Basel II Disclosures

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 as on 31.03.2008 is as follows**:**

	Rs Crore
Tier 1 Capital	
Paid up Share capital	12.54
Share Premium	43.37
Statutory Reserves	112.25
Capital Reserves	7.80
Special Reserve (36 (i) (viii))	3.99
Other eligible reserves	82.43
Total Tier 1 Capital (Gross)	262.37
Less Deferred Tax Assets and Other Intangible Assets	30.24
Total Tier 1 Capital (Net) [A]	**232.14**
Tier 2 Capital	
Subordinated debt (eligible for inclusion in Lower Tier 2 capital)	92.80
(Of which amount raised during the current year)	(Nil)
Less Discount	3.86
Subordinated debt eligible to be reckoned as capital funds	88.94
Revaluation Reserves after discounting	18.69
Provision for Standard Assets	19.21

Investment Reserve	0.74
Special Reserve (Swap)	0.51
Total Tier 2 Capital (Net) [B]	**128.09**
Total Eligible capital [A] + [B]	**360.23**

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 only assumed within the limits that are 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.

2.1 Capital Requirement for Credit Risk – Standardised Approach

Portfolios	Gross Exposure (Rs Crore)	Capital Requirement (Rs Crore)
On Balance Sheet		
Cash & Balance with RBI	506.51	0.00
Inter Bank Deposits	82.98	1.50
Investments (HTM)	1548.82	28.93
Advances	3313.56	197.54
Fixed Assets & Other Assets	237.72	10.57
Total	5689.59	238.54
Off Balance Sheet		
Letter of Credit & Guarantees	143.27	5.77
Undrawn Credit Commitments	574.68	8.55
Forward Exchange Contracts	620.26	0.60
Cross Currency Coupon Only Swap	16.00	0.02
Total	1354.21	14.94
Total On & Off Balance Sheet	7043.80	253.48

* Capital Requirement = Risk Weighted Assets x 9/100

2.2 Capital Requirement for Market Risk – Standardised Duration Approach

Type of Market Risk	Gross Exposure (Rs Crore)	Capital Requirement (Rs Crore)
Interest Rate Risk	264.89	4.92
Foreign Exchange Risk	6.00	0.54
Equity Risk	5.73	1.29
Total	276.62	6.75

2.3 Capital Requirement for Operational Risk – Basic Indicator Approach

	Rs Crore
Gross Income	
2005-06	173.24
2006-07	191.68
2007-08	213.32
Total Gross Income (TGI)	578.24
Average Gross Income (AGI = TGI/3)	192.75
Capital Requirement (AGI x 15%)	28.91

2.4 Total Capital Requirement

Type of Risk	Capital Requirement (Rs Crore)	Risk Weighted Assets (Rs Crore)
Credit Risk	253.48	2816.47
Market Risk	6.75	74.96
Operational Risk	28.91	321.24
Total	**289.14**	**3212.67**

Total Net Tier 1 Capital	232.14
Tier 1 Capital Ratio (%)	7.23%
Total Tier 2 Capital	128.09
Tier 2 Capital Ratio (%)	3.98%
Total Capital Funds	360.23
Capital Adequacy Ratio as per Basel II Norms (%)	**11.21%**

3. Credit Risk: General Disclosure

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.

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 aggregrate 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.

3.3 Credit Risk Exposure

3.3.1 Gross Credit Risk Exposure – Banking Book

(Rs Crore)

	Loans	Investments
Fund Based	3313.56	1548.82
Non Fund Based	143.27	0.00
Total	3456.83	1548.82

3.3.2 Industry type distribution (compiled from unaudited returns)

(Rs Crore)

	Advances, Letter of Credit & Guarantees	Investments
Central Government	Nil	1128.47
State Governments	Nil	83.58
Public Sector	54.61	15.35
Manufacturing Industries	Nil	Nil
a) Cotton Textiles	396.17	Nil
b) Other Textiles	129.59	Nil
c) Chemicals	94.14	Nil
d) All Engineering	54.32	Nil
e) Food Processing	35.44	Nil
f) Other Industries	352.86	Nil
Total Manufacturing Industries	1062.52	Nil
Agriculture	442.67	Nil
Residential Mortgage	348.50	Nil
Commercial Real Estate	158.82	Nil
Consumer Credit	233.13	Nil
Students	39.27	Nil
Wholesale & Retail Trade	410.00	Nil
Hospitals, Educational Institutions & Trusts	97.95	Nil
Banks	59.96	10.26
RIDF (NABARD)	Nil	311.16
NBFCs	41.52	Nil
Own Staff	149.62	Nil
All Others	358.26	Nil
	3456.83	1548.82

3.3.3 Residual contractual maturity breakdown of assets

	Advances	Investments
1-14 days	128.16	74.00
15-28 days	32.03	24.54
29d-3Mon	116.30	78.37
3-6 Mon	203.19	34.18
6M-1Yr	606.95	17.05
1-3Years	1385.74	44.14
3-5 Years	340.44	336.71
> 5 Yrs	500.75	1210.44
Total	3313.56	1819.43

3.3.4 Disclosures regarding Non Performing Assets

	Rs Crore
Amount of NPAs (Gross)	
Substandard	29.72
Doubtful 1	12.58
Doubtful 2	30.61
Doubtful 3	52.29
Loss	6.19
Total Gross NPAs	131.39
Net NPAs	53.24
NPA Ratios	
Gross NPAs to Gross Advances	3.88%
Net NPAs to Net Advances	1.61%
Movement of NPAs (Gross)	
Opening balance	129.06
Additions	38.19
Reductions	35.86
Closing balance	131.39
Movement of provisions for NPAs	
Opening balance	64.11
Provisions made during the period	11.91
Write-off & Write back of excess provisions	2.28
Closing balance	73.74

Amount of Non-Performing Investments	4.16
Amount of provisions held for non performing investments	4.16
Movement of provisions for depreciation on investments	
Opening balance	7.40
Provisions made during the period	3.72
Write-off & Write back of excess provisions	0.57
Closing balance	10.55

4 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.

Except for one consortium advance, which has been rated by CARE, no other credit exposure of the bank has issue specific rating. Rating of other issues by CARE, ICRA and Fitch (India) has been extended to certain exposures in line with RBI guidelines on the matter.

4.1 Risk weight wise classification of exposures

(Rs Crore)

	Gross Credit Exposure (Rs Crore)	Capital Deductions	Exposure after Capital Deductions (Rs Crore)
	(A)	(B)	(C) = (A) – (B)
Advances, Letter of Credit & Guarantees			
Below 100% risk weight	1950.22	0	1950.22
100% risk weight	1034.66	0	1034.66
More than 100% risk weight	471.95	0	471.95
Total	3456.83	0	3456.83
Investments			
Below 100% risk weight	1229.40	0	1229.40
100% risk weight	319.42	0	319.42
More than 100% risk weight	0	0	0.00
Total	1548.82	0	1548.82

5 Credit Risk Mitigation: Disclosures for standardised approaches

Of the eligible financial collaterals, the main 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 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/discounted under Letter of credit).

On Balance Sheet nettings has been reckoned to the extent of the deposits available against the credit risk exposures (on and off balance sheet) of the borrower in line with RBI guidelines.

6 Securitisation

No exposure of the bank has been securitised.

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 in compliance with the risk limits fixed by the Board. 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.

7.1 Capital Requirement for Market Risk

Type of Market Risk	Gross Exposure (Rs Crore)	Capital Requirement (Rs Crore)
Interest Rate Risk	264.89	4.92
Foreign Exchange Risk	6.00	0.54
Equity Risk	5.73	1.29
Total	276.62	6.75

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.

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. 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 a Modified Duration Gap – Convexity framework on a monthly basis.

9.1 Interest Rate Risk – Earnings Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (Rs Crore)
+25 basis points	+1.69
-25 basis points	-1.69

9.2 Interest Rate Risk – Economic Value Perspective

1 Year Change in Market Rates (Parallel Shift)	Impact (Rs Crore)
+25 basis points	-13.87
-25 basis points	+13.87