



BASEL II DISCLOSURES – MARCH 2009

Bank is continuously upgrading and fine-tuning the Risk Management Systems in tune with best practices and regulatory directions. Recognizing the importance of risk management in the overall growth and development of bank's business, a holistic view of risk management framework has been designed by putting in place an effective risk governance structure, systems, policies and procedures for identification, assessment, monitoring, mitigation and control of risks.

The guidelines issued by Reserve Bank of India, prescribe a series of disclosures in connection with the implementation of the new framework. The following disclosures made are intended to achieve these objectives:

Scope of application

a) Name of the top Bank in the group to which the framework applies	The Bank does not belong to any group
b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with brief description of the entities within the group	Not Applicable

Quantitative Disclosures

(c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.	Not Applicable
(d) The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.	Not applicable

Capital structure

Quantitative Disclosures

a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier I or in Upper Tier 2.

The Tier I capital of the Bank mainly consists of Share capital, free Reserves and certain specific reserves appropriated from the net profit earned by the bank. Innovative Perpetual Debt Instrument (IPDI) is also reckoned as Tier I Capital as per the RBI norms.

During the FY 2007-08 Bank has raised IPDI of Rs.240 Crores at a coupon rate of 9.90% p.a. and in the FY 2008-09, Bank has raised IPDI of Rs.339 Crores at a coupon rate of 9.40% p.a. payable annually with step up coupon rate of 0.50% p.a. for further life, if call option is not exercised at the end of 10th year from the date of allotment.

Tier II Capital consists of certain percentage of revaluation reserves, risk provision which are not netted off, Tier II and Upper Tier II Bonds. The terms and conditions of these bonds and the principles of reckoning them as capital funds are guided by RBI regulation.

Bank has raised Rs.2419.70 crores through Tier II bonds since 2004-05 with coupon rate ranging from 6.90% to 9.35%. During the FY 2008-09 Bank has raised Lower Tier II Bonds of Rs.300 Crores at a coupon rate of 8.60% p.a. for 10 years

	Rs. in Crs
b) The amount of Tier 1 capital, with separate disclosure of	
• Paid-up share capital	521.97
• Reserves	4069.67
• Innovative instruments	579.00
• Other capital instruments	NIL
• Amounts deducted from Tier 1 capital, Equity investments in Associates (50%)	16.67
(c) The total amount of Tier 2 capital (net of deductions from Tier 2 capital)	3174.06
(d) Debt capital instruments eligible for inclusion in Upper Tier 2 capital	
Total amount outstanding	819.70
Of which amount raised during the current year	NIL
Amount eligible to be reckoned as capital funds	819.70

(e) Subordinated debt eligible for inclusion in Lower Tier 2 capital	
Total amount outstanding	1825.00
Of which amount raised during the current year	300.00
Amount eligible to be reckoned as capital funds	1745.00
(f) Other deductions from capital, if any. Equity investments in Associates (50%)	16.67
(g) Total eligible capital.	8328.02

Capital Adequacy

Qualitative disclosures

(a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities:

i) Bank has targeted a CRAR of 11.50% based on a projected credit growth of 25%. On account of International presence, maintenance of CRAR of 12% with Tier I CRAR of 8% is envisaged during the next four years.

ii) Considering the business profile and the projected growth, capital is assessed with reference to

Pillar I risks namely,

1. Credit Risk – Standardized approach
2. Market risk –Standardized duration approach
3. Operational Risk- Basic Indicator Approach and

Pillar II risks namely,

4. Concentration Risk
5. Liquidity Risk
6. Interest rate risk in banking book
7. Residual Risk
8. Reputation Risk
9. Strategic Risk
10. Earnings Risk
11. Capital Risk

iii) Periodically review the business plan with the trends in the economy and assess the capital requirement, based on future plans and proposed strategies.

For the purpose of computation of capital under Basel II framework, bank collects account wise details of all its corporate asset class and data on other asset classes which are subjected to the audit process.

The Board is periodically apprised of the capital driven business plan and capital requirement, based on business strategies and future plans.

Quantitative Disclosures:

(b) Capital Requirements for Credit Risk

Rs. in crores

Portfolios subjected to standardized approach	5193.72
Securitization Exposures	NIL

(c) Capital requirements for Market Risk:

Standardised Duration Approach:

Rs. in crores

Interest rate risk	279.17
Equity position risk	66.33
Foreign exchange risk	10.26

(d) Capital Requirement for Operational Risk

Basic Indicator Approach

Rs. in crores

Capital Requirement as per Basic Indicator Approach	359.48
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(e) Total Capital Ratio for the Bank

Total Capital to Risk Weighted Assets Ratio as per New Capital Adequacy Framework	12.68
Tier I Capital to Risk Weighted Assets Ratio as per Basel -II	7.85
Total Capital to Risk Weighted Assets Ratio - as per Basel I norms	11.37
Tier I Capital to Risk Weighted Assets Ratio as per Basel -I	7.03

Prudential floor on capital required

Rs. in crores

Minimum capital required as per the revised framework	5908.96
Minimum capital required as per Basel I framework for credit and market risk. (90% of Basel I)	5955.67
Prudential floor- Higher of the above	5955.67

Credit Risk – General Disclosures

a) Qualitative Disclosures:

Bank follows RBI definition of default for classifying and accounting for income recognition, asset classification and provisioning norms:

Non-Performing asset is defined as a loan/advance where

1. Interest and/or Instalment of principal remain overdue for a period of more than 90 days in respect of term loan.
2. The account remains out of order for 90 days in respect of an overdraft/cash credit
3. Bill remains overdue for a period of more then 90 days in the case of bills purchased and discounted
4. A loan granted for short duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.

5. A loan granted for long duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.
6. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Discussion of the bank's credit risk management policy:

The Bank is exposed to uncertainties and risk due to various economic or environmental factors, some of them inherent to the banking business and others which are unforeseen and unexpected. Risk management is the comprehensive process adopted by a bank to minimize adverse effects of such risks and uncertainties. Through the process of risk management the bank equips itself with tools and systems capable of assessing, monitoring and controlling risk exposures in a scientific manner. Bank has an effective governance structure for managing credit risk. Risk Management Committee, a sub-committee of the Board headed by the Chairman and Managing Director devises the policy and strategies for Integrated Risk Management containing various risk exposures of the bank including credit risk. There is also a Credit Risk Management Committee, an apex level executive committee responsible for implementation of the credit risk policy and strategies.

Bank has a well laid down credit risk policy, which clearly articulates credit risk appetite and the processes for monitoring and managing the credit risk. The policy is periodically updated in tune with industry, regulatory, economic and market developments. The policy prescribes prudential limits for taking up credit exposures.

Credit risk is defined as the possibility of losses arising out of failure of borrowers to fulfill their contractual commitments or the diminution in the credit quality of borrowers.

Bank in association with CRISIL has developed a risk rating assessment model with the capability to generate PD and LGD. There are software driven rating models depending on the type and quantum of exposures. Bank has put in place clearly delegated powers to functionaries at different levels to sanction credit limits. Term loan proposals beyond specified limits are cleared by Credit Committees constituted at Regional Office level. Large loan proposals are referred to Credit Approval Committee at Corporate Office for clearance before sanction. Project Appraisal Cell evaluates high value projects. Credit sanction is de-linked from credit risk management function.

Bank has a system of Loan Review mechanism which is performed by Risk Management and Monitoring Department at Corporate Office and by Risk Management cell at Regional Offices. All credit sanctions of Rs.5.00 lacs and above are reviewed by the next higher authority. Ratings allocated by lower officials are confirmed by the reviewing authority. Review of sensitive sector

accounts under various categories is made on a monthly/quarterly basis depending on the quantum of exposures. Bank has a system of identifying and monitoring accounts that show early symptoms of delinquency. System of portfolio audit is introduced for all accounts of Rs.1 crore and above and annual stock audit for accounts secured by stocks and book debts with exposures above specified limits. Bank has well laid down process for conducting Due Diligence, periodic stock and unit inspection, in order to monitor the health of loan assets.

Individual/group concentrations in credit portfolios are managed by fixing internal limits by the Board. Concentration risk in sector/industries is addressed through stipulation of industry-wise and sector-wise exposure limits. Bank has prescribed caps for credit rating wise distribution of advances and also monitors geographical distribution of advances to ensure a well diversified portfolio.

Quantitative Disclosures:

(b) Total Gross Credit Exposures: (Rs in crs)

Fund based credit exposures	82495
Non-fund based credit exposures	9340

(c) Geographic distribution of credit exposures: (Rs in crs)

Overseas:	
Fund based credit exposures	8331
Non-fund based credit exposures	138
Domestic:	
Fund based credit exposures	74164
Non-fund based credit exposures	9202

(d) Industry-wise distribution of exposures (Both fund based and non-fund based) (Rs in crs)

SI No	Industry	Credit		Investment	Total Exposure
		Fund Based	Non Fund Based		
1	Infrastructure	7467	1358	100	8925
2	Petroleum	3082	466	40	3588
3	All Engineering	701	1891	14	2606
4	Iron and Steel	2151	346	10	2507
5	Chemicals Dyes & Paints	814	993	3	1810
6	Construction	545	914	61	1520
7	Textiles	1175	57	18	1250
8	Gems and Jewellery	549	341	3	893
9	Cement & Cement Products	600	15	16	631

Among industrial exposures, bank's exposure to infrastructure (fund based and non fund based) is **10.32%** of gross fund based and non fund based credit exposure of the bank.

(e) Residual contractual maturity-wise breakdown of assets

(Rs. Crs)

Residual Maturity	1 day	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 mths	Over 3 mths to 6 mths	Over 6 mths to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
i) Loans & Advances	3489	4056	2320	3387	5108	5958	9317	29298	8068	10531	81532
ii) Investments & Securities	1	415	42	173	529	307	1404	1967	4049	21650	30537
iii) Deposits	895	5957	2585	2425	9791	15744	27275	35107	3259	12847	115885
iv) Borrowings	2	0	0	0	0	142	885	1002	124	36	2191
v) Foreign Currency Assets	1649	2061	455	385	1750	974	304	730	734	392	9434
vi) Foreign Currency Liabilities	634	2562	507	727	1594	1259	628	534	1	0	8446

The above maturity pattern has been compiled based on information received from branches, guidelines prescribed by RBI for determining core and volatile portion of certain assets/liabilities and adjustment/ apportionment made at Head Office on the basis of behavioral maturity.

(f) Amount of NPAs

(Rs in crs)

Substandard	589.91
Doubtful 1	544.13
Doubtful 2	429.08
Doubtful 3	14.93
Loss Assets	16.49

(g) Net NPAs

(Rs in crs)

	631.77
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(h) NPA Ratios:

(Rs in crs)

Gross NPAs to Gross Advances	1.93
Net NPAs to Net Advances	0.77

(i) Movement of NPAs (Gross)

(Rs in crs)

Opening Balance	1768.65
Additions	960.70
Reduction	1134.81
Closing Balance	1594.54

(j) Movement of Provisions for NPAs

(Rs in crs)

Opening Balance	1107.40
Provisions made during the year	380.83
Write-off	562.19
Write-back of excess provisions	
Closing Balance	926.19

(k) Amount of non-performing investments:

(Rs in crs)

Amount of non-performing investments	60.90
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(l) Amount of provisions held for non-performing investments:

(Rs in crs)

Provisions held for non-performing investments	20.90
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(m) Movement of provisions for depreciation of investments:

(Rs in crs)

Opening Balance	65.64
Provisions made during the year	84.56
Write-off	
Write-back of excess provisions	34.65
Closing Balance	115.55

Disclosures on portfolios subjected to standardized approach.

Bank has computed credit risk capital on all its portfolios by applying risk weights as prescribed by Reserve Bank of India for Standardised Approach. Reserve Bank of India has recognized external ratings for application of preferential risk weight for corporate exposures. For the purpose of application of external credit ratings, rating by recognized external credit rating agencies as follows are made use of:

1. CRISIL
2. ICRA
3. CARE
4. FITCH (INDIA)

The external ratings available in the public domain were utilized for application of preferential risk weights through the mapping process defined by Reserve Bank of India:

- Long Term ratings are used for mapping unrated Long Term and Short Term Exposures
- Where issuer rating is assigned, same is used for Bank's exposure
- External public ratings are used only when our exposures are senior or pari-passu to the external ratings.
- Short term ratings are issue specific and are not used for mapping long term exposures. However, wherever short term ratings are applied to unrated short term exposures, the relevant short term exposure attracts a

- risk weight of atleast one level higher than the risk weight applicable to the rated short term of the counterparty.
- The tenor of the bond/debenture rated by external rating agencies is taken for mapping residual maturity with Bank's exposure as per the total period considered by the rating agencies for repayment.

Quantitative Disclosures:

Exposure amounts after risk mitigation subject to standardized approach:

(Rs in crs)

Risk weight category	Exposure after Credit Risk Mitigation	Externally Rated Exposure after Credit Risk Mitigation	Unrated
Advances			
Below 100% Risk Weight	42537.88	15802.59	26735.29
100% Risk Weight	22329.84	4846.89	17482.95
More than 100% Risk Weight	6854.64	833.15	6021.49
Deducted			
Investments			
Below 100% Risk Weight	24158.65		24158.65
100% Risk Weight	75.94		75.94
More than 100% Risk Weight	46.87		46.87
Deducted			

Credit Risk Mitigation

Bank's credit risk policy recognizes the following collaterals for mitigation of credit risk in borrowers:

1. Cash, including deposits
2. Gold
3. Securities issued by Central and State Governments, KVPs, NSCs
4. Life Insurance Policies with a declared surrender value of an insurance company which is regulated by IRDA.
5. Corporate Debt Securities
6. Equities of listed Corporates
7. Units of mutual funds
8. Land and Building
9. Raw materials/stock in trade/produce and other goods
10. Book debts and receivables
11. Movable assets such as machineries, automobiles etc.,
12. Documents of title to goods

Standardised Approach for Credit Risk under Basel-II Accord does not recognize collaterals like landed property, Stock, machinery etc. The New Framework recognizes only cash collaterals, which are termed as "Eligible Financial

Collaterals". The following eligible financial collaterals are recognized by the bank for credit risk mitigation purposes for Basel II:

1. Cash including bank's own deposits
2. Gold
3. KVPs & NSCs (without Lock in Period)
4. Life Insurance Policy

The value of the collateral is permitted to be offset against the value of the exposures before computing the Risk-Weighted Assets, after adjusting for possible future fluctuations in the value of collateral caused by market movements. In respect of exposures other than those covered by deposits, wherever there is maturity mismatch, risk mitigation has not been considered.

In case of jewel loans bank is taking sufficient margin to take care of volatility in value. Hence, even after adjusting for haircut, value of gold will completely off-set the exposures. In case of KVPs & NSCs, only those which have completed three years (lock in period) have been recognized for mitigation.

In line with regulatory guidelines, Bank has recognized only the following eligible guarantors for recognition of credit protection:

- Central Govt,
- State Govt,
- CGTSI and
- ECGC.

The guaranteed portion is assigned the risk weight of the guarantor provided by RBI.

As the bank has taken its own deposits and NSCs/KVPs as eligible collaterals, there are no market or credit concentrations within collaterals.

Securitization Disclosure for standardized approach

Not Applicable since bank does not undertake securitization activity

Market Risk in Trading Book

Qualitative Disclosures:

Bank has a Board approved Investment Policy which articulates various guidelines, financial benchmarks, maturity limits, entry-level ratings for investment and operations in various market segments. The Policy consists, inter- alia, various limits like Issuer wise limits, Duration limits, Single Party exposure limits, Industry wise exposure limits, Modified Duration based limits etc. for the portfolio as part of Market Risk Management. A Value at Risk (VaR) based limit is also stipulated for Held for Trading Portfolio (HFT). The Capital

Charge for Market Risk is calculated at monthly intervals based on Standardised approach under Modified Duration method as per Basel II guidelines of RBI.

Quantitative disclosures:

(Rs in crs)

Interest rate risk	279.17
Equity position risk	66.33
Foreign exchange risk	10.26

Operational Risk

Bank has well laid down manual of instructions covering the entire gamut of its business. These manuals are periodically supplemented with circulars to update the information with developments internal and external to the bank. Detailed checklists are provided to branches on all major products and services. Bank has put in place a series of policies in order contain operational risk exposures. Bank has put in place a fraud risk management policy to prevent frauds, KYC and AML policy to arrest KYC and AML violations. Bank had created off-site monitoring cells at head office and regional offices to monitor sensitive transactions on a regular basis to serve as an early warning system.

Bank had implemented well defined business continuity plan in order to address business continuity issues. A detailed disaster recovery plan has been put in place, one near site and one far site is maintained to address IT related business continuity. Information security is managed through information security policy. Periodical vulnerability and penetration testing are conducted to ensure integrity of the information system security.

Bank has adopted Basic Indicator approach to assess the capital under operational risk. In terms of new capital adequacy norms, Banks' operational risk capital charge has been assessed at 15% of positive annual average Gross Income over the previous three years as defined by RBI.

Interest rate risk in banking book:

Qualitative disclosures

a) Bank is monitoring the IRRBB through Earning at Risk (EaR) module periodically. Bank has also fixed a limit of Rs.125 crs. as the tolerance limit for EaR for one year. While calculating the EaR it is assumed that PLR of the bank will be changed once in 6 months.

Quantitative disclosures

b) The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (where the turnover is more than 5 per cent of the total turnover)

As per the EaR arrived for the entire balance sheet, the same is at Rs 58.31 Crs for one year with an expected change in interest rate by 1%. This is within the tolerance of Rs. 125 crs. fixed by the bank.