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 ("the Bank") as at March 31, 2012 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 accounts 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 the explanation 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 the 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 the branch of American Express Banking Corp., which is incorporated with limited liability in the United States of America.
8. Attention is invited to Schedule 18 Notes to Accounts - Note no. III (2) with regards to revised contractual agreement dated June 22, 2012 entered into with American Express International Inc. (AEII) – Singapore and the Bank for not claiming any amount due on issuer rate expenses on inbound transactions and issuer rate revenue on outbound transactions for India, recorded through Global Clearing & Settlement System in the books of AEII Singapore since inception to June 22, 2012. As per the management estimate net amount payable to AEII – Singapore since inception upto March 31, 2012 amounts to Rs 215,142 thousand. As per the revised contractual agreement, such issuer rate receivable / payable amounts do not exist and are not recorded in the books of accounts and consequently do not have any impact on the profit and loss of the Bank.
9. 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.
10. 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 of India in the manner so required for banking companies and give a true and fair view in confirmative with the accounting principles generally accepted in India:
    i. In the case of Balance Sheet, of the state of affairs of the Bank as at March 31,2012;
    ii. In the case of Profit and Loss Account, of the profit for the year ended on March 31,2012; and
    iii. In the Cash Flow Statements, of the cash flows for the year ended March 31, 2012.

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

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

Gurgaon
June 27, 2012

AMERICAN EXPRESS BANKING CORP.

INDIA BRANCH

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

BALANCE SHEET AS AT MARCH 31, 2012

(Amount in Rs. '000)

	Schedule	As on March 31, 2012	As on March 31, 2011
CAPITAL AND LIABILITIES			
Capital	1	6,177,194	6,177,194
Reserves and Surplus	2	76,810	66,791
Deposits	3	5,013,161	5,194,243
Borrowings	4	5,632,750	1,752,681
Other Liabilities and Provisions	5	4,436,805	4,199,332
Total		**21,336,720**	**17,390,241**
ASSETS			
Cash and Balances with Reserve Bank of India	6	578,697	598,697
Balances with Banks and Money at Call and Short Notice	7	211,165	1,493,230
Investments	8	3,412,419	2,389,757
Advances	9	14,741,064	10,781,075
Fixed Assets	10	381,836	455,759
Other Assets	11	2,011,539	1,671,723
Total		**21,336,720**	**17,390,241**
Contingent Liabilities	12	59,340	62,423
Bills for Collection		–	–
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.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2012

(Amount in Rs. '000)

	Schedule	Year ended March 31, 2012	Year ended March 31, 2011
INCOME			
Interest Earned	13	783,011	621,933
Other Income	14	5,046,366	3,977,905
Total		**5,829,377**	**4,599,838**
EXPENDITURE			
Interest Expended	15	806,666	381,231
Operating Expenses	16	4,825,033	4,162,140
Provisions and Contingencies	17	157,601	(204,456)
Total		**5,789,300**	**4,338,915**
PROFIT/(LOSS)			
Net Profit/(Loss) for the Year		40,077	260,923
Profit/(Loss) brought forward		(1,351,438)	(1,547,130)
		(1,311,361)	**(1,286,207)**
APPROPRIATIONS			
Transfer to Statutory Reserve		10,019	65,231
Transfer to Other Reserves		–	–
Transfer to Government/ proposed dividend		–	–
Balance carried over to Balance Sheet		(1,321,380)	(1,351,438)
		(1,311,361)	**(1,286,207)**
Significant Accounting Policies and Notes to Accounts	18		

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
Kalyaniwalla & Mistry
Chartered Accountants

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

Place: Gurgaon
Date: June 27, 2012

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 27, 2012

AMERICAN EXPRESS BANKING CORP.

INDIA BRANCH

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

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

(Amount in Rs. '000)

		Year ended March 31, 2012	Year ended March 31, 2011
	Cash Flow from Operating activities		
	Net profit/(loss) before taxes	(124)	137,501
	Adjustments for:		
	Provision for doubtful advances and receivables	10,286	(313,869)
	Depreciation on assets (including amortization of Goodwill)	168,315	274,656
	Net (profit)/loss on sale of land, building and other assets	(3,715)	(2,705)
	Operating profit before working capital changes	174,762	95,583
	(Increase)/decrease in investments	(1,022,662)	(176,513)
	(Increase)/decrease in advances	(3,978,034)	(2,040,142)
	Increase/(decrease) in borrowings	3,880,069	1,302,681
	Increase/(decrease) in deposits	(181,082)	(495,557)
	(Increase)/decrease in other assets	(329,193)	229,377
	Increase/(decrease) in other liabilities and provisions	245,445	811,547
	(Total taxes paid)/Refund received [net]	(692)	(711)
A	Net Cash Flow from/(used in) operating activities	(1,211,387)	(273,735)
	Cash Flow from Investing activities		
	Fixed assets purchased	(104,135)	(58,351)
	Proceeds from sale of fixed assets	13,457	9,401
	Redemptions/repayments of HTM securities (net)	-	-
B	Net Cash Flow from/(used in) Investing activities	(90,678)	(48,950)
	Cash Flow from Financing activities		
	Injection of capital	-	1,368,375
	Long term borrowing	-	-
C	Net Cash Flow from Financing activities	-	1,368,375
	Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(1,302,065)	1,045,690
	Cash and cash equivalents at beginning of year	2,091,927	1,046,237
	Cash and cash equivalents at end of year	789,862	2,091,927
	Increase/(decrease) in cash and cash equivalents	(1,302,065)	1,045,690

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 27, 2012

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 27, 2012

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)

	As on March 31, 2012	As on March 31, 2011
SCHEDULE 1 – CAPITAL		
Amount of deposit kept with RBI under section 11 (2) of the Banking Regulation Act, 1949 as per contra.	68,791	3,560
	68,791	3,560
HEAD OFFICE ACCOUNT		
Opening balance	6,177,194	4,808,819
Additions during the year	–	1,368,375
Closing balance	**6,177,194**	**6,177,194**
SCHEDULE 2 – RESERVES AND SURPLUS		
I. STATUTORY RESERVES		
Opening balance	66,791	1,560
Additions during the year	10,019	65,231
Closing balance	**76,810**	**66,791**
II. CAPITAL RESERVES		
Opening balance	–	–
Additions during the year	–	–
Closing balance	–	–
III. REVENUE AND OTHER RESERVES		
Opening balance	–	–
Additions during the year	–	–
Closing balance	–	–
IV. Balance in Profit and Loss Account	–	–
	76,810	**66,791**
SCHEDULE 3 - DEPOSITS		
A. In India		
I. DEMAND DEPOSITS		
From banks	–	–
From others	–	–
II. SAVINGS BANK DEPOSITS	–	–
III. TERM DEPOSITS		
From banks	–	–
From others (Institutional)	5,013,161	5,194,243
	5,013,161	**5,194,243**
B. (i) Deposits of branches in India	5,013,161	5,194,243
(ii) Deposits of branches outside India	–	–
	5,013,161	**5,194,243**

(Amount in Rs. '000)

	As on March 31, 2012	As on March 31, 2011
SCHEDULE 4 – BORROWINGS		
I. BORROWINGS IN INDIA		
Reserve Bank of India	–	–
Other banks	5,632,750	1,752,681
Other institutions and agencies	–	–
II. BORROWINGS OUTSIDE INDIA	–	–
	5,632,750	**1,752,681**
Secured borrowings included in I and II above	Nil	Nil
SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS		
Bills payable	–	–
Inter-office adjustments (net)	–	–
Interest accrued	140,192	118,596
Others (including provisions)	4,296,613	4,080,736
	4,436,805	**4,199,332**
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in hand (including foreign currency notes)	–	–
II. Balances with Reserve Bank of India		
i) In current account*	578,697	598,697
ii) In other accounts	–	–
Total I and II	**578,697**	**598,697**

* Includes Rs. 68,791 ('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

	As on March 31, 2012	As on March 31, 2011
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
Balances with banks		
i) In current accounts	211,165	1,093,230
ii) In other deposit accounts	–	400,000
Money at call and short notice		
i) With banks	–	–
ii) With other institutions	–	–
	211,165	**1,493,230**
II. Outside India		
i) In current accounts	–	–
ii) In other deposit accounts	–	–
iii) Money at call & short notice	–	–
	–	–
	211,165	**1,493,230**

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)

	As on March 31, 2012	As on March 31, 2011
SCHEDULE 8 – INVESTMENTS		
I. Investment in India in		
i) Government Securities (Treasury Bill)	3,412,419	2,389,757
ii) Other approved securities	–	–
iii) Shares	–	–
iv) Debentures and Bonds	–	–
v) Subsidiaries and/or joint ventures	–	–
vi) Others	–	–
	3,412,419	**2,389,757**
II. Investment outside India in		
i) Government Securities (including local authorities)	–	–
ii) Subsidiaries and/or joint ventures abroad	–	–
iii) Others	–	–
	–	–
	3,412,419	**2,389,757**
SCHEDULE 9 – ADVANCES		
A. i) Bills purchased and discounted	–	–
ii) Cash credits, overdraft and loan repayable on demand	14,738,724	10,776,540
iii) Term loans- Staff	2,340	4,535
	14,741,064	**10,781,075**
B. i) Secured by tangible assets	2,198	3,227
ii) Covered by bank/ government guarantees	–	–
iii) Unsecured	14,738,866	10,777,848
	14,741,064	**10,781,075**
C. I. Advances in India		
i) Priority sector*	–	–
ii) Public sector	–	–
iii) Banks	–	–
iv) Others	14,741,064	10,781,075
	14,741,064	**10,781,075**
II. Advances Outside India		
i) Due from banks	–	–
ii) Due from others		
(a) Bills purchased and discounted	–	–
(b) Syndicated loans	–	–
(c) Others	–	–
	–	–
	14,741,064	**10,781,075**

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

(Amount in Rs. '000)

	As on March 31, 2012	As on March 31, 2011
SCHEDULE 10 – FIXED ASSETS		
I. PREMISES		
At cost as on 31 March of the preceding year	–	–
Additions during the year	–	–
Deductions during the year	–	–
	–	–
Depreciation to date	–	–
Total Net Book Value I	–	–
II. OTHER FIXED ASSETS (Including Furniture & Fixtures)		
At cost as on March 31 of the preceding year	1,349,023	1,316,720
Additions during the year	104,135	58,351
Deductions during the year	(57,657)	(26,048)
	1,395,501	1,349,023
Depreciation to date	(1,013,665)	(893,264)
Total Net Book Value II	381,836	455,759
Net Book Value I and II	**381,836**	**455,759**
SCHEDULE 11 - OTHER ASSETS		
I. Inter-office adjustments (net)	–	–
II. Interest accrued	25,482	20,996
III. Tax paid in advance / tax deducted at source	4,481	4,307
IV. Stationery and Stamps	–	–
V. Non-banking assets acquired in satisfaction of claims	–	–
VI. Deferred tax asset	164,857	124,176
VII. Others* (Including Debit Balance in Profit and Loss Account Rs. 1,321,380 ('000s) - Previous year Rs. 1,351,438 ('000s))	1,816,719	1,522,244
	2,011,539	**1,671,723**
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the bank not acknowledged as debts	59,340	62,423
II. Liability for partly paid investments	–	–
III. Liability on account of outstanding forward exchange contracts	–	–
IV. Guarantees given on behalf of constituents		
a) In India	–	–
b) Outside India	–	–
V. Acceptances, endorsements and other obligations	–	–
VI. Other items for which the bank is contingently liable	–	–
	59,340	62,423

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)

	Year ended March 31, 2012	Year ended March 31, 2011
SCHEDULE 13 – INTEREST EARNED		
Interest/discount on advances/bills	564,579	495,063
Income on investments	217,909	126,025
Interest on balances with the Reserve Bank of India and other inter-bank funds	523	845
Others	–	–
	783,011	**621,933**
SCHEDULE 14 – OTHER INCOME		
Commission, exchange and brokerage	4,527,717	3,657,256
Net Profit/(Loss) on sale of investments	–	–
Net Profit/(Loss) on revaluation of investments	–	–
Profit on sale of land, building and other assets	8,033	5,619
Less: Loss on sale of land, building and other assets	(4,318)	(2,914)
Net profit on exchange transactions	–	–
Income earned by way of dividends etc. from subsidiaries, companies and/ or joint ventures abroad/in India	–	–
Miscellaneous Income	514,934	317,944
	5,046,366	**3,977,905**
SCHEDULE 15 – INTEREST EXPENDED		
Interest on deposits	461,913	331,800
Interest on Reserve Bank of India/ interbank borrowings	344,753	49,431
Others	–	–
	806,666	**381,231**

(Amount in Rs. '000)

	Year ended March 31, 2012	Year ended March 31, 2011
SCHEDULE 16 – OPERATING EXPENSES		
Payments to and provisions for employees	1,075,307	1,019,856
Rent, taxes and lighting	170,324	139,319
Printing and stationery	41,157	38,442
Advertisement and publicity	1,151,033	1,274,970
Depreciation on Bank's property*	168,315	274,656
Director's fee, allowances and expenses	–	–
Auditors' fees and other expenses	3,000	3,000
Law charges	821	3,604
Postage, telegram, telephones etc.	136,791	135,930
Repairs and maintenance	94,491	73,864
Insurance	7,676	5,584
Other expenditure	1,976,118	1,192,915
	4,825,033	**4,162,140**

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

	Year ended March 31, 2012	Year ended March 31, 2011
SCHEDULE 17 – PROVISIONS AND CONTINGENCIES		
Depreciation in the value of securities	–	–
Provision for doubtful advances and receivables	197,802	(81,034)
Provision for income tax and wealth tax:		
Wealth Tax	480	754
Fringe Benefit Tax	–	–
Income Tax	(40,681)	(124,176)
	157,601	**(204,456)**

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 (including prepaid cards), distribute traveller cheques and accept institutional deposits. The financial statements for the year ended March 31, 2012 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.

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, 2012

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 made towards NPA 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.

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%

(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 pro-rata 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 mandatory government administered 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.

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

In addition to the above arrangement, there are deferred (exited) employees, who had opted for the defined benefit scheme. The Bank provides for this 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

Current tax is determined as the amount of tax payable in respect of taxable income for the year.

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 (Basel II), 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 framework. The Bank's Capital Adequacy Ratio, calculated as per the New Capital Adequacy Framework (the capital requirement under Basel II Framework being higher), is as follows:

Particulars	2011-12	2010-11
CRAR - Tier I Capital	18.70%	23.26%
CRAR - Tier II Capital	0.60%	0.35%
CRAR - Total Capital	19.30%	23.61%
Amount of subordinated debt raised as Tier II Capital	–	–
Amount raised by issue of IPDI	–	–
Amount raised by issue of Upper Tier II Instruments	–	–

b) Business/Information Ratios:

	Particulars	2011-12	2010-11
a.	Interest income as a percentage to working funds (%)	3.89	3.98
b.	Non-interest income as a percentage to working funds (%)	25.05	25.45
c.	Operating profit as a percentage to working funds (%)	0.96	0.36
d.	Return on assets (%)	0.20	1.67
e.	Business (deposits plus advances) per employee (Amount in Rs. '000)	30,122	16,766
f.	Profit per employee (Amount in Rs. '000)	64	269

Definitions:

a) Working funds is the average of total assets during the year as per the returns submitted to Reserve Bank of India

b) Operating profit = (Interest income + other income – interest expenses – operating expenses – amortization of premia on investments – profit / (loss) on sale of fixed assets)

c) "Business" is the total of advances and deposits (net of inter bank deposits)

d) Productivity ratios are based on number of employees at year end.

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
Deposits -											
Current Year	-	400,000	-	300,000	1,241,705	1,679,258	1,392,198	-	-	-	5,013,161
Previous Year	-	300,000	-	250,000	1,253,500	1,604,100	1,786,643	-	-	-	5,194,243
Advances -											
Current Year	394,361	2,366,168	2,760,529	6,050,169	2,392,399	262,589	231,918	104,907	175,685	2,339	14,741,064
Previous 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
Investments -											
Current Year	331,499	977,495	216,535	237,209	417,772	311,023	716,191	127,720	-	76,975	3,412,419
Previous Year	2,155	246,228	232,710	492,495	333,767	457,271	431,138	193,469	-	523	2,389,757
Borrowings -											
Current Year	16,680	-	-	1,000,000	2,616,070	-	2,000,000	-	-	-	5,632,750
Previous Year	-	-	-	-	-	-	1,752,681	-	-	-	1,752,681
Foreign Currency Assets -											
Current Year	-	-	4,052	246,577	-	-	-	-	-	-	250,629
Previous Year	-	882	988	-	-	-	-	1	-	-	1,871
Foreign Currency Liabilities -											
Current Year	-	98,108	-	363,696	-	-	-	-	-	-	461,804
Previous Year	-	-	1	-	-	-	-	-	-	-	1

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

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

(Amount in Rs. '000)

Particulars	2011-2012	2010-2011
Provision for depreciation on Investment	–	–
Provision towards Non Performing Assets	18,046	5,747
Provision towards Standard Assets	15,785	8,046
Provision for general loan loss	(23,545)	(329,248)
Write-offs	291,988	341,213
Recoveries	(106,725)	(106,868)
Others	2,253	76
Provision made towards Income tax and Wealth Tax	(40,201)	(123,422)
TOTAL	**157,601**	**(204,456)**

e) Investments **(Amount in Rs. '000)**

Value of investments	2011-2012	2010-2011
Gross value of Investments		
In India	3,412,419	2,389,757
Outside India	–	–
Provision for depreciation		
In India	–	–
Outside India	–	–
Net value of investment		
In India	3,412,419	2,389,757
Outside India	–	–

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

Non-Performing Assets (NPAs) **(Amount in Rs. '000)**

	Particulars	Current Year – 2011-12		
		Movement of NPAs (Gross)	Movement of provisions NPAs (excluding provision on standard assets)	Movement of Net NPAs
(a)	Opening Balance	202,579	40,516	162,063
(b)	Additions during the year	216,931	18,046	13,622
(c)	Reductions during the year *	185,263	–	–
(d)	Closing Balance	234,247	58,562	175,685
	Net NPAs to Net Advances (%)	**1.19%**		

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

	Particulars	Previous Year 2010-1211		
		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 (%)	**1.50** %		

*** 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	2011-12		2010-11	
	Gross NPAs	Provisions	Gross NPAs	Provisions
Sub standard	234,247	58,562	202,579	40,516
Doubtful	–	–	–	–
Loss	–	–	–	–
Total	**234,247**	**58,562**	**202,579**	**40,516**

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	2011-12	2010-11
1	No. of complaints pending at the beginning of the year	42	68
2	No. of complaints received during the year	1415	1277
3	No. of complaints redressed during the year	1401	1303
4	No. of complaints pending at the end of the year	56	42

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

Concentration of Deposits **(Amount in Rs. '000)**

	Particulars	2011-12	2010-11
1	Total Deposits of twenty largest depositors	5,008,661	5,194,243
2	Percentage of Deposits of twenty largest depositors to Total Deposits of the Bank	99.91%	100%

Concentration of Advances **(Amount in Rs. '000)**

	Particulars	2011-12	2010-11
1	Total Advances of twenty largest borrowers	2,159,902	1,991,608
2	Percentage of Advances of twenty largest borrowers to Total Advances of the Bank	14.59%	18.40%

Concentration of Exposures **(Amount in Rs. '000)**

	Particulars	2011-12	2010-11
1	Total Exposure to twenty largest borrowers / customers	2,159,902	1,991,608
2	Percentage of Exposures to twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	14.59%	18.40%

Concentration of NPAs **(Amount in Rs. '000)**

	Particulars	2011-12	2010-11
1	Total Exposure to top four NPA accounts	38,244	48,762

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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	
		2011-12	2010-11
1	Agriculture and allied activities	-	-
2	Industry (Micro & small, Medium and Large)	-	-
3	Services	-	-
4	Personal Loans	1.58%	1.87%

Movement of NPAs

(Amount in Rs. '000)

	Particulars	2011-12	2010-11
1	Gross NPAs - Opening Balance	202,579	173,845
2	Additions – Fresh NPAs during the year	216,931	263,079
3	Sub-Total [A] (1 + 2)	419,510	436,924
4	Less :		
	(i) Upgradations	-	-
	(ii) Write-offs – (Net of recoveries)	185,263	234,345
	Sub-Total [B]	185,263	234,345
5	Gross NPAs – Closing Balance	234,247	202,579

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 with regard to the NPAs as on March 31, 2012, computed as per the RBI guidelines was 62.78%. (March 31, 2011 – 63.69%).

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)	**Investments :**	Repo Transactions. Non-SLR Investment Portfolio. Non performing Non-SLR Investments. Movement of provisions held towards depreciation in Investments. Sale and transfers to / from HTM category. Investments in Associates
(ii)	**Derivatives :**	Forward Rate Agreements / Interest Rate Swaps. Exchange Traded Interest Rate Derivatives. Disclosure on risk exposure in derivatives.
(iii)	**Asset Quality :**	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 Provision for restructured Loans / Assets
(iv)	**Exposures :**	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.	
(xi)	Exposure to NBFCs.	
(xii)	Discontinuing Operations.	

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

2. **Revised contractual agreement:**

The issuer rate expense payable on the inbound transactions and the issuer rate revenue receivable for the outbound transactions for India, recorded through Global Clearing & Settlement System, since inception of the Bank, were historically recorded in the books of American Express International Inc., (AEII) Singapore, instead of Bank's books, and never claimed by either party. This was noted basis an analysis carried out by Bank in June 2012. As per management estimate, the net amount payable to AEII Singapore since inception up to March 31, 2012 is Rs.215,142 thousand. The Bank and AEII Singapore have since mutually agreed not to claim for such potential issuer rate revenue and expenditure, for the period since the inception of the Bank to June 22, 2012. Accordingly, basis the revised contractual agreement dated June 22 2012, such potential receivable / payable amounts do not exist, thus not impacting the profit or loss and hence are not recorded in the books of accounts.

3. **Deferred Taxes**

As of March 31, 2012 the Bank had a net deferred tax assets of Rs.164,857 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	2011-12	2010-11
Deferred Tax Assets		
– On depreciation on fixed assets	44,347	26,086
– On provision for doubtful advances	104,340	98,158
– On provision for other contingencies	8,552	1,850
– On provision for employee benefits	7,618	–
Deferred Tax Liabilities		
– On provision for employee benefits	–	(1,918)
Net Deferred Tax Assets	**164,857**	**124,176**

4. **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	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Segment revenue	5,611,468	4,473,813	217,909	126,025	5,829,377	4,599,838
Segment expense	5,611,592	4,336,312	217,909	126,025	5,829,501	4,462,337
Segment result	**(124)**	**137,501**	**-**	**-**	**(124)**	**137,501**
Unallocated expenses						
Operating Profits					**(124)**	**137,501**
Income taxes					(40,201)	(123,422)
Extraordinary profit / (loss)						
Net profit/(loss)					**40,077**	**260,923**

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

(Amount in Rs. '000)

Segmentation	Banking Operations		Treasury		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Other information :						
Segment assets	17,176,266	14,273,304	3,991,116	2,988,454	21,167,382	17,261,758
Unallocated assets (Taxes)					169,338	128,483
Total assets	**17,176,266**	**14,273,304**	**3,991,116**	**2,988,454**	**21,336,720**	**17,390,241**
Segment liabilities	17,345,604	14,401,787	3,991,116	2,988,454	21,336,720	17,390,241
Unallocated liabilities (Taxes)						
Total liability	**17,345,604**	**14,401,787**	**3,991,116**	**2,988,454**	**21,336,720**	**17,390,241**

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

5. **Related Party Disclosures**

In 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.	
	2011-12	2010-11
Borrowings as on March 31	-	-
Maximum Outstanding	-	-
Deposits as on March 31	4,720,000	5,150,000
Maximum Outstanding	5,770,000	(8,525,080)
Placement of Deposits	-	-
Maximum Outstanding	-	-
Advances as on March 31	-	-
Maximum Outstanding	-	-
Receivables as of March 31	294,578	6,504
Payables as of March 31	775,911	515,773
Transfer of assets	1,803	(1,010)
Interest Paid	400,285	331,800
Income Received	-	-
Revenue from Services Rendered	895,924	720,358
Cost of Services Received	1,858,587	1,218,842

(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.

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

6. **Other Liabilities include:**

(Amount in Rs. '000)

Particulars	2011-2012	2010-2011
Provisions towards Standard Assets	58,262	42,476
General Provisions	94,343	117,888
Prepaid Cards	19,886	-

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

8. **Leases**

The Bank'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	2011-12	2010-11
Future minimum lease payments under non-cancellable operating leases		
• Not later than 1 year	12,928	240
• Later than 1 year and not later than 5 years	365,269	311,658
• Later than 5 years	-	-
Lease payments recognized in the Profit and Loss Account in respect of operating leases	113,747	100,817

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

Movement in provision for membership reward points:

(Amount in Rs. '000)

Particulars	2011-12	2010-11
Opening	705,650	422,639
Additions	349,979	732,177
Utilisations / Write backs	441,134	449,166
Closing Balance	**614,495**	**705,650**

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.

10. **Taxes**

The income tax expenses comprise the following:

(Amount in Rs. '000)

Particulars	2011-12	2010-11
Wealth Tax	480	754
Deferred Income tax (benefit) / expense	(40,681)	(124,176)
Total	**(40,201)**	**(123,422)**

11. **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.)

12. 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)

A	**Charge to the Profit and Loss Account based on contributions:**		
		2011-12	**2010-12**
	Provident fund	33,111	34,076
	Superannuation	2,743	2,760
	TOTAL	**35,854**	**36,836**

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)

		As at 31st March, 2012	As at 31st March, 2011
I	**Assumptions**		
	Mortality	LIC (1996-98)	LIC (1996-98)
	Discount Rate	8.60%	8.00%
	Rate of increase in compensation	Not Applicable	Not Applicable
	Rate of return(expected) on plan assets	7.50%	7.50%
II	**Changes in present value of obligations**		
	Defined Benefit Obligation at beginning of the Year	28,145	30,509
	Interest Cost	2,193	2,334
	Current Service Cost	-	-
	Acturial gain / (loss) on obligation	2,077	(4,698)
	Addition: Transfer to Trust at the Bank	-	-
	Benefit Payments	1,457	-
	Defined Benefit Obligation at end of the Year	26,804	28,145
III	**Changes in fair value of plan assets**		
	Fair Value of Plan Assets at beginning of the Year	70,910	68,890
	Expected return on plan assets	5,263	5,167
	Actuarial gain / (Loss)	3,842	(3,147)
	Addition: Transfer to Trust at the Bank	-	-
	Benefit Payments	51,754	42,765
	Fair Value of Plan Assets at end of the Year	78,558	70,910
IV	**Amounts to be recognised in the balance sheet**		
	Defined Benefit Obligation the end of Year	26,804	28,145
	Fair Value of Plan Assets at end of Year	78,558	70,910
	Amount not recognised as an Asset	-	-
	Surplus Assets	51,754	42,765
V	**Expense Recognised**	**-**	**-**

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

AMERICAN EXPRESS BANKING CORP.

INDIA BRANCH

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SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2012

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, 2012	As at 31st March, 2011
I	**Assumptions**		
	Mortality	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate
	Discount Rate	8.60%	8.00%
	Rate of increase in compensation	11.00% p.a. for first year and 6.00% thereafter	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%
II	**Changes in present value of obligations**		
	DBO at beginning of the Year	60,872	44,818
	Interest Cost	4,624	3,256
	Current Service Cost	8,223	7,812
	Benefits Paid	(6,133)	(4,521)
	Actuarial gain/(loss) on obligation	7,400	9,507
	Liabilities extinguished on settlements	(10,089)	-
	DBO at end of the Year	64,897	60,872
III	**Changes in fair value of plan assets**		
	Fair Value of Plan Assets at beginning of the Year	50,926	53,616
	Expected Return of Plan Assets	3,739	3,852
	Contributions	4000	-
	Benefits paid	(6,133)	(4,521)
	Assets distributed in settlements	(10,089)	-
	Actuarial gain / (loss) on plan assets	1,168	(2,021)
	Fair Value of Plan Assets at end of the Year	43,611	50,926
IV	**Amounts to be recognised in the balance sheet**		
	Present Value of DBO at the end of the Year	64,897	60,872
	Fair Value of Plan Assets at end of the Year	43,611	50,926
	(Funded)/Unfunded Status	(21,286)	(9,946)
	Unrecognised Actuarial Gain /(Loss)	-	-
	Net Asset /(Liability) recognised in the balance sheet	(21,286)	(9,946)
V	**Expense Recognised**		
	Current Service Cost	8,223	7,812
	Interest Cost	4,624	3,256
	Expected Return on Plan Assets	(3,739)	(3,852)
	Net Actuarial Gain /(Loss) recognised for the Year	6,232	11,527
	Expense recognised in the statement of P&L A/c	15,340	18,743

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.

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SCHEDULE TO THE FINANCIAL STATEMENTS OF AMERICAN EXPRESS BANKING CORP. – INDIA BRANCH FOR THE YEAR ENDED MARCH 31, 2012

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. 14,573 thousand. (Previous Period Rs.12,898 thousand)

The liability for leave encashment and compensated absences as on March 31, 2012 is Rs. 69,012 thousand (Previous Period Rs. 68,729 thousand).

13. Disclosure under Micro, Small and Medium Enterprises Development Act, 2006:

During the year, there has been one instance of delay in payment, in excess of 45 days to Micro, Small and Medium Enterprises or of interest payments. The details of the same are as below:

	Particulars	2011-12	2010-11
1	Principal amount due remaining unpaid	1.03	-
2	Interest amount due thereon and remaining unpaid	-	-
3	Amount of interest paid in terms of Section 18 of the MSMED Act 2006	-	-
4	Interest due and payable (under the MSMED Act 2006) which have not been paid (covering all payments)	-	-
5	The amount of interest accrued and remaining unpaid at the end of the accounting year (i.e. including amount brought forward from previous year)	-	-
6	Details on payments made up to June 10, 2012 in respect of outstanding as at Sl. No. 1 above.	1.03	-

14. Details of fees / remuneration received in respect of bancassurance business:

(Amount in Rs. '000)

Particulars	2011-2012	2010-2011
Others – Income from Insurance Referral Business	17,268	12,364

15. 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 27, 2012

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 27, 2012

AMERICAN EXPRESS BANKING CORP.

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Disclosures under Basel II Framework for the year ended March 31, 2012

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, 2012. 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. AEBC India's operations are confined to three business areas viz. card operations, distribution of travellers' cheques and acceptance of institutional deposits.

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. Further, for the year 2011-2012, this also includes the amount of balance held under provision for countercyclical buffer.

Quantitative Disclosure

Amount of Eligible Capital **(Amount Rs.'000)**

Particulars	2011-12	2010-11
Tier – 1 capital		
Paid up share capital (Head Office Funds)	6,177,194	6,177,194
Reserves	76,810	66,791
Total	6,254,004	6,243,985
Amounts deducted from Tier 1 capital		
Intangible Assets	167,081	125,032
Losses upto the current period	1,321,380	1,351, 438
Total Tier I Capital	4,765,543	4,767,515
Tier – II Capital		
General Provisions for Standard Assets.*	152,604	71,864
Total Tier II Capital	152,604	71,864
Total Eligible Capital	4,918,147	4,839,379

* For the year 2011-2012, includes balances held under provision for countercyclical buffer.

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 (including prepaid cards), 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 it 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.

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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, 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 years ended March 31, 2011 and March 31, 2012, 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)

	2011-12		2010-11	
	RWA	**Min. Cap. Req.**	**RWA**	**Min. Cap. Req.**
Credit Risk	19,303,194	1,737,288	14,340,803	1,290,672
Market Risk	113,130	10,182	91,465	8,232
Operational Risk	6,063,353	545,702	6,063,353	545,702
Total	**25,479,677**	**2,293,172**	**20,495,621**	**1,844,606**

* RWA = Risk Weighted Assets.

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

Capital Adequacy Ratio	**2011-12**	**2010-11**
Basel II		
Tier I Ratio	18.70%	23.26%
Total Capital Ratio	19.30%	23.61%

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 mange 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.

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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	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Domestic						
Inter - Bank	211,165	1,493,230			211,165	1,493,230
Investments	-	-	-	-	-	-
Advances -						
- Card Receivables	14,797,285	10,817,056	-	-	14,797,285	10,871,056
- Others	2,340	4,535	-	-	2,340	4,535
Overseas	-	-	-	-	-	-
Total	**15,010,790**	**12,314,821**	-	-	**15,010,790**	**12,368,821**

(b) Residual maturity breakdown of total assets:

As on March 31, 2012 **(Amount Rs.'000)**

	Cash and Balances with RBI	Balances with Banks	Investments	Advances	Fixed Assets	Other Assets	Total
1 – 14 days	188,320	106,619	1,525,529	5,521,058	-	11,289	7,352,815
15 – 28 days	49,347	13,118	237,209	6,050,169	-	320,060	6,669,903
29 days – 3 months	85,025	23,103	417,772	2,392,399	-	169,972	3,088,271
3 months – 6 months	64,426	17,200	311,023	262,589	-	-	655,238
6 months – 1 year	72,815	39,606	716,191	231,918	-	-	1,060,530
1 year – 3 years	26,172	7,263	127,720	104,907	-	23,983	290,045
3 years – 5 years	-	-	-	175,685	-	-	175,685
Over 5 years	92,592	4,256	76,975	2,339	381,836	164,856	722,854
TOTAL	**578,697**	**211,165**	**3,412,419**	**14,741,064**	**381,836**	**690,160**	**20,015,341**

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
TOTAL	**598,697**	**1,493,230**	**2,389,757**	**10,781,075**	**455,759**	**320,285**	**16,038,803**

(c) Amount of NPA:

(Amount Rs.'000)

Non-performing asset category	2011-12	2010-11
Sub standard	234,247	202,579
Doubtful	-	-
Loss	-	-
Total	**234,247**	**202,579**

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(d) NPA Ratios:

	2011-12	2010-11
Gross NPA as a ratio to gross advances	1.58%	1.87%
Net NPAs as a ratio to net advances	1.19%	1.50%

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

(Amount Rs.'000)

Particulars	2011-12			2010-11		
	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	202,579	40,516	162,063	173,845	34,769	139,076
Additions during the year	216,931	18,046	13,622	263,079	5,747	22,987
Reductions during the year*	185,263	-	-	234,345	-	-
Closing Balance	**234,247**	**58,562**	**175,686**	**202,579**	**40,516**	**162,063**

* 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 Bank's 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)

	2011-12	2010-11
Interest rate Risk	10,182	8,232

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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 Operational 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 year's data, Reserve Bank of India has permitted the Bank's projected financial results to be used in the place of previous year s data, to the extent applicable. Accordingly, for the year ended March 31, 2011 the Bank has used the data for the years 2008-2009, 2009-2010 and 2010-2011 for computing the capital requirement for operational risk. As these three years constitute the previous three year period for the year ended March 31, 2012, the same has been used for the year ended March 31, 2012 as well.

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:

	2011-12		2010-11	
	Earnings Perspective	**Economic value perspective**	**Earnings Perspective**	**Economic value perspective**
Interest Rate Shock Amount (Rs. In '000)	100 basis points 64,561	200 basis points 66,666	100 basis points 33,813	200 basis points 44,602