

## 10. Basel II Disclosures

### 10.1 Capital Structure

Bank's capital structure consists of Tier 1 and Tier 2 capital. The major components of Tier 1 capital are equity share capital, equity share premium, statutory reserves, general reserves, special reserve (Section 36(i)(viii)) and capital reserves (other than revaluation reserves). Tier 2 capital consists of subordinated debt, revaluation reserves, provision for standard assets, special reserve (swap) and investment reserve. Bank has not issued any Upper Tier 2 bonds or perpetual debt or other innovative instruments.

The break up of capital funds is as follows:

(Rs crore)

	As on 31.03.2009	As on 31.03.2008
Tier 1 Capital		
Paid up Share capital	18.88	12.54
Share Premium	86.30	43.37
Statutory Reserves	121.55	112.25
Capital Reserves	30.14	7.80
Special Reserve (36 (i) (viii))	6.14	3.99
Other eligible reserves	82.73	82.43
Total Tier 1 Capital (Gross)	345.74	262.37
Less Deferred Tax Assets and Other Intangible Assets	35.42	30.24
<b>Total Tier 1 Capital (Net) [A]</b>	<b>310.32</b>	<b>232.14</b>
Tier 2 Capital		
Subordinated debt (eligible for inclusion in Lower Tier 2 capital)	92.80	92.80
(Of which amount raised during the current year)	(Nil)	(Nil)
Less Discount	9.28	3.86
Subordinated debt eligible to be reckoned as capital funds	83.52	88.94
Revaluation Reserves after discounting	18.38	18.69
Provision for Standard Assets	19.21	19.21
Investment Reserve	1.22	0.74
Special Reserve (Swap)	0.51	0.51
<b>Total Tier 2 Capital (Net) [B]</b>	<b>122.84</b>	<b>128.09</b>
<b>Total Eligible capital [A] + [B]</b>	<b>433.16</b>	<b>360.23</b>

### 10.2 Capital Adequacy

Regulatory Capital Adequacy position (as per Basel I & Basel II norms as made applicable by RBI) is assessed periodically. Besides, the bank also assessed its own internal estimate of risk capital based on its Board approved ICAAP policy and Stress Testing Policy. Risks are assumed in line with the Bank's risk bearing capacity and capability in order to generate yields, taking risk-return frontier into account. This aims to ensure that risks that could jeopardize the Bank's existence are avoided.

### 10.2.1 Capital Requirement for Credit Risk – Standardised Approach

(Rs Crore)

Portfolios	Gross Exposure		Capital Requirement	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
<b>On Balance Sheet</b>				
Cash & Balance with RBI	370.26	506.51	0.00	0.00
Inter Bank Deposits	577.33	82.98	11.04	1.50
Investments (HTM)	1743.46	1548.82	31.19	28.93
Advances	*3533.85	3313.56	212.77	197.54
Fixed Assets & Other Assets	224.68	237.72	10.32	10.57
Total	6449.58	5689.59	265.33	238.54
<b>Off Balance Sheet</b>				
Letter of Credit & Guarantees	132.22	143.27	4.42	5.77
Undrawn Credit Commitments	586.51	574.68	9.20	8.55
Forward Exchange Contracts	523.24	620.26	0.65	0.60
Cross Currency Coupon Only Swap	16.00	16.00	0.03	0.02
Total	1257.97	1354.21	14.30	14.94
<b>Total On &amp; Off Balance Sheet</b>	<b>7707.55</b>	<b>7043.80</b>	<b>279.63</b>	<b>253.48</b>

\* Excluding CBLO Lending of Rs 149.99 crore, which is included in Trading Book for capital adequacy computations.

### 10.2.2 Capital Requirement for Market Risk – Standardised Duration Approach

(Rs Crore)

Type of Market Risk	Gross Exposure		Capital Requirement	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
Interest Rate Risk	*587.96	264.89	5.43	4.92
Foreign Exchange Risk	6.65	6.00	0.60	0.54
Equity Risk	2.54	5.73	0.57	1.29
Total	597.15	276.62	6.60	6.75

\* Includes CBLO Lending of Rs 149.99 crore.

### 10.2.3 Capital Requirement for Operational Risk – Basic Indicator Approach

(Rs Crore)

	As on 31.03.09	As on 31.03.08
Capital Requirement	30.87	28.91
Equivalent Risk Weighted Assets	342.99	321.24

### 10.2.4 Total Capital Requirement

(Rs Crore)

Type of Risk	Capital Requirement		Risk Weighted Assets	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
Credit Risk	279.63	253.48	3107.00	2816.47
Market Risk	6.60	6.75	73.39	74.96
Operational Risk	30.87	28.91	342.99	321.24
<b>Total</b>	<b>317.10</b>	<b>289.14</b>	<b>3523.38</b>	<b>3212.67</b>

Total Net Tier 1 Capital	310.32	232.14
Tier 1 Capital Ratio (%)	8.81%	7.23%
Total Tier 2 Capital	122.84	128.09
Tier 2 Capital Ratio (%)	3.49%	3.98%
Total Capital Funds	433.16	360.23
Capital Adequacy Ratio as per Basel II Norms (%)	<b>12.29%</b>	<b>11.21%</b>

### 10.3 Credit Risk: General Disclosure

#### 10.3.1 Definition of past due and impaired loans

Bank strictly adheres to RBI norms regarding definitions of past due and impaired loans, as under (in brief):

- i) interest and or instalment of principal remain overdue for a period of more than 90 days in respect of term loan accounts
- ii) the account remains 'out of order' (the outstanding balance remains continuously in excess of sanctioned limits/Drawing Power for more than 90 days) in respect of Overdraft/Cash credit accounts
- iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
- iv) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- v) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

#### 10.3.2 Credit Risk Management Policy

The Executive level committee – Credit Risk Management Committee (CRMC) which reports to Risk Management Committee (RMC) of the Board, is responsible for the management and mitigation of credit risk in the bank. Credit Risk Management Department and Credit Monitoring Department at Head Office level act as the secretariat of CRMC.

Credit approvals are subject to a well established and time tested system of competencies, which act as a framework within which decision making individuals or committees are authorised to enter into lending transactions. Responsibility for the approval of loans is dependent on size, security and type of the loan.

Credit rating system is in force using various CRA formats, developed by the Bank to measure the risk involved in each borrowal account. All borrowers with an aggregate credit limit of Rs 25 lakh and above are subjected to individual credit rating. Gold loans, Loans against Deposit Receipts, Housing Loans, Loans against NSC & Insurance policies and staff loans are subjected to portfolio rating.

Operations in all credit exposures of Rs 50 lakh and above are monitored on a monthly basis by Credit Monitoring department to detect delinquency signals at an early date and nurse the account.

The bank has put in place a Loan Review Mechanism for constantly evaluating the quality of loans and to bring about qualitative improvements in credit administration. All Medium risk accounts are subjected to half yearly review and all High risk and Very high risk accounts are subjected to quarterly review.

Rating migration studies are conducted at regular intervals.

Pricing of exposures of Rs 2 crore and above is subjected to RAROC analysis based on bank's Board approved Risk Adjusted Return On Capital (RAROC) model.

Both regulatory capital and economic capital requirements are assessed at the time of credit appraisal of corporate exposures.

#### 10.4 Credit Risk Exposure

##### 10.4.1 Gross Credit Risk Exposure – Banking Book

(Rs Crore)

	Loans		Investments	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
Fund Based	3533.85	3313.56	1743.46	1548.82
Non Fund Based	132.22	143.27	0.00	0.00
Total	3666.07	3456.83	1743.46	1548.82

##### 10.4.2 Industry type distribution (compiled from unaudited returns)

(Rs Crore)

	Advances, Letter of Credit & Guarantees		Investments	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
Central Government	Nil	Nil	1303.96	1128.47
State Governments	Nil	Nil	83.50	83.58
Public Sector	30.09	29.11	9.34	15.35
Manufacturing Industries	Nil	Nil	Nil	Nil
a) Cotton Textiles	290.09	396.17	Nil	Nil
b) Other Textiles	115.89	129.59	Nil	Nil
c) Chemicals	139.12	94.14	Nil	Nil
d) All Engineering	16.85	54.32	Nil	Nil
e) Food Processing	50.32	35.44	Nil	Nil
f) Other Industries	524.23	352.86	Nil	Nil
Total Manufacturing Industries	1136.50	1062.52	Nil	Nil
Agriculture	476.57	442.67	Nil	Nil
Residential Mortgage	316.16	348.50	Nil	Nil
Commercial Real Estate	165.38	158.82	Nil	Nil
Consumer Credit	245.77	233.13	Nil	Nil
Students	51.16	39.27	Nil	Nil
Wholesale & Retail Trade	256.41	178.00	Nil	Nil
Hospitals, Educational Institutions & Trusts	38.90	97.95	Nil	Nil
Banks	55.39	59.96	5.25	10.26
RIDF, RHF, MSME Fund	Nil	Nil	341.41	311.16
NBFCs	53.69	41.52	Nil	Nil
Own Staff	158.16	149.62	Nil	Nil
All Others	681.89	615.76	Nil	Nil
	3666.07	3456.83	1743.46	1548.82

#### 10.4.3 Residual contractual maturity breakdown of assets

	Advances		Investments	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
1-14 days	171.85	128.16	0.00	74.00
15-28 days	177.46	32.03	89.44	24.54
29d-3Mon	152.76	116.30	308.50	78.37
3-6 Mon	213.58	203.19	21.83	34.18
6M-1Yr	603.59	606.95	22.42	17.05
1-3Years	1474.57	1385.74	105.34	44.14
3-5 Years	311.63	340.44	487.58	336.71
> 5 Yrs	578.40	500.75	1148.86	1210.44
<b>Total</b>	<b>3683.84</b>	<b>3313.56</b>	<b>2183.97</b>	<b>1819.43</b>

#### 10.4.4 Disclosures regarding Non Performing Assets

(Rs Crore)

	As on 31.03.2009	As on 31.03.2008
<b>Amount of NPAs (Gross)</b>		
Substandard	52.93	29.72
Doubtful 1	30.43	12.58
Doubtful 2	31.75	30.61
Doubtful 3	49.39	52.29
Loss	7.28	6.19
Total Gross NPAs	171.78	131.39
Net NPAs	87.94	53.24
<b>NPA Ratios</b>		
Gross NPAs to Gross Advances	4.56%	3.88%
Net NPAs to Net Advances	2.39%	1.61%
<b>Movement of NPAs (Gross)</b>		
Opening balance	131.39	129.06
Additions	62.83	38.19
Reductions	22.44	35.86
Closing balance	171.78	131.39
<b>Movement of provisions for NPAs</b>		
Opening balance	73.74	64.11
Provisions made during the period	7.78	11.91
Write-off & Write back of excess provisions	1.64	2.28
Closing balance	79.88	73.74
Amount of Non-Performing Investments	2.00	4.16
Amount of provisions held for non performing investments	2.00	4.16
<b>Movement of provisions for depreciation on investments</b>		
Opening balance	10.55	7.40
Provisions made during the period	0.53	3.72
Write-off & Write back of excess provisions	3.50	0.57
Provision account debited during the year	1.30	-
Closing balance	6.28	10.55

#### 10.4.5 Credit Risk: Disclosures for portfolios subject to standardised approach

In accordance with RBI guidelines, the bank has adopted standardised approach for computation of capital for credit risk. Bank Loan Ratings of CRISIL, CARE, ICRA and Fitch India are considered for arriving at the capital requirement.

#### 10.4.6 Risk weight wise classification of exposures

(Rs Crore)						
	Gross Credit Exposure		Capital Deductions		Exposure after Capital Deductions	
	(A)		(B)		(C) = (A) – (B)	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
<b>Advances, Letter of Credit &amp; Guarantees</b>						
Below 100% risk weight	1997.66	1950.22	0	0	1997.66	1950.22
100% risk weight	1172.86	1034.66	0	0	1172.86	1034.66
More than 100% risk weight	495.55	471.95	0	0	495.55	471.95
Total	3666.07	3456.83	0	0	3666.07	3456.83
<b>Investments</b>						
Below 100% risk weight	1398.80	1229.40	0	0	1398.80	1229.40
100% risk weight	344.66	319.42	0	0	344.66	319.42
More than 100% risk weight	0	0	0	0	0	0.00
Total	1743.46	1548.82	0	0	1743.46	1548.82

#### 10.5 Credit Risk Mitigation: Disclosures for standardised approaches

Of the eligible financial collaterals, the types of collateral taken by the bank are gold ornaments and bank's own deposit receipts. Gold ornaments are accepted as collateral by branches after due scrutiny and are marked to market value on a daily basis.

Total exposure that is covered by eligible financial collateral after the application of haircuts is Rs 704.38 Crore (previous year Rs 681.00 crore).

The types of guarantees recognized for credit risk mitigation are guarantee by central government, state government, ECGC and banks (in the form of bills purchased/discouted under Letter of credit).

#### 10.6 Securitisation

No exposure of the bank has been securitised.

#### 10.7 Market Risk in the Trading Book

Bank has put in place Board approved Market Risk Management Policy, Investment Policy and Foreign Exchange Policy for effective management of market risk of the bank.

Bank's Integrated Treasury manages the trading book. Proprietary trading is done in government securities, equity shares and foreign exchange. Adherence to limits is reported on a monthly basis to the Executive level Asset Liability Committee (ALCO) and Risk Management Committee (RMC) of the Board.

Portfolios covered by standardised approach are government securities, other trustee securities, Non SLR bonds & debentures, Certificate of Deposits and Equity Shares.

##### 10.7.1 Capital Requirement for Market Risk

Type of Market Risk	Gross Exposure		Capital Requirement	
	As on 31.03.09	As on 31.03.08	As on 31.03.09	As on 31.03.08
Interest Rate Risk	587.96	264.89	5.43	4.92
Foreign Exchange Risk	6.65	6.00	0.60	0.54
Equity Risk	2.54	5.73	0.57	1.29
Total	597.15	276.62	6.60	6.75

(Rs Crore)

### 10.8 Operational Risk

The Executive level committee - Operational Risk Management Committee (ORMC) which reports to Risk Management Committee (RMC) of the Board, is responsible for the management and mitigation of operational risk in the bank. The bank has framed Operational Risk Management Policy duly approved by the Board. Other policies approved by the board that deal with the different facets of operational risk are Inspection Policy, Human Resource Management Policy, IT Policy, Compliance Policy, Business Continuity & Disaster Recovery Plan and Outsourcing policy.

Bank has obtained Bankers' Indemnity Policy to cover the risk of cash in transit and cash and securities including gold ornaments kept at branches. Risk Based Internal Audit (RBIA) is operational at all the branches.

Bank is adopting Basic Indicator Approach for arriving at capital charge for operational risk in compliance with RBI guidelines and is in the process of building database for moving to Advanced Approaches.

### 10.9 Interest Rate Risk in the Banking Book

The Executive Level Committee - Asset Liability Committee (ALCO) has the overall responsibility of managing the interest rate risk in the banking book of the bank. ALCO fixes the deposit and lending rates of the bank and directs the investment activities of the bank in line with its interest rate view. Limits are fixed from both Earnings and Economic Value Perspective in board approved Market Risk Management Policy and adherence monitored on a monthly basis. Interest Rate Risk from Earnings Perspective is measured through Earnings at Risk (EaR) approach basis (which computes the impact on NII of various interest rate changes) on a monthly basis. Interest Rate Risk from Economic Value Perspective is measured using Modified Duration Gap Approach on a monthly basis.

The Risk Management Committee of the Board oversees the ALM process of the bank and reviews the decisions taken by the ALCO.

### 10.9.1 Interest Rate Risk – Earnings Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (Rs Crore)	
	As on 31.03.09	As on 31.03.08
+25 basis points	+2.47	+1.69
-25 basis points	-2.47	-1.69

### 10.9.2 Interest Rate Risk – Economic Value Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (Rs Crore)	
	As on 31.03.09	As on 31.03.08
+25 basis points	-14.05	-13.87
-25 basis points	+14.05	+13.87

### 10.10 Application of Prudential Floor

Bank has migrated to Basel II framework of capital adequacy with effect from 31.03.2008. Guidelines on implementation of the New Capital Adequacy framework issued by RBI, stipulates higher of the following amounts as the minimum capital required to be maintained by the Bank in the second year of adoption:

- a) Minimum capital as per Basel II norms for Credit, Market and Operational risks.
- b) 90% of Minimum capital as per Basel I norms for Credit and Market Risk.

The minimum capital required to be maintained by the Bank as on 31.03.2009 as per Basel II norms is Rs 317.10 crore and 90% of Basel I is Rs 292.09 crore. Thus, due to application of prudential floor, minimum capital to be maintained by the bank is as per Basel II norms, i.e. Rs 317.10 crore. Actual capital maintained by the bank as on 31.03.2009 is Rs 433.16 crore which is well above this requirement.



## 11. Comparative Figures

Previous year's figures have been regrouped and recast wherever necessary to conform to current year's classification.

P.V.Antony  
AGM (Accounts) & CRO

Joseph Bernard Mathew  
Dy. General Manager (HRD & Compliance)

C.T.Francis  
General Manager (Uses)

V.P.Iswardas  
Chief General Manager

R.Venkataraman  
Chairman & CEO

### **DIRECTORS:**

Dr.K.A.Menon, M.Com, Ph.D

George Sebastian.K., B.Com, MBA

Ajay Lal, B.Tech, MBA

S.Swaminathan, FCA

Prakash .G.Toile, FCA

George Chemmanur

C.F.John

Jos C Chakko, B.E.

C.K.Gopinathan

N.R.Achan, B Com, CAIIB

S.Santhanakrishnan, B.Sc, BL, FCA

Rakesh Mathur, Addl. Director, RBI Nominee

G.Sreekumar, Addl. Director, RBI Nominee

As per our report of even date.

For Essveeyar  
Chartered Accountants

For Abraham & Jose  
Chartered Accountants

Thrissur,  
18.05.2009

R.Vijayaraghavan  
Partner  
(M. No. 022442)

Jose Pottokaran  
Partner  
(M.No.12056)