BASEL II – PILLAR 3 DISCLOSURES AS ON 31/03/2009

.I SCOPE OF APPLICATION OF BASEL II DISCLOSURES

Table DF – 1: Scope of Application

1.	**Qualitative disclosures**		
1.1	Name of the Bank in the group to which the framework applies	The Federal Bank Ltd.	
1.2	Differences in the basis of consolidation for accounting and regulatory purposes: (outline with a brief description of entities within the group)		
	i) The revised capital adequacy norms (in conformity with Basel II – Pillar III requirements) apply to Federal Bank at solo level. II) The Bank has one fully owned subsidiary viz. Fedbank Financial Services Ltd and an associate viz. IDBI Fortis Life Insurance Company Ltd. Consolidated financial statements of the group (parent and subsidiary) have been prepared on the basis of audited financial statements of Federal bank and its subsidiary, combined on line by line basis adding together like items of assets, liabilities, income and expenses, after eliminating intra group transactions.		
1.3	That are fully consolidated: (AS 21)		
	Name	Activity	Holding %
a)	Fed Bank Financial Services Limited	Marketing of Bank's products	100
1.4	That are pro-rata consolidated: (AS 27)		
	Name	Activity	Holding %
a)	NIL	NA	NA
1.5	That are given a deduction treatment:		
	Name	Activity	Holding %
	NIL	NA	NA
1.6	That are neither consolidated nor deducted		
	Name	Activity	Holding %
	IDBI Fortis Life Insurance Company Ltd.	Insurance	26 %
2.	**Quantitative disclosures**		
2.1	Aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation and that are deducted		
	Name of subsidiary	Activity	Amount of shortfall deducted (In Rs. Cr.)
a)	NIL	NA	NA
2.2	The aggregate amounts (e.g. current book value) of the Bank's total interests in insurance entities, which are risk-weighted and their name, 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	
a)	Name	IDBI Fortis Life Insurance Co. Ltd.
b)	Country of incorporation / residence	India
c)	Proportion of ownership interest	26 %
d)	Proportion of voting power	26%
e)	Quantitative impact on regulatory capital of using this method versus using the deduction	CRAR under deduction method is 19.84%, as against 20.22% under the risk weighting method.

.II STRUCTURE AND ADEQUACY OF CAPITAL

TABLE DF – 2: CAPITAL STRUCTURE

1.	**Qualitative Disclosures**					
1.1	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 1 or in Upper Tier 2.).* A. Tier I Capital includes Equity Share Capital and Reserves and surpluses comprising of Statutory Reserve, Capital Reserve – Investments, Share Premium, Revenue Reserve, Investment fluctuation Reserve, Special Reserve, Contingency Reserve and Balance in Profit & Loss A/c. B. Tier II capital includes Revaluation Reserve, Tier II Bonds – Subordinated Debt and General Provisions					
2	**Quantitative Disclosures**					
2.1	Details of capital instruments					
	Type of capital instrument	Date of issue	Amount in Rs. Cr	Tenure in months	Coupon (% p.a.)	Rating
A	Innovative instruments (Tier I capital)		NIL			
B	Other capital instruments (Tier I)		NIL			
			NIL			
C	Debt capital instruments eligible for inclusion in Upper Tier II capital		NIL			

D	Subordinated debt eligible for inclusion in Lower Tier II capital	Date of issue	Amount in Rs. Cr	Tenure in months	Coupon (% p.a.)	Rating
		20/03/2003	150	75	8	Rating by Care as **'CARE AA'** and by Fitch as **'AA-(ind)'**
		30/08/2003	14	80	6.90	
		30/08/2003	61	104	7.10	
		26/07/2004	15	93	6.75	
		26/07/2004	30	117	6.85	
		16/12/2006	200	120	9.25	

2.2	Capital funds	Amount in Rs. Crore
A	TIER I CAPITAL	
	Paid up share capital	171.03
	Reserves and Surplus	4148.74
	Amounts deducted from Tier I capital, including goodwill and investments – Investment in subsidiary	5.00
	Total Tier I	4314.77
B	TIER II CAPITAL (Total amount net of deductions from Tier II capital)	
	Subordinated debt eligible for inclusion in Lower Tier II capital	470.00
	Total amount outstanding	470.00
	Of which, amount raised during the current year	0.00
	Amount eligible to be reckoned as capital funds	278.40
	Revaluation Reserve	2.74
	General Provisions	145.04
	Deduction from Tier II capital – Investment in subsidiary	5.00
	Total Tier II	421.18
C	Other deductions from capital, if any.	
D	Total eligible capital	4735.95

TABLE DF – 3: CAPITAL ADEQUACY

1.	**Qualitative Disclosures**	
1.1	A summary discussion of the Bank's approach to assess the adequacy of its capital to support current and future activities.	
	1. Policy on Internal Capital Adequacy Assessment Process has been put in place and the assessment of capital commensurate to the risk profile is reviewed on a quarterly basis. 2. Capital requirement for current business levels and estimated future business levels are assessed on a periodic basis. 3. CRAR has been worked out based on Basel-I and Basel-II guidelines and it is well above the Regulatory Minimum level of 9%.	
2.	**Quantitative Disclosures**	
2.1	Minimum capital requirements under Pillar I of Basel II	Amount in Rs. Crore.
A	Capital requirements for credit risk (@ 9% CRAR)	1845.49

	Portfolios subject to Standardized approach		1845.49
	Securitisation exposures		0.00
B	Capital requirements for market risk (Standardized duration approach) (@ 9% CRAR)		121.06
	Interest rate risk		84.39
	Foreign exchange risk (including gold)		4.50
	Equity risk		32.17
C	Capital requirements for operational risk (Basic Indicator Approach) (@ 9% CRAR)		141.74
2.2	Capital Adequacy Ratio (CRAR) % for consolidated group and significant bank subsidiaries (as per Basel II norms)		
	Name of entity	Total CRAR	Tier I CRAR
	Consolidated Bank (group as a whole)	20.14%	18.32%
	The Federal Bank Ltd. (solo basis)	20.22%	18.42%
	Significant bank subsidiaries (*wherever applicable, entity wise data)*		

.III RISK EXPOSURE AND ASSESSMENT

()A Objectives and policies

Sl. No.	
1.	**Credit risk**
1.1	Strategies and processes: The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of losses that may occur due to failure of counterparties to comply with the terms and conditions of financial contract entered with the Bank. The Bank's strategies to manage the credit risks are as under: a) Defined segment exposures delineated into retail, small and medium enterprises and to Corporates; b) Industry wise segment caps on aggregate lending by Bank across Branches c) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's net worth in the previous year d) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels; the approach also includes diversification of credit rating wise borrowers but within acceptable risk parameters. e) The Bank's current entire business is within India and hence there is no geographic cap on lending in India; there is also no cap on lending within a State in India. However, in respect of cross border trade which would involve exposures to banks and financial institutions located outside India, there is a geographic cap on exposures apart from cap on individual bank/institution

	f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts g) A clear and well defined delegation of authority within the Bank in regard to decision making linking risk and exposure amount to level of approval. h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank. i) Approval processes with respect to all credit proposals of Rs. 5 Crore and above are preceded by an independent study of risks by a non-business Risk Department who have no business budgets and whose views are mandatorily considered before a decision on a credit approval is taken. Oversight of the Board's sub committee on risk. The Bank has put in place Board approved comprehensive Integrated Risk Management Policy for credit risk management. The policy provides basic framework for sound credit risk management system in the Bank. The policy inter alia deals with the sources of credit risk and tools for mitigating the risk with appropriate practices to be followed. The Bank has also operationalised an organizational structure and framework as prescribed in the policy for efficient credit risk management through proactive identification, precise measurement, fruitful monitoring and effective control of credit risk arising from its credit and investment operations. The Bank has Board level sub committee, Risk Management Committee, to oversee Bank wide credit risk management and senior executive level Credit Risk Management Committee to monitor adherence to policy prescriptions and regulatory directions. CRMC of the Bank meets once in a month to take stock of Bank's credit risk profile based on the reports placed by Credit Risk Management Division of independent Integrated Risk Management Department. Bank has put in place detailed Loan Policy and Valuation Policy spelling out various aspects of efficient credit dispensation and effective credit administration. Loan policy sets broad guidelines to ensure prudent credit administration in conformity with the regulatory guidelines and global best practices. The policy includes guidelines for avoiding concentration risk by setting prudential limits and caps on taking sector wise, rating grade wise, and customer-constitution wise exposure. Internal Capital Adequacy Assessment Process (ICAAP) periodically conducted by the Bank takes care of the residual risk assessment and also adequacy of capital under Basel II norms.
1.2	Scope and nature of risk reporting / measurement systems: Bank has developed comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Risk rating system is drawn up in a structured manner, incorporating different factors such as borrower specific characteristics, industry specific characteristics etc. Risk rating is made applicable for loan accounts, whether funded or non-funded, with total limits above Rs. 2 lakhs. Bank uses different rating models for different types of exposures. Rating model used for infrastructure exposures and corporate exposures are comprehensive in structure whereas model used for small

	exposures in the range of Rs.2 lakh to Rs.50 lakh is relatively simple in structure. All retail advances are rated using scoring model. Bank also uses a separate rating model for rating its investment exposures. Bank is undertaking annual validation of its rating model for exposures of Rs. 5 Crore and above and is also conducting migration and default rate analysis of all loans above Rs.50 lakhs. Rating process and rating output are used by the Bank in sanction and pricing of its exposures. Bank also conducts annual common time point rating of its exposures and the findings are used in annual migration study and portfolio evaluation. Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The exercise of delegation and credit rating assigned by the Sanctioning Authority are subjected to confirmation by a different Authority. Bank has also operationalised pre-sanction risk vetting of exposures of Rs. 5 Crore and above by independent Integrated Risk Management Department. Risk rating and vetting process being done independent of credit appraisal function ensure its integrity and independency. Apart from these additional screening by specialized desks, Bank has also instituted Credit Approving mechanism for exposures of Rs. 5 Crore and above. Credit Approving Authority, a committee at senior executive level totally independent of credit appraisal function, ensures transparency and quality in risk assessment and selection/retention/pricing of exposures of Rs.5 Crore and above. Loan Review Mechanism is in force. Credit Audit is being conducted by Inspection Department at specified intervals. Bank has made reasonably good progress in implementing all available instruments of credit risk mitigation.
1.3	Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants: Bank has operationalised Credit Risk Mitigation and Collateral Management Policy detailing various tools for credit risk mitigation. Bank's Integrated Risk Management Policy also stipulates various tools for mitigation of credit risk. Investment Policy of the Bank covers risk related to investment activities of the Bank and it prescribes prudential limits, methods of risk measurement, and hedges required in mitigation of risk arising in investment portfolio. Credit Risk Management Committee at senior executive level and Risk Management Committee at Board level monitor, discuss, evaluate and review risk mitigation levels and effectiveness of mitigation measures. Risk rating process by itself is an integral part of processes of selection of clients and sanction of credit facilities. Exercise of delegation for sanction of fresh loans or renewal/review of existing exposure by field level functionaries is permitted only for borrowers above a pre-specified rating grade. Entry-level restrictions are further tightened in certain sectors when market signals need for extra caution. Rating of an exposure is confirmed by independent authority to ensure its integrity.
2.	**Market risk**

2.1	Strategies and processes: The Bank monitors market risk through risk limits and middle office in operationally intense areas. Detailed policies for the conduct of business exposed to market risk and also risk limits in detail covering all market risk exposures are already in place. The Bank has also put in place policies and practices for monitoring and controlling of liquidity risk arising out of its banking and trading book operations.
2.2	Scope and nature of risk reporting / measurement systems: Bank has put in place regulatory/internal limits for various products and business activities relating to trading book. Bank also subjects investment exposures to credit rating. Limits for exposures to counterparties, industries and countries are monitored and risks are controlled through Stop Loss Limits, Overnight Limit, Daylight Limit, Aggregate Gap Limit, Individual Gap Limit, Inter-Bank dealing and investment limits etc. Bank has an independent Mid-Office working on the floor of Treasury Department for market risk management functions like onsite monitoring of adherence to set limits, independent valuation and reporting of activities. This separate desk monitors market / operational risks in treasury operations on a daily basis and reports directly to Chief Risk Officer. Asset Liability Management Committee (ALCO), also known as Market Risk Management Committee, is primarily responsible for establishing market risk management and asset liability management in the Bank, procedures thereof, implementing risk management guidelines issued by the regulator, best risk management practices followed globally and monitoring adherence to the internal parameters, procedures, practices/policies and risk management prudential limits.
2.3	Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants: Policies for hedging/mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants are discussed in ALCO and based on the views taken by/mandates given by ALCO, hedge deals/mitigation steps are undertaken. Liquidity risk of the Bank is assessed through Statement of Structural Liquidity on static basis and statement of Short Term Dynamic Liquidity on dynamic basis. Structural liquidity position is assessed on a daily basis and dynamic liquidity position is assessed on a fortnightly basis. Additional prudential limits on liquidity risk fixed as per ALM Policy of the Bank are also monitored by ALCO on a quarterly basis. Interest rate risk is analyzed from earnings perspective using Traditional Gap Analysis on a monthly basis and economic value perspective using Duration Gap Analysis on a quarterly basis. Based on the analysis, steps are taken to minimize the impact of interest rate changes. Advance techniques such as Stress testing, sensitivity analysis etc. are conducted periodically to assess the impact of various contingencies.

3.	**Operational risk**
3.1	Strategies and processes: Bank has put in place detailed framework for Operational Risk Management with a well-defined ORM Policy. Operational Risk Management Committee (ORMC) at the executive level oversees bankwide implementation of Board approved policies and processes in this regard. All new schemes / products of the Bank are risk vetted from the point of view of operational risk, before implementation. Various tools, controls and mitigation measures implemented for management of operational risk are being reviewed and updated on a regular basis, to suit the changes in risk profile. Bank has also put in place a comprehensive bank wide Business Continuity Plan to ensure continuity of critical operations of the Bank covering all identified disasters.
3.2	Scope and nature of risk reporting / measurement systems: Bank has started collection of internal operational loss data from Fiscal 2006-07. In the year 2009, Bank has introduced separate accounting of operational risk events to enhance transparency and to enable effective monitoring of loss events. Well-designed format for reporting identified loss events and data in the most granular form is put in place. Operational Risk Management Division is the central repository for operational loss data of the Bank. Consolidation and analysis of loss data is placed before the Operational Risk Management Committee on a quarterly basis.
3.3	Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants: Bank is using insurance for mitigating operational risk. Bank is subscribing to the General Banker's Indemnity Policy as mitigation against loss of securities due to various external events. Bank also mitigates loss in other physical assets through property insurance.
4.	**Interest rate risk in banking book**
4.1	Strategies and processes: Interest Rate Risk is assessed in two perspectives – Earnings perspective using Traditional Gap Analysis conducted monthly to assess the impact of adverse movement in interest rate on the Net Interest Income (Earnings at Risk) and economic value perspective using Duration Gap Analysis conducted quarterly to assess the impact of adverse movement in interest rate on the market value of Bank's equity.
4.2	Scope and nature of risk reporting / measurement systems: Interest rate risk in Banking Book is measured and Modified Duration of Equity is evaluated on a quarterly basis. The likely drop in Market Value of Equity for 200 bps change in interest rates is computed and benchmarked under the Internal Capital Adequacy Assessment Process for computation of Pillar II capital charge for Interest Rate Risk. Earnings at Risk based on Traditional Gap Analysis is calculated on a monthly basis and adherence to tolerance

	limit set in this regard is monitored and reported to ALCO / RMC. The results of Duration Gap Analysis is also reported to ALCO / RMC. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.
4.3	Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants: Bank has operationalised mitigating/hedging measures prescribed by Investment Policy, ALM Policy, Derivatives Policy and Stress Testing Policy. There are policies in place limiting mismatches, limiting exposures to term loans and limiting currency wise gaps. Risk profiles are analyzed and mitigating strategies/hedging process are suggested and operationalised by Treasury Department with the approval of Senior level Committees.

()B Organizational structure

Bank has put in place appropriate organizational framework for bank-wide management of risk on integrated basis. The structure ensures coordinated process for measuring and managing all types of risk on an enterprise-wide basis to achieve organizational goals. The structure assures adherence to globally best practices in line with regulatory stipulations. The structure is designed in tune with the general guidelines of Regulator.

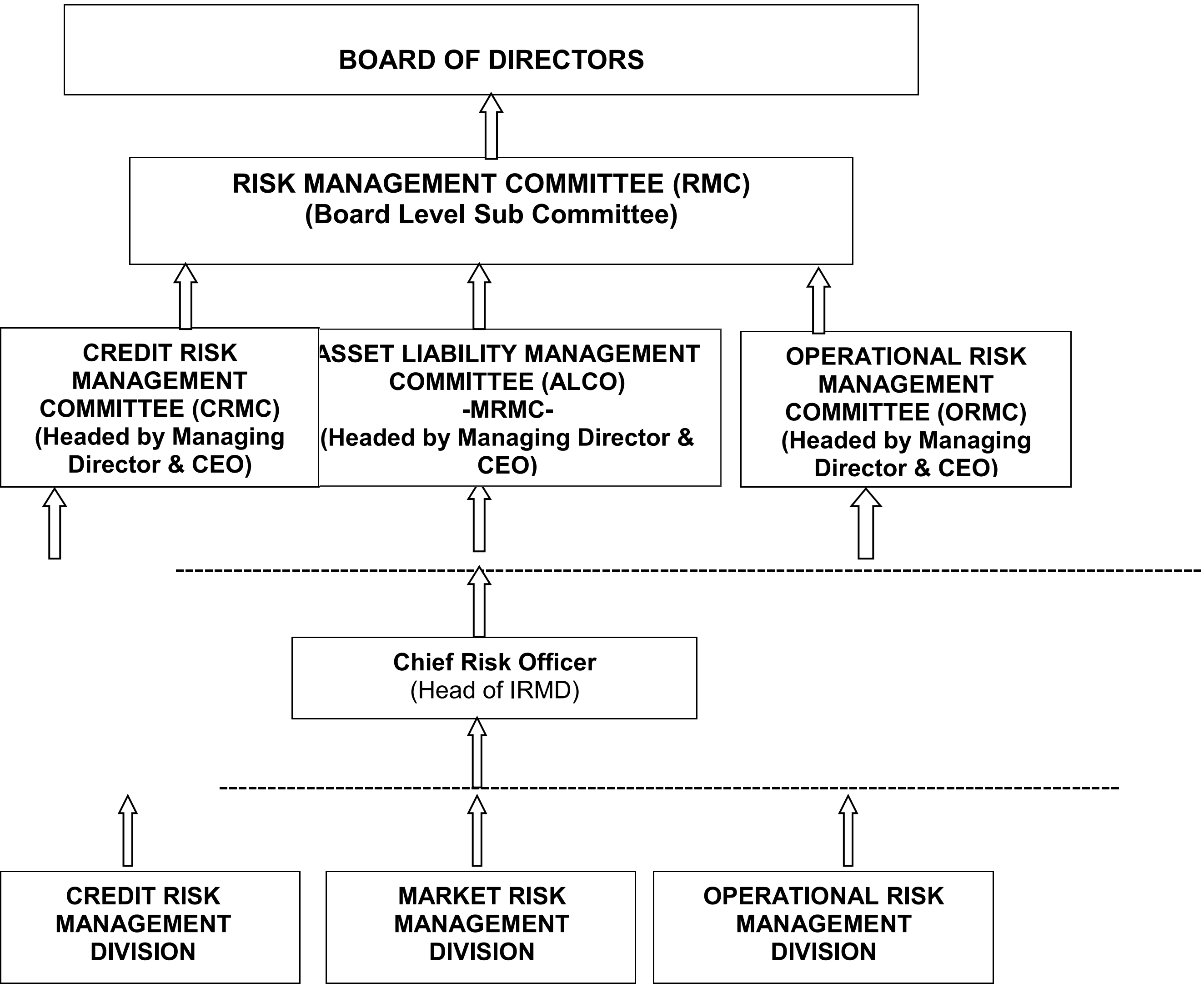
Bank's Board at the top of the structure has assumed overall responsibility for bank-wide management of risk. The Board decides risk management policies of the Bank and sets risk exposure limits by assessing Bank's risk appetite and risk bearing capacity. Risk Management Committee of the Board assumes responsibility of devising policy and strategy for enterprise-wide risk management. The Committee also sets guidelines for measurement of risks, risk mitigation and control parameters and approves institution of adequate infrastructure for risk management. The Committee meets regularly and reviews reports placed on various risk areas.

There are three support committees of senior executives (CRMC, ALCO also known as MRMC, ORMC) responsible for implementation of policies and monitoring of level of risks in their respective domains. The Committees are headed by Managing Director & CEO and Top executives from respective functional areas and risk management are members of the Committee. The Committees meet regularly to take stock of various facets of risk management function and place their reports to Board level Risk Management Committee. CRMC meets at least once in a month and ORMC meets at least once in a quarter. Depending on requirement, ALCO meets frequently.

Single point management of different types of risks bank-wide is made functional through Integrated Risk Management Department. The Department is responsible for overall identification, measurement, monitoring and control of various types of risks faced by the Bank in its operations and compliance of risk management guidelines and policies issued by Regulator/Board. The Department has three separate divisions to look after three broad categories of risks. Independent Mid-

Office functioning on the floor of Treasury Department is reporting directly to the Chief Risk Officer. Head of IRMD is designated as Chief Risk Officer. The distinct risk divisions report to the Chief Risk Officer. Integration of risks occurs at the level of CRO. The Chief Risk Officer reports to the Managing Director & CEO through the Chief Financial Officer.

Organizational structure for risk management in the Bank is as follows:



Note: The Chief Risk Officer (Head of IRMD) reports to the Managing Director & CEO, through the Chief Financial Officer.

()C Structured risk wise disclosures

TABLE DF – 4: CREDIT RISK: GENERAL DISCLOSURES

1.	**Qualitative disclosures**
1.1	Definitions of past due and impaired (for accounting purposes).

	1. Non Performing Assets An asset including a leased asset becomes non-performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where a. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan b. The account remains 'out of order' as indicated in paragraph 2 below, in respect of an Overdraft / Cash Credit (OD/CC) c. The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted d. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops e. The installment of principal or interest thereon remains overdue for one crop season for long duration crops. An account is classified as NPA if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.
	2. 'Out of Order' status An account is treated as 'Out of Order' if 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, but 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, these accounts are treated as out of order.
	3. 'Overdue' Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.
	4. Credit Risk a. Inability or unwillingness of the counterparty to pay interest, repay principal or otherwise to fulfill their contractual obligations under loan agreements or other credit facilities b. Downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall. c. Settlement Risk (possibility that the Bank may pay a counterparty and fail to receive the corresponding settlement in return)
1.2	Discussion of the Bank's Credit Risk Management Policy
	Bank has put in place a detailed Integrated Risk Management Policy with major thrust on Credit Risk Management. Goal of this policy is to equip Bank to manage all types of risks arising in its operations effectively to maintain risk exposures within acceptable/bearable levels, generate returns commensurate to risks undertaken and maximize its Risk Adjusted Rate of Return on Capital. Policy prescribes suitable organizational structure for managing risk effectively. Policy requires instituting apex level sub committee of Board to assume overall responsibility. Senior level committee of executives is assigned with administration of risk management. The organizational structure expects Credit Risk Management Division of Integrated Risk Management Department to support efforts of the Bank in identifying, measuring, monitoring and controlling risk arising out of Bank's credit exposures.

	Policy prescribes functional and reporting hierarchy for risk management in the Bank. It also details functional areas of each structural layer and the frequency of meetings of various committees.

2.	**Quantitative disclosures**			
				Amount in Rs. Crore
		Fund based	Non-fund based	Total
2.1	Total gross credit risk exposures (after accounting offsets in accordance with the applicable accounting regime and without taking into account the effects of credit risk mitigation techniques)	38850.86	2910.00	41760.86
2.2	Geographic distribution of exposures (same basis as adopted for segment reporting adopted for compliance with AS 17)			
	Overseas			
	Domestic	38850.86	2910.00	41760.86
2.3	Industry type distribution of exposures (with industry break up on same lines as prescribed for DSB returns)	Please refer Table 4 (A)		
2.4	Residual contractual maturity breakdown of assets (maturity bands as used in ALM returns should be used)	Please refer Table 4 (B)		

2.5	Amount of NPAs (Gross)	589.54
	Substandard	377.12
	Doubtful 1	113.07
	Doubtful 2	28.62
	Doubtful 3	17.00
	Loss	53.73
2.6	Net NPAs	68.12
2.7	NPA ratios	
	Gross NPAs to gross advances	2.57
	Net NPAs to net advances	0.30
2.8	Movement of NPAs (Gross)	
	Opening balance	468.59
	Additions	574.95
	Reductions	454.00
	Closing balance	589.54
2.9	Movement of provisions for NPAs	
	Opening balance	422.57
	Provisions made during the period	347.34
	Write off	254.98
	Closing balance	514.93
2.10	Amount of Non Performing Investments	2.77
2.11	Amount of provisions held for Non Performing Investments	2.77
2.12	Movement of provisions for depreciation on investments	

	Opening balance	99.86
	Provisions made during the period	28.47
	Write-off	0.00
	Closing balance	128.33

TABLE 4 (A): INDUSTRY TYPE DISTRIBUTION OF EXPOSURES

(Amount in Rs. Crore)

Sl. No.	Industry	Fund based	Non-fund based	Total	% to gross credit exposure
1	Mining &Quarrying	277.08	3.55	280.63	0.67%
2	Food Processing	333.18	75.55	408.73	0.98%
3	Beverages & Tobacco	85.97	0.00	85.97	0.21%
4	Textiles	732.13	59.54	791.67	1.90%
5	Leather & Leather products	53.24	5.84	59.08	0.14%
6	Wood & Wood products	97.04	0.00	97.04	0.23%
7	Paper & Paper products	145.41	8.67	154.08	0.37%
8	Petroleum, Coal products & Nuclear Fuels	605.50	38.81	644.31	1.54%
9	Chemicals & Chem prod.	993.87	89.20	1083.07	2.59%
10	Rubber, Plastic & their products.	199.23	7.41	206.64	0.49%
11	Glass & Glassware	61.96	0.00	61.96	0.15%
12	Cement & Cem. Products	29.65	1.55	31.2	0.07%
13	Basic Metal & Metal products	910.07	161.09	1071.16	2.56%
14	All Engineering	270.42	333.10	603.52	1.45%
15	Vehicles, parts and Transport equipments	131.30	39.78	171.08	0.41%
16	Gems& Jewellery	68.13	0.00	68.13	0.16%
17	Construction	72.41	4.02	76.43	0.18%
18	Infrastructure	1712.82	228.46	1941.28	4.65%
19	Other industries	600.59	131.12	731.71	1.75%
	TOTAL	7380.00	1187.69	8567.69	

As on 31st March 2009, exposure to each industry is within 5% of the gross credit exposure of the Bank.

TABLE 4 (B): RESIDUAL CONTRACTUAL MATURITY BREAKDOWN OF ASSETS

(Amount in Rs. Crore)

	Cash	Balances with RBI	Balances with other banks	Investments	Advances	Fixed assets	Other assets	Total

Day 1	220.48	3.60	92.38	17.25	1187.30		1.04	1522.05
2 – 7 days		13.60	128.75	437.81	532.15			1112.31
8-14 days		12.61	8.37	53.61	316.67			391.26
15-28 days		35.33	60.45	104.40	561.66		0.01	761.85
29 days & up to 3 months		154.36	932.75	2305.32	1925.76		1.29	5319.48
Over 3 months & up to 6 months		190.99		780.95	1222.17		1.29	2195.40
Over 6 months & up to 1 year		357.30		395.91	2152.10		1.29	2906.60
Over 1 year & up to 3 years		641.50		818.59	10501.53		39.05	12000.67
Over 3 years & up to 5 years		18.73		1230.35	2170.85		1.58	3421.51
Over 5 years		565.89		5974.78	1821.69	280.78	576.60	9219.74
Total	220.48	1993.91	1222.70	12118.97	22391.88	280.78	622.15	38850.87

TABLE DF – 5: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

1.	**Qualitative disclosures**
	For portfolios under the Standardized Approach;
1.1	Names of credit rating agencies used, plus reasons for any changes.
	Bank has approved all the four External Credit Rating Agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts that forms the basis for determining risk weights under Standardized Approach. External Credit Rating Agencies approved are: 1. CRISIL 2. CARE 3. FITCH India 4. ICRA No agency has been added/deleted by the Bank during the year.
1.2	Types of exposure for which each agency is used.
	1. Rating by the agencies is used for both fund based and non-fund based exposures. 2. Short Term Rating given by the agencies is used for exposure with contractual maturity of less than or equal to one year (except Cash Credit, Overdrafts and other Revolving Credits). 3. Long Term Rating given by the agencies is used for exposures with contractual maturity of above one year and also for Cash Credit, Overdrafts and other Revolving Credits. 4. Rating assigned to one particular entity within a corporate group is not used to risk weight other entities within the same group.
1.3	Description of the process used to transfer public issue ratings onto comparable assets in the Banking Book
	The ratings available in public domain are mapped according to mapping

	process as envisaged in RBI guidelines on the subject. Issue Specific Ratings (Bank's own exposures or other issuance of debt by the same borrower constituent/counterparty) or Issuer Ratings (borrower constituent/counterparty) are applied to unrated exposures of the same borrower constituent/counterparty subject to the following: 1. Issue specific ratings are used where the unrated claim of the Bank ranks *paripassu* or senior to the rated issue / debt. 2. Wherever issuer rating or issue specific ratings are used to risk weight unrated claims, such ratings are extended to entire amount of claim on the same counterparty. 3. Ratings used for risk weighting purposes are confirmed from the websites / monthly bulletin of the rating agencies concerned.

2.	**Quantitative disclosures**		
	Risk weight wise details of credit risk exposures (rated and unrated) after risk mitigation subject to the Standardized Approach *(Credit equivalent after risk mitigation)*	Risk Weight	Amount in Rs. Crore
		Below 100 %	24640.36
		100 %	10396.14
		More than 100 %	2197.66
		Deducted	0.00
		Total	37234.16

TABLE DF – 6: CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH

1.	**Qualitative disclosures**
	Disclosures on credit risk mitigation methodology adopted by the Bank that are recognized under the Standardized Approach for reducing capital requirements for credit risk
1.1	Policies and processes for collateral valuation and management
	Bank has put in place Board approved policy on Credit Risk Mitigation and Collateral Management, covering credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. The Bank has a separate valuation policy that forms the basis for valuation of collaterals.
1.2	Description of the main types of collateral taken by the Bank
	Collateral used by Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely: 1. Cash margin and fixed deposits of the counterparty with the Bank. 2. Gold jewellery of purity 91.6% and above, the value of which is notionally converted to value of gold with 99.99% purity. 3. Securities issued by Central and State Governments 4. Kisan Vikas Patra and National Savings Certificates. 5. Life Insurance Policies with a declared surrender value of an insurance company regulated by the insurance sector regulator. 6. Debt securities rated by a chosen Credit Rating Agency in respect of which the bank is sufficiently confident of market liquidity of the security and where these securities are either:

	a. Attracting 100% or lesser risk weight i.e. rated at least BBB (-) when issued by Public sector entities and other entities including banks and Primary Dealers or b. Attracting 100% or lesser risk weight i.e. rated at least PR3/P3/F3/A3 for short term debt instruments 7. Debt securities not rated by a chosen Credit Rating Agency in respect of which the bank is sufficiently confident of market liquidity of the security and where these securities are a. Issued by the bank b. Listed on a recognized exchange c. Classified as senior debt d. All rated issues of the same seniority by the issuing Bank are rated at least BBB (-) or PR3/P3/F3/A3 by a chosen Credit Rating Agency e. The bank has no information to suggest that the issue justifies a rating below BBB (-) or PR3/P3/F3/A3 8. Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the Bank's operation and mutual funds where a. A price for the units is publicly quoted daily i.e. where the daily NAV is available in public domain b. Mutual fund is limited to investing in the permitted instruments listed. Bank has no practice of on-balance sheet netting for credit risk mitigation. Eligible collaterals taken for the exposures are separately earmarked and the exposures are expressed without netting. Bank has no practice of monitoring / controlling exposures on a net basis, though Bank is able to determine at any time loans/advances and deposits of the same counterparty. Netting benefit, even if available, is not utilized in capital computation under Basel II norms.
1.3	Main types of guarantor counterparty and their creditworthiness
	Bank considers guarantees, which are direct, explicit, irrevocable and unconditional for credit risk mitigation. Use of such guarantees for capital computation is strictly as per RBI guidelines on the subject. Main types of guarantor counter party are a. Sovereigns (Central / State Governments) b. Sovereign entities like ECGC, CGTSI c. Banks and Primary Dealers with a lower risk weight than the counter party d. Other entities rate AA (-) or better. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have lower risk weight than the obligor. The rating of the guarantor should be an entity rating which has factored in all the liabilities and commitments (including guarantees) of the entity.
1.4	Information on market / credit risk concentrations within the mitigation taken by the Bank
	Majority of financial collaterals held by the Bank are by way of own deposits, government securities, Gold, Life Insurance Policies and other approved securities like NSC, KVP etc. Bank does not have exposure collateralized through units of eligible MF. Bank does not envisage market liquidity risk in

	respect of financial collaterals. As far as Gold, where exposure comes to around 5% is considered, Bank is maintaining adequate margin (minimum 20%) on such exposures and every exposure is reviewed/renewed/closed with in the maximum period of 12 months stipulated for such exposures. Price volatility is low in Gold and it is increasingly preferred now as an investment asset class. Bank has long experience in this portfolio and measures warranted by situations are timely taken as per practices followed in the past (enhancement of margin, reduction of exposure, auction at short notice etc). Hence, Bank does not anticipate market liquidity risk in Gold. Overall, financial collaterals do not have any issue in realization. Concentration on account of collateral is also relevant in the case of land & building. Except in the case of housing loan to individuals, land and building is considered only as additional security. As land and building is not recognized as eligible collateral under Basel II Standardized Approach, its value is not reduced from the amount of exposure in the process of computation of capital charge, and is used only in the case of housing loan to individuals and non performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.

(Amount in Rs. Crores)

2.	**Quantitative Disclosures**			
2.1	Total credit risk exposure covered by eligible financial collaterals			
	Exposure covered by (type of eligible collateral)	Gross exposure	Value of collateral after haircuts	Exposure net of collateral value
	Deposit	2321.87	1392.65	929.22
	Gold	1069.99	1062.36	7.62
	Government Securities	225.58	200.17	25.41
	NSC/KVP	35.65	26.76	8.89
	Life Insurance Policies	82.54	38.41	44.13
	TOTAL	3735.62	2720.35	1015.27

TABLE DF – 7: SECURITISATION: DISCLOSURES FOR STANDARDIZED APPROACH

1.	**Qualitative disclosures**
1.1	**General disclosures on securitisation exposures of the Bank**
A	Objectives of securitisation activities of the Bank (including the extent to which these activities transfer credit risk of the underlying securitized exposures away from the Bank to other entities)
	Bank has not securitized any of its assets till date. Bank's exposure to securitisation is by way of investments in rated securitisation instruments, primarily made in an earnings perspective.
B	Role of Bank in securitisation processes (originator / investor/ service provider/

	facility provider etc.) and extent of involvement in each activity.
	Bank's role is limited to investment in securitized instruments held in its trading book.
C	Approach for Regulatory capital for securitisation activities
	Investment in securitized instruments held in the trading book of the Bank is subjected to market risk capital charge as required under the Standardized Duration Method of Basel II.
1.2	**Accounting policies for securitisation activities**
A	Recognition of gain on sale
	Bank has not originated any securitisation transaction till date.
B	Key assumptions for valuing retained interests (including any significant changes since the last reporting period and the impact of such changes)
	Bank has not originated any securitisation transaction till date.
1.3	Names of ECAIs used for securitisations and the types of securitisation exposures for which each agency is used.
	Only rating provided by ECAIs approved by RBI under the Basel II guidelines are taken for the purpose of risk weighting of securitisation exposures.

(Amount in Rs. Crore)

2.	**Quantitative disclosures:**	
2.1	Outstanding exposures securitized by the Bank and subject to the securitisation framework (details of transactions originated by the Bank but not retained shall be reported separately for the year of inception)	
A	Exposure type wise breakup	
	Bank has not originated securitisation of any of its exposures and Bank's securitisation exposure is limited to investment in Pass Through Certificates to the tune of Rs. 5.88 Crore held in the trading book.	
B	Amount of impaired / past due assets securitized	
	Not applicable.	
C	Losses recognized by the Bank during the current period (exposure type wise details)	NIL
2.2	Aggregate amount of securitisation exposures retained or purchased by the Bank	
A	Exposure type wise break up	
	Investment in Pass Through Certificates (held in trading book)	5.88

B	Risk weight wise break up	
	Risk weight below 100% *(Market risk)*	5.88
	Risk weight 100%	-------
	Risk weight above 100%	-------
C	Total amount of deductions from capital on account of securitisation exposures	NIL
	Deducted entirely from Tier I capital – underlying exposure type wise break up	NIL
	Credit enhancing interest only strips (I/Os) deducted from total capital – underlying exposure type wise break up	NIL
	Other exposures deducted from total capital – underlying exposure type wise break up	NIL

2.3	Comparative position of securitisation activities of the Bank				
A	Underlying asset type wise details of loan assets securitized (Number and Book Value)	Previous Fiscal		Current Fiscal	
		No.	Amt in Rs. Cr.	No.	Amt in Rs. Cr.
	Bank has not securitized any of its assets till date.	----	---------	---	--------
B	Sale consideration received for the securitized assets		---------		---------
C	Gain / loss on sale on account of securitisation		--------		-------
D	Form and quantum (outstanding value) of services provided by the Bank as -	Previous Fiscal (Amt in Rs. Cr.)		Current Fiscal (Amt in Rs. Cr.)	
	Credit enhancement	-----------		--------	
	Liquidity support	----------		---------	
	Post-securitisation asset servicing	NIL		NIL	
	Other services (separately for each type of service)	NIL		NIL	

TABLE DF – 8: MARKET RISK IN TRADING BOOK

1.	**Qualitative disclosures**
1.1	Approach used for computation of capital charge for market risk
	1. Market risk management functions of the Bank are guided by various policies like Investment policy, Derivatives policy and ALM policy approved by the Board. 2. Bank has Board level sub committee, Risk Management Committee, to oversee Bank wide market risk management. 3. Bank has senior executive level Market Risk Management Committee, also known as Asset Liability Management Committee – ALCO, to monitor

	adherence to policy prescriptions and regulatory directions. 4. Bank has instituted independent Mid Office for independent monitoring, analysis and reporting of market risk related to Treasury activities. Bank has adopted Standardized Duration Approach as prescribed by RBI for computation of capital charge for general market risk and is fully compliant with such RBI guidelines. Bank uses VaR as an indicative tool for measuring Forex risk and Equity Price risk. Standardized Duration Approach is applied for computation of General Market Risk for ➢ Securities under HFT category ➢ Securities under AFS category ➢ Open gold position limits ➢ Open foreign exchange position limits ➢ Trading positions in derivatives ➢ Derivatives entered into for hedging trading book exposures Specific capital charge for market risk is computed based on risk weights prescribed by the Regulator. Risk management and reporting is based on parameters such as Modified Duration, Exposure and Gap Limits, VaR etc. Risk profiles are regularly analyzed by ALCO / RMC and mitigating strategies/ hedging processes as carried out as per various policies like ALM Policy, Investment Policy, Derivatives Policy etc. Forex Open Position limits (Daylight/ Overnight), deal-wise cut-loss limits, stop-loss limits, profit/loss in respect of Cross Currency trading are properly monitored and exception reporting is regularly carried out. Their effectiveness is monitored at various levels.
1.2	Portfolios covered in the process of computation of capital charge
	Investment portfolio under AFS and HFT, Gold and Forex open positions and Derivatives entered for trading and hedging.

(Amount in Rs. Crore)

2.	**Quantitative disclosures**	
2.1	Minimum capital requirements for market risk as per Standardized Duration Approach under Basel II	121.06
	Interest rate risk	84.39
	Foreign exchange risk (including gold)	4.50
	Equity position risk	32.17

TABLE DF – 9: OPERATIONAL RISK

1.	**Qualitative disclosures**
1.1	Approach used for computation of capital charge for operational risk (and for which the Bank is qualified)

	1. Bank has put in place Bank's Board approved policy for Operational Risk Management. 2. Bank has also put in place a comprehensive Business Continuity Plan covering critical systems and processes and also stipulating Disaster Recovery measures. 3. Bank has Board level sub committee, Risk Management Committee, to oversee Bank wide operational risk management. 4. Bank has senior executive level Operational Risk Management Committee to monitor adherence to policy prescriptions and regulatory directions. 5. Bank has operationalised risk framework including tracking, reporting and accounting of operational risks. Separate accounting procedure for operational loss events enhances transparency and effectiveness of monitoring of events. Bank has started collection of internal operational loss data from the Fiscal 2006 – 07. Operational loss data is captured with granular details conforming to Basel II norms to enable movement to Advance Measurement Approach for computation of capital charge. Operational Risk Management Division within IRMD is the central repository for operational loss data of the Bank. 6. Executive level ORMC headed by Managing Director & CEO meets at least once in a quarter. The Committee reviews the progress in operational risk management, analyzes loss data and takes care of implementation of framework approved by the Board. 7. Bank is using insurance for mitigating operational risk. Bank is subscribing to the General Banker's Indemnity Policy as mitigation against loss of securities due to various external events. Bank also mitigates loss in other physical assets through property insurance. Bank has adopted Basic Indicator Approach as prescribed by RBI for computation of capital charge for operational risk. Bank has initiated steps to move on to the Advanced Measurement Approach in due course.

TABLE DF – 10: INTEREST RATE RISK IN BANKING BOOK (IRRBB)

1.	**Qualitative disclosures**
1.1	Brief description of approach used for computation of interest rate risk and nature of IRRBB.
	Interest Rate Risk in Banking Book is computed through Duration Gap Analysis.
1.2	Key assumptions used in Duration Gap Analysis (DGA) and computation of capital charge for Interest Rate Risk (including assumptions on prepayment of loans and behavior of non-maturity deposits)

	Board approved assumptions as stipulated in applicable policies are used in Duration Gap Analysis and computation of capital charge for Interest Rate Risk. The following are the key assumptions involved: 1) As indicated by RBI, assets and liabilities are grouped under the broad heads under various time buckets and bucket wise modified duration of these groups is computed using the suggested common maturity, coupon and yield parameters. 2) Advances linked to BPLR has been placed in the bucket of 1 to 28 days as our interest rate expectations as on 31.03.2009 predict a change in BPLR within the bucket of 1 to 28 days. 3) All the future cash flows (future repricing amount) bucket wise are discounted with midpoint of the bucket and suggested yield to get more accurate treatment of cash flows. The same present value is considered to arrive at the weighted Modified duration of each asset and liability and further to get the weighted modified duration of Liabilities and Assets. 4) Bank's average standard advances covering Bills Purchased / Discounted, Cash Credits/ Overdrafts and term loans are mapped to AA rating (As on 31.03.2009). Accordingly yield curve is approximated to the same AA rating. 5) Usual bucketing applicable to the Statement of Interest Rate Sensitivity is also made applicable to the duration of Equity calculations. Last bucket for liabilities is approximated as 5 years to 10 years and last bucket for Assets as 5 years to 20 years.
1.3	Frequency of measurement of interest rate risk
	Measurement and Computation of Interest rate risk in Banking Book and evaluation of Modified Duration of Equity is done by the Bank on a quarterly basis. Bank also calculates on quarterly basis the likely drop in Market Value of Equity with 200 bps change in interest rates. Earnings at Risk is measured on a monthly basis using Traditional Gap Analysis.

(* Currency wise break up not provided as the turnover in other currencies are less than 5% of total turnover)

2.	**Quantitative disclosures - Impact of interest rate risk**	
2.1	Earnings perspective (Traditional Gap Analysis)	
	Earnings at Risk (EaR) – impact for one year due to	
	Uniform 1% increase in interest rate (Amt in Rs. Cr.)	NIL
	Uniform 1% decrease in interest rate (Amt in Rs. Cr.)	63.73 Crore
2.2	Economic value perspective – percentage and quantum of decrease in market value of equity on account of 1% uniform increase in interest rate	4.22% 199.62 Cr.

TABLE DF – 11: ADDITIONAL DISCLOSURES AS PER ICAAP

1.	**Qualitative Disclosures**	
1.1	ICAAP philosophy of the Bank	
	ICAAP is aimed to equip Bank to undertake various risks knowingly and more fruitfully in a fast changing dynamics of integrated and complex global financial market. The policy proposes process to identify, control, monitor and appropriately mitigate all possible risks embedded in its operations so as to draw the risk appetite and risk bearing parameters of the Bank and measure and allocate capital for quantifiable risks. Policy aims the Bank to move towards more advanced approaches in its capital planning and risk assessment and thereby gather enough strength to sail safe through normal as well as troubled times, present or future. The document envisages Bank to give sufficient comfort to the Regulator and all its stakeholders on its stability, growth and earning potential. Policy supports Bank to maximize shareholders' wealth and improve services delivery to the public by following industry level best practices. ICAAP embodies risk philosophy of the Bank, 'take risk by choice and not by chance'.	
2.	**Quantitative Disclosures**	
2.1	Additional capital requirements under ICAAP	Amt in Rs. Cr.
	Credit risk – over and above Pillar I capital charge	0.00
	Sectoral credit concentration risk	0.00
	Geographical credit concentration risk	0.00
	Interest rate risk	0.00
	Liquidity risk	0.00