

BASEL II DISCLOSURES OF THE FEDERAL BANK LTD, AS ON 31/03/2012

I. SCOPE OF APPLICATION OF BASEL II DISCLOSURES

Table DF – 1: Scope of Application

1.	Qualitative disclosures		
1.1	Name of the top 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 Federal 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, combining and adding together the items such as 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 Ltd	The wholly owned subsidiary has been registered as an NBFC. The major activities include marketing of bank's own products and business of lending against gold	100 %
1.4	That are pro-rata consolidated: (AS 27)		
	Name	Activity	Holding %
a)	NIL		
1.5	That are given a deduction treatment:		
	Name	Activity	Holding %
a)	NIL		
1.6	That are neither consolidated nor deducted		
	Name	Activity	Holding %
	IDBI FEDERAL Life Insurance Company Ltd.	Sale of Insurance products	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 ₹ 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 as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction		
a)	Name	IDBI FEDERAL Life Insurance Company Limited.	
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 16.16% as against 16.64% under the risk weighting method.	

II. STRUCTURE AND ADEQUACY OF CAPITAL

TABLE DF – 2: CAPITAL STRUCTURE

1.	Qualitative Disclosures	
1.1	Summary (<i>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.</i>)	
	Type of capital	Features
A	Tier I	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	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 ₹ Cr	Tenure in months	Coupon (% p.a.)	Rating
A	Innovative instruments (Tier I capital)		Nil			
B	Other capital instruments (Tier I)		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 ₹ Cr	Tenure in Months	Coupon (% p.a.)	Rating
		30.08.03	61	104	7.10	Rating by CARE as 'CARE AA' and by Fitch as 'AA-(ind)'
		26.07.04	30	117	6.85	
		26.07.04	15	93	6.75	
		16.12.06	200	120	9.25	
2.2	Capital funds					Amount in ₹ Crore
A	TIER I CAPITAL					
	Paid up share capital					171.05
	Reserves and Surplus					5,529.86
	Innovative instruments (IPDI or any other instrument that may be allowed from time to time)					0.00
	Other capital instruments					0.00
	Amounts deducted from Tier I capital, including goodwill and investments					95.00
B	TIER II CAPITAL (Total amount net of deductions from Tier II capital)					
	Debt capital instruments eligible for inclusion in Upper Tier II capital					0.00
	Total amount outstanding					0.00

	Of which, amount raised during the current year	0.00
	Amount eligible to be reckoned as capital funds	0.00
	Subordinated debt eligible for inclusion in Lower Tier II capital	306.00
	Total amount outstanding	306.00
	Of which, amount raised during the current year	0.00
	Amount eligible to be reckoned as capital funds	172.00
	Other Tier II capital	198.47
	Revaluation Reserve	2.43
	General Provisions	196.04
	Deductions from Tier II capital	95.00
C	Other deductions from capital, if any.	0.00
D	Total eligible capital	5,881.38

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.	
	<ol style="list-style-type: none"> 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 ₹ Crore.
A	Capital requirements for credit risk (@ 9% CRAR)	2737.85
	Portfolios subject to Standardized approach	2737.85
	Securitisation exposures	0.00
B	Capital requirements for market risk (Standardized duration approach) (@ 9% CRAR)	166.34
	Interest rate risk	114.57
	Foreign exchange risk (including gold)	18.00
	Equity risk	33.77
C	Capital requirements for operational risk (Basic Indicator Approach) (@ 9% CRAR)	277.59

2.2	Capital Adequacy Ratio (CRAR) % for consolidated group (<i>consolidation only for annual disclosures</i>) and significant bank subsidiaries		
	Name of entity	Total CRAR	Tier I CRAR
	Consolidated Bank (<i>group as a whole – applicable annually only</i>)	16.81%	15.76%
	The Federal Bank Ltd. (solo basis)	16.64%	15.86%
	Significant bank subsidiaries (<i>wherever applicable, entity wise data</i>)		

III.RISK EXPOSURE AND ASSESSMENT

(A) Objectives and policies

Sl. No.	
1.	Credit risk
1.1	<p>Strategies and processes:</p> <p>The Bank is exposed to credit risk in its lending operations. The Bank's strategies to manage the credit risks are as under:</p> <ol style="list-style-type: none"> 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 capital funds at the end of 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) At present all the credit facilities except agricultural loans, gold loans etc. are being sanctioned at Credit Hubs which has strengthened credit processes.

	<p>j) All credit proposals of ₹5.00 crores and above are scrutinized and risk assessment is conducted by Integrated Risk Management Department, independent of the business functions.</p> <p>Oversight of the Board's sub committee on risk.</p> <p>Bank has put in place Board approved comprehensive Credit Risk Management Policy designed with added focus on credit risk management. The policy aims to provide basic framework for implementation of sound credit risk management system in the Bank. It spells out various areas of credit risk, goals to be achieved, current practices and future strategies. Bank has also operationalised required 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. 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 Cell of Integrated Risk Management Department.</p> <p>Bank has put in place detailed Loan Policy spelling out various aspects of credit dispensation and credit administration. Loan policy stipulates measures for avoiding concentration risk by setting prudential limits and caps on taking sector wise, rating grade wise, and customer-constitution wise exposure. The policy gives specific instruction on valuation of collaterals .Bank has also put in place guidelines on fixing and monitoring of exposure ceilings to contain risk in credit and investment exposures. The 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.</p>
1.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>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 ₹2lakhs. 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 ₹2lakhs to ₹50 lakhs is relatively simple in structure. Retail advances are rated using scoring model. At present a separate scoring model is used for rating Home loans and Auto loans. Bank also uses a separate rating model for rating its investment exposures. Bank is undertaking annual validation of its rating model for exposures of ₹5Crores and above and</p>

	<p>is also conducting migration and default rate analysis of all loans of ₹50 lakhs and above.</p> <p>Rating process and rating output are used by the Bank in sanction and pricing of its exposures. Bank also conducts annual credit rating of its exposures and the findings are used in annual migration study and portfolio evaluation.</p> <p>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 ₹5Crores 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.</p> <p>Credit audit is being conducted at specified intervals. Bank has made reasonably good progress in implementing all available instruments of credit risk mitigation.</p>
1.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Bank's Credit Risk Management Policy also stipulates various tools for mitigation of credit risk and collateral management. 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.</p> <p>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 an independent authority to ensure its integrity.</p>
2.	Market risk
2.1	<p>Strategies and processes:</p> <p>The Bank monitors market risk through risk limits and Middle Office in operationally intense areas. Detailed policies like Asset Liability Management Policy, Investment Policy, Derivatives Policy etc., are put in place for the conduct of business exposed to market risk and also for effective management of all market risk exposures.</p> <p>The policies and practices also take care of monitoring and controlling of</p>

	<p>liquidity risk arising out of its banking and trading book operations.</p>
<p>2.2</p>	<p>Scope and nature of risk reporting / measurement systems:</p> <p>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. Parameters like Modified Duration, VaR etc are also used for risk management and reporting.</p> <p>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/forex operations on a daily basis and reports directly to the Head of IRMD.</p> <p>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.</p>
<p>2.3</p>	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>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.</p> <p>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.</p>

3.	Operational risk
3.1	<p>Strategies and processes:</p> <p>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 bank wide 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.</p> <p>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.</p>
3.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>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 Cell 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.</p>
3.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>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.</p>
4.	Interest rate risk in banking book
4.1	<p>Strategies and processes:</p> <p>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.</p>
4.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>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</p>

	Gap Analysis are 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 are 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	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Bank has put in place mitigating/hedging measures prescribed by Investment Policy, ALM Policy, Derivatives Policy and Stress Testing Policy.</p> <p>Risk profiles are analyzed and mitigating strategies/hedging process are suggested and operationalised by Treasury Department with the approval of Senior level Committees.</p>

(B) Structure and organization of Bank's risk management function

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 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. Senior 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 very often. Further, an apex level Business Continuity Plan Committee is constituted with the Managing Director & CEO as its head, to ensure continuity of critical operations of the Bank in the event of occurrence of disasters.

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 Cells to look after three broad categories of risks. Independent Mid-Office

functioning on the floor of Treasury Department is reporting directly to the Head of IRMD. The distinct risk Cells report to the Head of IRMD. The Head of IRMD reports to the Managing Director & CEO through the Executive Director.

(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).
	<p>1. Non Performing Assets</p> <p>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</p> <ol style="list-style-type: none"> 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. <p>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.</p>
	<p>2. 'Out of Order' status</p> <p>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.</p>
	<p>3. 'Overdue'</p> <p>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.</p>
	<p>4. Credit Risk</p> <ol style="list-style-type: none"> 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

	<p>b. Downgrading of counter parties whose credit instruments the Bank may be holding, causing the value of those assets to fall.</p> <p>c. Settlement Risk (possibility that the Bank may pay counterparty and fail to receive the corresponding settlement in return).</p>																																																			
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	<p>Bank has put in place a detailed Credit Risk Management Policy. Goal of this policy is to create a transparent framework for identification, assessment and effective management of credit risk in all operations of the Bank and to secure organizational strength and stability in the long run. The policy aims at contributing to the Bank's profitability by efficient and profitable utilization of a prudent proportion of the Bank's resources and maintaining a reasonably balanced portfolio of acceptable risk quality through diversification of credit risks. The policy also envisages optimizing returns with satisfactory spread over funding cost and overheads.</p> <p>The policy also deals with structure, framework and processes for effective management of inherent credit risk.</p>																																																			
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2.7	NPA ratios		
	Gross NPAs to gross advances (%)		3.35
	Net NPAs to net advances (%)		0.53
2.8	Movement of NPAs (Gross)		
	Opening balance (<i>balance as at the end of previous Fiscal</i>)		1148.33
	Additions during the period		695.31
	Reductions		542.81
	Closing balance		1300.83
2.9	Movement of provisions for NPAs		
	Opening balance (<i>balance as at the end of previous Fiscal</i>)		942.34
	Provisions made during the period		221.77
	Write off / Write back of excess provisions		108.78
	Closing balance		1055.33
2.10	Amount of Non Performing Investments		0.00
2.11	Amount of provisions held for Non Performing Investments		0.00
2.12	Movement of provisions for depreciation on investments		
	Opening balance (<i>balance as at the end of previous Fiscal</i>)		16.50
	Provisions made during the period		51.37
	Write-off		0.00
	Write-back of excess provisions		16.50
Closing balance		51.37	

TABLE 4 (A): INDUSTRY TYPE DISTRIBUTION OF EXPOSURES

(Amount in ₹ Crore)

Sl. No.	Industry	Gross lending exposures, without netting			% to gross credit exposure as per Table DF 4 – 2.1
		Fund based	Non-fund based	Total	
1	Mining & Quarrying	240.24	7.01	247.25	0.38
2	Food Processing	1401.87	4.07	1405.94	2.15
3	Beverages & Tobacco	16.65	0.00	16.65	0.03
4	Textiles	800.66	4.06	804.72	1.23
5	Leather & Leather products	73.51	1.73	75.24	0.12
6	Paper & paper products	200.61	1.08	201.69	0.31
7	Petroleum, Coal products & Nuclear Fuels	1259.46	1.25	1260.71	1.93
8	Chemicals & Chem products	659.23	1.16	660.39	1.01
9	Rubber, Plastic & their products	101.51	0.25	101.76	0.16
10	Cement & Cem products	73.93	1.40	75.33	0.12
11	Basic Metal & Metal products	1330.04	13.48	1343.52	2.06
12	All Engineering	428.52	233.75	662.27	1.01
13	Vehicles, parts and	70.34	0.05	70.39	0.11

	Transport Equipments				
14	Gems & Jewellery	21.47	0.00	21.47	0.03
15	Construction	151.12	0.24	151.36	0.23
16	Infrastructure	4455.14	58.98	4514.12	6.91
17	Other Industries	702.45	0.00	702.45	1.07
	TOTAL	11986.75	328.51	12315.26	

As on 31st March 2012, exposure to infrastructure exceeds 5 % of the gross credit exposure of the Bank.

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

(Amount in ₹ Crore)

	Cash	Balances with RBI	Balances with other banks	Investments	Advances	Fixed assets	Other assets	Total
Day 1	395.84	4.73	207.83	1.88	182.31		1.43	794.02
2 – 7 days		27.05	284.07	282.36	887.62		0	1481.10
8-14 days		9.74	29.63	68.29	1246.15		0	1353.81
15-28 days		26.13	54.64	269.02	856.93		0	1206.72
29 days & up to 3 months		151.59	523.41	1489.87	2814.34		2.18	4981.39
Over 3 months & up to 6 months		253.98	8.83	705.58	2853.46		2.34	3824.19
Over 6 months & up to 1 year		285.41	0	218.09	4757.42		880.82	6141.74
Over 1 year & up to 3 years		752.98	0	898.01	17069.49		4.91	18725.39
Over 3 years & up to 5 years		29.31	0	1423.90	3128.60		2.38	4584.19
Over 5 years		487.37	0	12045.48	3959.67	326.14	715.54	17534.20
Total	395.84	2028.29	1108.41	17402.48	37755.99	326.14	1609.6	60626.75

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

1.	Qualitative disclosures
	For portfolios under the Standardized Approach;
	Names of credit rating agencies used, plus reasons for any changes.
	<p>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.</p> <p>External Credit Rating Agencies approved are:</p> <ol style="list-style-type: none"> 1. CRISIL 2. CARE 3. FITCH India 4. ICRA <p>No agency has been added/deleted by the Bank during the year. Wherever short term rating is not available, long term rating grade is used to determine risk weight of the short term claims also. However, even if short term rating is available, it is not used to determine risk weight of long term claims.</p> <p>With respect to external credit rating, Bank is using long term ratings for risk weighting all long term claims and unrated short term claims on the same counterparty. However, short term rating of a counterparty is used only to assign risk weight to all short term claims of the obligor and not to risk weight unrated long term claims on the same counterparty</p> <p>For an unrated claim with respect to external credit rating, The Federal Bank Ltd. is using long term ratings for risk weighting both unrated long term claims as well as unrated short term claims on the same counterparty. However, short term rating of counterparty are only used to assign risk weight to unrated short term claims and not unrated long term claims of the same counterparty.</p> <p>Wherever external credit rating of guarantor is relevant, the same should be used as the entity rating of the guarantor and not the rating of any particular issue of the guarantor. Whereas the entity ratings can be used to risk weight specific unrated credit exposures of counterparty, rating of any credit exposure of the counterparty cannot be used to arrive at risk weight of that counterparty as guarantor.</p>
1.2	Types of exposure for which each agency is used.
	<ol style="list-style-type: none"> 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
	<p>The ratings available in public domain are mapped according to mapping process as envisaged in RBI guidelines on the subject.</p> <p>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:</p> <ol style="list-style-type: none"> 1. Issue specific ratings are used where the unrated claim of the Bank ranks <i>paripassu</i> 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 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 amount of all exposures subjected to Standardized Approach, after risk mitigation)	Risk Weight	Amount in ₹ Crore
		Below 100 %	39156.86
		100 %	15081.18
		More than 100 %	3695.39
		Deducted	0.00
		Total	57933.43

TABLE DF - 6: CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACHES

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, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting	
	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.	

1.2	<p>Policies and processes for collateral valuation and management</p> <p>Bank has put in place Board approved policy on Credit Risk Management in which Collateral Management, and credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes are separately included. The Loan policy of the Bank covers various aspects of valuation of collaterals.</p>
1.3	<p>Description of the main types of collateral taken by the Bank</p>
	<p>Collaterals used by Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely:</p> <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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 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 <ol style="list-style-type: none"> 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 A3 by a chosen Credit Rating Agency e. The bank has no information to suggest that the issue justifies a rating below BBB (-) or A3 by a chosen Credit Rating Agency 8. Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the Bank's operation and mutual funds where <ol style="list-style-type: none"> 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. <p>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.</p>

1.4	Main types of guarantor counterparty and their creditworthiness
	<p>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.</p> <p>Main types of guarantor counter party are</p> <ol style="list-style-type: none"> 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 <p>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.</p>
1.5	Information on market / credit risk concentrations within the mitigation taken by the Bank
	<p>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 less than 6%, 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. Downward volatility in Gold prices is low, and Gold 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.</p> <p>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.</p>

(Amount in ₹ Crores)

2. Quantitative Disclosures				
2.1 Credit risk exposure covered by eligible financial collaterals				
	Type of exposure	Credit equivalent of gross exposure	Value of eligible financial collateral after haircuts	Net amount of credit exposure
A	Loans and advances	5699.49	5203.70	495.79
B	Non-market related off balance sheet items	4430.28	507.35	3922.93
C	Securitisation exposures – on balance sheet	0.00	0.00	0.00
D	Securitisation exposures – off balance sheet	0.00	0.00	0.00
	TOTAL	10129.77	5711.05	4418.72
2.2 Credit risk exposure covered by guarantees				
	Type of exposure	Credit equivalent of gross exposure	Amount of guarantee (Credit equivalent)	
A	Loans and advances	2035.26	1869.16	
B	Non-market related off balance sheet items	64.91	63.98	
C	Securitisation exposures – on balance sheet	0.00	0.00	
D	Securitisation exposures – off balance sheet	0.00	0.00	
	TOTAL	2100.16	1933.14	

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 and nature of other risks inherent in securitized assets)
	Bank's securitisation exposure is limited to investments in AAA rated securitisation instruments, primarily made in an earnings perspective and risks inherent in the investment is within reasonable levels.
B	Role of Bank in securitisation processes (originator / investor/ service provider/ facility provider etc.) and extent of involvement in each activity.
	Bank has invested in rated securitized instruments and such investments are held in its Trading Book. Bank is not active in securitisation processes in any other manner.
C	Processes in place to monitor changes in the credit and market risk of securitisation exposures
	Bank is constantly monitoring the changes in credit and market risk profile of securitisation instruments held in the Trading Book.

D	Bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures
	Bank has not retained any exposure/risk as originator of securitisation transactions.
1.2	Accounting policies for securitisation activities
A	Treatment of transaction (whether as sales or financings)
	N.A
B	Methods and key assumptions (including inputs) applied in valuing positions retained or purchased
	Income from investments in Pass Through Certificates is recognized on accrual basis. Income recognition is subjected to prudential norms stipulated by Reserve Bank of India in this regard.
C	Changes in methods and key assumptions from the previous period and impact of the changes
	No change is effected in methods and key assumptions used for valuation of investment in securitized instruments.
D	Policies for recognizing liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitized assets.
	Bank has not entered into any arrangement to provide financial support for securitized assets.
1.3	In the Banking Book, names of ECAs used for securitisations and the types of securitisation exposures for which each agency is used.
	Bank does not have any securitisation exposure in the Banking Book.

(Amount in ₹ Crore)

2.	Quantitative disclosures		
2.1	In the Banking Book		
A	Total amount of exposures securitized by the Bank		Nil
B	For exposures securitized, losses recognized by the Bank during the current period (<i>exposure type wise breakup</i>)		Nil
C	Amount of assets intended to be securitized within a year		Nil
D	Of (C) above, amount of assets originated within a year before securitisation		Nil
E	Securitisation exposures (by exposure type) and unrecognized gain or losses on sale thereon		
	Type of exposure	Amount securitized	Unrecognized gain / loss
	Nil	Nil	Nil
	TOTAL		
F	Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank (exposure type wise breakup)		Nil
G	Aggregate amount of off-balance sheet securitisation exposures (exposure type wise breakup)		Nil

H	Aggregate amount of securitisation exposures retained or purchased and associated capital charges (exposure type wise and risk weight wise breakup)							
	Type of exposure	Risk weights						
		20%	30%	50%	100%	150%	350%	400%
	Nil	----	----	----	----	----	----	----
I	Total amount of deductions from capital on account of securitization 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
2.2	In the Trading Book							
A	Aggregate amount of exposures securitized by the Bank for which the Bank has retained some exposures, which is subject to Market Risk approach (exposure type wise details)							
	Type of exposure			Gross Amount		Amt retained		
	Nil			Nil		Nil		
B	Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank (exposure type wise breakup)							
	Type of exposure						Amt in ₹Cr.	
	Investment in Pass through Certificates						0.16	
C	Aggregate amount of off-balance sheet securitisation exposures (exposure type wise breakup)						Nil	
D	Securitisation exposures retained / purchased subject to Comprehensive Risk Measure for specific risk						---	
E	Securitisation exposures retained / purchased subject to specific risk capital charge (risk weight band wise distribution)							
	Type of Exposure		Capital charge as % to exposure			Exposure (₹ Cr.)		
	Investment in Pass through Certificates		1.80 %			0.16		
F	Aggregate amount of capital requirements for securitisation exposures (risk weight band wise distribution)							
	Type of exposure			Capital charge as % to exposure		Capital charge ₹		
	Investment in Pass through Certificates			1.80%		₹29000/-		
G	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 –						Nil	

underlying exposure type wise break up	
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TABLE DF – 8: MARKET RISK IN TRADING BOOK

1.	Qualitative disclosures
1.1	Approach used for computation of capital charge for market risk
	<p>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</p> <ul style="list-style-type: none"> ➤ 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 <p>Specific capital charge for market risk is computed based on risk weights prescribed by the Regulator.</p>
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 ₹ Crore)

2.	Quantitative disclosures	
2.1	Minimum capital requirements for market risk as per Standardized Duration Approach under Basel II	166.34
	Interest rate risk	114.57
	Foreign exchange risk (including gold)	18.00
	Equity position risk	33.77

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)
	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)
	<p>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:</p> <ol style="list-style-type: none"> 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 and Base Rate has been placed in the bucket of 1 to 28 days as per Bank's interest rate expectations. 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 appropriate external ratings. Yield curve for BBB rated corporate bonds is used as a proxy for yield for Banks' average standard advances for arriving at the Modified Duration of Advances. <p>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.</p>
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 ₹ Cr.)	0.00
	Uniform 1% decrease in interest rate (Amt in ₹ Cr.)	170.35
2.2	Economic value perspective – percentage and quantum of decrease in market value of equity on account of 1% uniform increase in interest rate	6.09% ₹327.54Cr

TABLE DF – 11: ADDITIONAL DISCLOSURES AS PER ICAAP

1.	Qualitative Disclosures	
1.1		
	<p>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'.</p>	
2.	Quantitative Disclosures	
2.1	Additional capital requirements under ICAAP	Amt in ₹ Cr.
	Credit risk –over and above Pillar I capital charge	0.00
	Sectoral credit concentration risk	36.39
	Geographical credit concentration risk	82.74
	Interest rate risk	0.00
	Liquidity risk	39.83
2.2	Overall capital adequacy of solo Bank (With aggregate of capital charge under Pillar I and Pillar II of Basel II norms)	15.85%