

Basel II Disclosures

1 Capital Structure

Qualitative Disclosures:

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, net of tax amount of special reserve (Section 36(i)(viii) of Income Tax Act) and capital reserves (other than revaluation reserves). Tier 2 capital consists of subordinated debt (Lower Tier 2), revaluation reserves, provision for standard assets and investment reserve. Bank has not issued any Upper Tier 2 bonds or perpetual debt or other innovative instruments.

Quantitative Disclosures:

The break up of capital funds is as follows:

(₹ crore)

	As on 31.03.2012	As on 31.03.2011
Tier 1 Capital		
Paid up Share capital	31.42	31.35
Share Premium	222.44	221.78
Statutory Reserves	131.48	125.01
Capital Reserves	31.57	31.12
Special Reserve (36 (i) (viii))	10.40	6.59
Other eligible reserves	92.26	84.45
Total Tier 1 Capital (Gross)	519.57	500.30
Less Deferred Tax Assets and Other Intangible Assets	35.11	32.12
Total Tier 1 Capital (Net) [A]	484.46	468.18

Tier 2 Capital		
Subordinated debt (eligible for inclusion in Lower Tier 2 capital)	133.50	91.70
(Of which amount raised during the current year)	41.80	(Nil)
Less Discount	63.42	45.08
Subordinated debt eligible to be reckoned as capital funds	70.08	46.62
Revaluation Reserves after discounting	17.45	17.78
Provision for Standard Assets	33.80	22.90
Investment Reserve	2.22	1.96
Total Tier 2 Capital (Net) [B]	123.55	89.26
Total Eligible capital [A] + [B]	608.01	557.44

2. Capital Adequacy

Qualitative Disclosures:

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 to cover the Pillar 2 risks. 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.

Quantitative Disclosures:

a) Capital Requirement for Credit Risk – Standardised Approach

(₹ Crore)

Portfolios	Gross Exposure		Capital Requirement	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
On Balance Sheet				
Cash & Balance with RBI	686.48	587.14	0.00	0.00
Inter Bank Deposits	284.53	112.95	6.23	3.12
Investments (HTM)	2,785.88	2283.95	26.04	29.47
Advances	7,663.54	6220.02	369.05	339.62
Fixed Assets & Other Assets	267.38	218.70	10.85	8.95
Total	11,687.81	9422.76	412.17	381.16

Off Balance Sheet				
Letter of Credit & Guarantees	301.93	212.61	12.20	6.55
Undrawn Credit Commitments	1,079.25	813.25	15.82	12.90
Forward Exchange Contracts	653.68	593.98	0.97	0.74
Total	2,034.86	1619.84	28.99	20.19
Total On & Off Balance Sheet	13,722.67	11042.60	441.16	401.35

b) Capital Requirement for Market Risk – Standardised Duration Approach
(₹ Crore)

Type of Market Risk	Gross Exposure		Capital Requirement	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Interest Rate Risk	358.59	399.25	7.90	7.62
Foreign Exchange Risk	7.73	7.40	0.70	0.66
Equity Risk	0.67	7.06	0.18	1.59
Total	366.99	413.71	8.78	9.87

c) Capital Requirement for Operational Risk – Basic Indicator Approach
(₹ Crore)

	As on 31.03.12	As on 31.03.11
Capital Requirement	43.92	36.00
Equivalent Risk Weighted Assets	487.99	400.00

d) Total Capital Requirement

(₹ Crore)

Type of Risk	Capital Requirement		Risk Weighted Assets	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Credit Risk	441.16	401.35	4902.64	4459.39
Market Risk	8.78	9.87	97.57	109.76
Operational Risk	43.92	36.00	487.99	400.00
Total	493.86	447.22	5488.20	4969.15

Total Net Tier 1 Capital	484.46	468.18
Tier 1 Capital Ratio (%)	8.83%	9.42%
Total Tier 2 Capital	123.55	89.26
Tier 2 Capital Ratio (%)	2.25%	1.80%
Total Capital Funds	608.01	557.44
Capital Adequacy Ratio as per Basel II Norms (%)	11.08%	11.22%

3. Credit Risk: General Disclosure

Qualitative Disclosures

a) 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 the sanctioned limit/drawing power, in cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period) in respect of Overdraft/Cash credit accounts. If the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter, the account is classified as NPA.
- 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.

b) Credit Risk Management Policy

The bank has in place a Credit Risk Management Policy which is reviewed periodically to bring in refinements triggered by evolving concepts and actual experience.

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 ₹ 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 ₹ 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.

Rating migration studies are conducted at regular intervals.

Pricing of corporate exposures is subjected to RAROC analysis based on bank's Board approved Risk Adjusted Return On Capital (RAROC) policy.

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

As part of the bank's efforts to migrate to Internal Ratings Based Approach for Credit Risk, the bank has developed a new CRA model incorporating Facility Rating (so that Loss Given Default can be assessed).

Quantitative Disclosures

a) Gross Credit Risk Exposure – Banking Book

(₹ Crore)

	Loans		Investments	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Fund Based	7663.54	6220.02	2785.88	2283.95
Non Fund Based	301.93	212.61	0.00	0.00
Total	7965.47	6432.63	2785.88	2283.95

b) Industry type distribution – Banking Book

(₹ Crore)

	Advances, Letter of Credit & Guarantees		Investments	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Central Government	Nil	Nil	2452.19	1887.57
State Governments	Nil	Nil	78.67	63.51
Public Sector	291.28	248.01	33.08	33.09
Manufacturing Industries				
a) Cotton Textiles	403.96	484.39	Nil	Nil
b) Other Textiles	163.87	170.09	Nil	Nil
c) Chemicals	273.30	321.59	Nil	Nil
d) All Engineering	239.65	145.64	Nil	Nil
e) Food Processing	142.27	142.64	Nil	Nil
f) Other Industries	720.71	644.77	Nil	Nil
Total Manufacturing Industries	1943.76	1909.12	Nil	Nil
Agriculture	1148.77	929.67	Nil	Nil
Residential Mortgage	291.36	299.40	Nil	Nil

Commercial Real Estate	200.22	150.51	Nil	Nil
Consumer Credit	1444.91	739.01	Nil	Nil
Students	106.04	85.60	Nil	Nil
Wholesale & Retail Trade	965.82	839.07	Nil	Nil
Hospitals, Educational Institutions & Trusts	78.93	86.13	Nil	Nil
Banks	165.27	Nil	Nil	Nil
RIDF, RHF, MSME Fund	0.00	Nil	221.94	299.78
NBFCs	146.08	74.46	Nil	Nil
Own Staff	185.80	177.94	Nil	Nil
All Others	997.22	893.71	Nil	Nil
	7965.47	6432.63	2785.88	2283.95

c) Residual contractual maturity breakdown of assets

(₹ Crore)

	Cash & Balance with RBI		Balance with banks and Money at Call & Short Notice		Advances		Investments		Fixed Assets & Other Assets	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Day 1	196.76	79.31	0.00	58.45	167.88	87.85	0.00	0.00	1.77	0.00
2-7 days	0.00	0.00	75.00	0.00	124.02	58.51	88.97	125.02	2.11	0.30
8-14 days	0.00	0.00	0.00	0.00	170.61	84.38	68.18	24.87	11.56	1.55
15-28 days	12.18	21.48	51.50	51.50	257.80	107.16	49.00	149.25	12.45	10.94
29d-3Mon	28.60	24.29	103.00	3.00	459.04	295.88	58.85	49.15	20.77	16.98
3-6 Mon	38.65	33.86	3.00	0.00	748.04	620.01	65.90	0.20	12.53	11.21
6M-1Yr	41.04	31.53	0.00	0.00	1361.49	879.22	21.87	1.51	0.68	0.67
1-3Years	124.56	137.51	0.00	0.00	3311.95	2753.23	408.54	313.00	40.74	1.74
3-5 Years	7.60	8.08	0.00	0.00	621.59	746.38	350.08	552.04	0.00	0.00
> 5 Yrs	237.09	251.08	0.00	0.00	441.14	587.42	2033.76	1475.22	164.77	175.31
Total	686.47	587.14	232.50	112.95	7663.54	6220.02	3145.15	2690.26	267.38	218.70

d) Disclosures regarding Non Performing Assets

(₹ Crore)

	As on 31.03.2012	As on 31.03.2011
Amount of NPAs (Gross)		
Substandard	61.27	81.14
Doubtful 1	46.80	26.84
Doubtful 2	25.55	33.55
Doubtful 3	41.20	42.19
Loss	8.11	8.73
Total Gross NPAs	182.93	192.45
Net NPAs	84.21	108.40

NPA Ratios		
Gross NPAs to Gross Advances	2.36%	3.05%
Net NPAs to Net Advances	1.10%	1.74%
Movement of NPAs (Gross)		
Opening balance	192.45	149.29
Additions	100.20	107.87
Reductions	109.72	64.71
Closing balance	182.93	192.45
Movement of provisions for NPAs		
Opening balance	80.66	75.23
Provisions made during the period	14.04	8.55
Write-off & Write back of excess provisions	16.64	3.12
Closing balance	78.06	80.66
Amount of Non-Performing Investments	2.00	2.00
Amount of provisions held for non performing investments	2.00	2.00
Movement of provisions for depreciation on investments		
Opening balance	4.81	4.66
Provisions made during the period	1.39	0.26
Write-off & Write back of excess provisions	1.90	0.09
Provision account debited during the year	0.00	0.02
Closing balance	4.30	4.81

4. Credit Risk: Disclosures for portfolios subject to standardised approach

Qualitative Disclosures

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.

Bank extends external rating of other issues of the borrower to unrated claims only when the issue specific rating maps to Risk Weight higher than that of the unrated exposure.

Quantitative Disclosures

Risk weight wise classification of exposures

(₹ Crore)

	Gross Credit Exposure		Capital Deductions		Exposure after Capital Deductions	
	(A)	(B)	(C) = (A) – (B)			
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Advances, Letter of Credit & Guarantees						
Below 100% risk weight	3742.67	3343.55	Nil	Nil	3742.67	3343.55
100% risk weight	2309.29	2002.13	Nil	Nil	2309.29	2002.13
More than 100% risk weight	1913.51	1086.95	Nil	Nil	1913.51	1086.95
Total	7965.47	6432.63	Nil	Nil	7965.47	6432.63
Investments						
Below 100% risk weight	2563.94	1984.17	Nil	Nil	2563.94	1984.17
100% risk weight	221.94	299.78	Nil	Nil	221.94	299.78
More than 100% risk weight	0.00	Nil	Nil	Nil	0.00	Nil
Total	2785.88	2283.95	Nil	Nil	2785.88	2283.95

5. Credit Risk Mitigation: Disclosures for standardised approaches

Qualitative Disclosures

A Credit Risk Mitigation and Collateral Management Policy, addressing the Bank's approach towards the credit risk mitigants used for capital calculation is in place.

Following items are considered for on and off balance sheet netting:

- Deposits with specific lien to the facility
- Subsidies received (for priority sector advances)
- Claims received (for NPA accounts)

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. Bank has made an assessment of market liquidity risk involved in liquidating gold ornaments and is considering a holding period of 21 days for advance against pledge of gold ornaments. In Pillar 1 capital adequacy computations, bank considers a haircut of 22% (after scaling up the standard supervisory haircut of 15% to a 21 day holding period).

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/discounted under Letter of credit).

Collaterals other than financial collaterals that secure the credit portfolio of the bank are land & building, plant & machinery and current assets of the counter party. Land and Building includes commercial building, residential property and vacant land.

Quantitative Disclosures

a) Exposures Covered by Eligible Financial Collateral (After Haircuts)

(₹ Crore)

	As on 31.03.2012	As on 31.03.2011
Corporate	222.32	35.83
Regulatory Retail	1234.83	1001.93
Personal Loans	1273.82	568.20
Total	2730.97	1605.96

b) Exposures Covered by Guarantee

(₹ Crore)

	As on 31.03.2012	As on 31.03.2011
Corporate	304.80	241.80
Regulatory Retail	105.76	52.19
Total	410.57	293.98

6. Securitisation

No exposure of the bank has been securitised.

7. Market Risk in the Trading Book

Qualitative Exposures

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.

Modified Duration and Value at Risk are the tools used to track market risk in the trading book for interest rate related instruments. For equity exposures bank uses Value at Risk and Portfolio Beta.

Stress tests are conducted on a daily basis on securities in the trading book.

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

Quantitative Disclosures

Capital Requirement for Market Risk

(₹ Crore)

Type of Market Risk	Gross Exposure		Capital Requirement	
	As on 31.03.12	As on 31.03.11	As on 31.03.12	As on 31.03.11
Interest Rate Risk	358.59	399.25	7.90	7.62
Foreign Exchange Risk	7.73	7.40	0.70	0.66
Equity Risk	0.67	7.06	0.18	1.59
Total	366.99	413.71	8.78	9.87

8. Operational Risk

Qualitative Disclosures

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. Bank has prepared road map for moving to standardized approach for operational risk and has designed a model for calculation of capital charge based on various business lines and for exposures of homogenous nature pooled together.

9. Interest Rate Risk in the Banking Book

Qualitative Disclosures

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 (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.

Key Assumptions for IRRB calculations

- a) Bulk of the advance portfolio to reprice within 3 months.
- b) Maturity of deposits considered after adjusting empirically observed premature closure rates.
- c) Core portion of Savings Bank Deposits slotted in 7 to 10 year time bucket.
- d) Core portion of Current Deposits slotted in Above 15 years time bucket for Modified Duration Gap Analysis (For Earnings at Risk Analysis, Current Deposits are treated as interest non sensitive).

Quantitative Disclosures

Interest Rate Risk – Earnings Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (₹ Crore)	
	As on 31.03.12	As on 31.03.11
+25 basis points	+3.12	+5.11
-25 basis points	-3.12	-5.11

Interest Rate Risk – Economic Value Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (₹ Crore)	
	As on 31.03.12	As on 31.03.11
+25 basis points	+3.06	+4.51
-25 basis points	-3.06	-4.51

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 third year of adoption:

- a) Minimum capital as per Basel II norms for Credit, Market and Operational risks.
- b) 80% 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 31.03.2012 as per Basel II norms is ₹ 493.86 crore and 80% of minimum capital required as per Basel I norms is ₹ 517.57 crore. Thus, due to application of prudential floor, minimum capital to be maintained by the bank is ₹ 517.57 crore. Actual capital maintained by the bank as on 31.03.2012 is ₹ 608.01 crore which is well above this requirement.