital Ratio	23.61%	19.10%

#### 4. Credit Risk: General Disclosures

Credit Risk is defined as the risk of loss to the Bank due to non-payment of amounts that are contractually owed to the Bank. The Bank's Management and the Board of Directors continuously monitor credit risk to ensure that prudent lending criteria are established and complied with so as to minimize the Bank's exposure to credit risk. The Bank's lending are only in relation to card issuance business and loans to staff.

It is the policy of the Bank to

- Extend Credit only on a safe, sound and collectible basis.
- Extend Credit in an economically sound fashion.
- Extend Credit only in compliance with applicable law and regulation and the policies of the Bank and in full consideration of applicable regulatory guidance.
- Document credit decisions.
- Adopt and use best-in-class risk management tools and practices.
- Require its vendors, including its affiliates, to act in accordance with the policies of the Bank when conducting business on the Bank's behalf.

The Bank has established policies and procedures to control and manage the credit risk. These policies and procedures, in particular:

- Establish the governance structure through which credit risk will be identified, assessed, controlled, monitored and reported.
- Details the credit products and services that the Bank may offer.
- Specifies certain key metrics to be used in managing credit risk.
- Establishes the conditions under which exceptions to credit policy may occur.

Management can never eliminate the Bank's credit risk. However, consistent application of the above practices will result in the credit risk being controlled to an acceptable level. Therefore Management and the Board of Directors continuously monitor credit risk to ensure that prudent lending criteria are established and complied with so as to minimize the Bank's exposure to credit risk.

The Bank follows the RBI guidelines for asset classification. Accordingly, card receivables are treated as non-performing, if any amount is overdue for a period of more than 90 days from the date of billing.

The Bank also identifies all card accounts with delinquencies and writes off in the books of accounts, the outstanding card receivables, which are 180 days past due from the billing date. In addition, accelerated write off is effected where it is evident that the outstanding is unlikely to be recovered.



# AMERICAN EXPRESS BANKING CORP.

## INDIA BRANCH

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### Disclosures under Basel II Framework for the year ended March 31, 2011

Provision for Non Performing Assets and Standard Assets are made in compliance with the prudential norms prescribed by Reserve Bank of India. In addition to the above, the Bank also maintains a general provision to cover credit losses, which are inherent in any loan portfolio.

#### Quantitative Disclosure:

##### (a) Total Gross Credit Exposure by Industry and Geographic distribution of Exposure

(Amount Rs.'000)

	Fund based		Non-fund based		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
<b>Domestic</b>						
Inter - Bank	1,493,230	550,032			1,493,230	550,032
Investments	-	-	-	-	-	-
Advances -						
- Card Receivables	10,871,056	8,775,241	-	-	10,871,056	8,775,241
- Others	4,535	6,207	-	-	4,535	6,207
<b>Overseas</b>	-	-	-	-	-	-
<b>Total</b>	<b>12,368,821</b>	<b>9,331,480</b>	-	-	<b>12,368,821</b>	<b>9,331,480</b>

##### (b) Residual maturity breakdown of total assets:

As on March 31, 2011

(Amount Rs.'000)

	Cash and Balances with RBI	Balances with Banks	Investments	Advances	Fixed Assets	Other Assets	Total
1 – 14 days	180,001	1,493,230	481,094	3,906,646		975	6,061,946
15 – 28 days	121,768		492,495	3,906,645		27,500	4,548,408
29 days – 3 months	80,144		333,767	1,842,357		59,296	2,315,564
3 months – 6 months	109,800		457,271	160,855			727,926
6 months – 1 year	60,402		431,138	597,668			1,089,208
1 year – 3 years	46,456		193,469	167,091		108,338	515,354
3 years – 5 years			-	195,278			195,278
Over 5 years	126		523	4,535	455,759	124,176	585,119
<b>TOTAL</b>	<b>598,697</b>	<b>1,493,230</b>	<b>2,389,757</b>	<b>10,781,075</b>	<b>455,759</b>	<b>320,285</b>	<b>16,038,803</b>

As on March 31, 2010

(Amount Rs.'000)

	Cash and Balances with RBI	Balances with Banks	Investments	Advances	Fixed Assets	Other Assets	Total
1 – 14 days	175,912	549,532	708,167	3,099,863		180,354	4,713,828
15 – 28 days	95,507		527,748	3,099,863		71,634	3,794,752
29 days – 3 months	127,149		552,821	1,520,952		65,294	2,266,216
3 months – 6 months	69,324		301,406	161,590		-	532,320
6 months – 1 year	1,787		7,771	517,906		-	527,464
1 year – 3 years	26,400	500	114,784	167,855		108,204	417,743
3 years – 5 years			-	172,443			172,443
Over 5 years	126		547	6,207	678,762	-	685,642
<b>TOTAL</b>	<b>496,205</b>	<b>550,032</b>	<b>2,213,244</b>	<b>8,746,679</b>	<b>678,762</b>	<b>425,486</b>	<b>13,110,408</b>

##### (c) Amount of NPA:

(Amount Rs.'000)

Non-performing asset category	2010-11	2009-10
Sub standard	202,579	173,845
Doubtful	-	-
Loss	-	-
<b>Total</b>	<b>202,579</b>	<b>173,845</b>



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### Disclosures under Basel II Framework for the year ended March 31, 2011

**(d) NPA Ratios:**

	2010-11	2009-10
Gross NPA as a ratio to gross advances	1.87%	1.98%
Net NPAs as a ratio to net advances	1.50%	1.59%

**(e) Movement of Gross NPAs, Provision for NPAs and Net NPAs**

(Amount Rs.'000)

Particulars	2010-11			2009-10		
	Movement of NPAs (Gross)	Movement of provisions NPAs	Movement of Net NPAs	Movement of NPAs (Gross)	Movement of provisions NPAs	Movement of Net NPAs
Opening Balance	173,845	34,769	139,076	378,518	75,703	302,815
Additions during the year	263,079	5,747	22,987	429,583	-	-
Reductions during the year	234,345			634,256	40,935	163,739
Closing Balance	<b>202,579</b>	<b>40,516</b>	<b>162,063</b>	<b>173,845</b>	<b>34,769</b>	<b>139,076</b>

\* Reduction includes write back / write off of excess provision.

**(f) Amount of Non-Performing Investments: NIL**

**(g) Amount of Provision held for Non-Performing Investments: NIL**

**(h) Movement of Provision held for depreciation on Investments: NIL.**

**5. Credit Risk: Disclosures for Portfolios Subject to Standardised Approach.**

The Bank lending business is confined to card lending through its card issuance business and loans to staff. In view of this limited lending activity, the Bank does not use any rating assigned by the eligible external credit rating agencies for measuring credit risk. The card receivables and loans to staff come under the Specified Category as per the RBI guidelines and attract the risk weight as prescribed therein. All exposures to scheduled banks have been reckoned at 20% as per the RBI guidelines, as the counterparty banks have capital adequacy ratio of 9% and above.

**6. Credit Risk Mitigation: Disclosures for Standardised Approach.**

The Banks advances arise from its card operations and there are normally no collaterals for these lending. The Bank does not use any Credit Risk Mitigation tools as outlined in the RBI guidelines on Implementation of New Capital Adequacy Framework.

**7. Securitisation: Disclosure for Standardised Approach.**

The Bank does not have any securitization exposure.

**8. Market Risk in Trading Book**

Market Risk is the risk to earnings or value resulting from movements in market prices. The Bank's trading book comprises of securities held under the Available For Sale (AFS) category. The Bank invests only in Government Treasury Bills to meet the Statutory Liquidity Ratio (SLR) requirements and these investments are held under the Available For Sale category. These instruments do not carry any credit risk. The general market risk charge towards interest rate risk on these instruments is provided as per the extant RBI guidelines, using the Standardised Duration Approach.

**Capital Requirements**

(Amount Rs.'000)

	2010-11	2009-10
Interest rate Risk	8,232	8,309



# AMERICAN EXPRESS BANKING CORP.

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### Disclosures under Basel II Framework for the year ended March 31, 2011

#### 9. Operational Risk

Operational Risk is defined as the risk of not achieving business objective due to inadequate or failed processes, people or information systems, or to the external environment, including failures to comply with laws and regulations. It includes legal risk, but does not include strategic and reputation risks.

The Bank has in place an Operational Risk Management Policy framework that defines the key elements of Operational Risk Management. The Operation Risk Management framework defines governance principles, globally accepted risk assessment methodologies and processes for capturing and analyzing Operational Risk events and exposures. Internal and external drivers shape the framework, including regulatory requirements and market pressures. The framework and its supporting programs are designed to be adaptable to address emerging risks and external influences as they develop.

In line with the guidelines, the Bank has adopted the Basic Indicator Approach (BIA) for operation risk. However, as the Bank has commenced operations only from March 2008 and in the absence of previous years data, Reserve Bank of India has permitted the Banks projected financial results to be used in the place of previous years data, to the extent applicable.

#### 10. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book represents the risk that a movement in interest rates will have an adverse effect on the interest rate sensitive assets and liabilities held by the Bank in the banking book. Interest Rate risk is primarily generated by funding card member charges and investments with different tenure borrowings. These assets and liabilities generally do not create naturally off-setting positions with respect to basis, re-pricing or maturity characteristics.

General principles and the overall framework for managing market risk, including the interest rate risk in the banking book are defined in the Bank's Treasury Policy. The Bank measures market risk from two separate, but complimentary perspectives viz. risk that earnings decline (EaR) and risk that economic value of the Bank declines (EVE). Market risk exposures are monitored and managed by the Asset – Liability Management Committee (ALCO) of the Bank in accordance with Board approved policies and limits.

Risk from an earnings perspective is measured with the Earnings at Risk (EaR) metric. EaR measures the adverse potential impact of changes in market risk factor i.e. interest rates on the projected 12 month pre-tax income of a portfolio of assets, liabilities and off-balance sheet exposures, assuming 90% confidence level.

Risk from an economic perspective is measured with the Economic Value of Equity (EVE) metric. EVE measures the risk capital required to weather adverse impact of changes in market risk factors on the economic value of a portfolio of assets, liabilities and off-balance sheet positions over a specified holding period.

#### Quantitative Disclosure

Impact on earnings and economic value of capital:

	2010-11		2009-10	
	Earnings Perspective	Economic value perspective	Earnings Perspective	Economic value perspective
Interest Rate Shock Amount (Rs. In '000)	100 basis points 33,813	200 basis points 44,602	100 basis points 31,562	200 basis points 43,620