BASEL III – PILLAR 3 DISCLOSURES FOR THE HALF-YEAR ENDED 30.09.2013

RBI issued Basel III guidelines, applicable w.e.f. 01.04.2013. These guidelines provide a transition schedule for Basel III implementation till 31.03.2018. Upon full implementation of Basel III guidelines target minimum capital to risk-weighted assets ratio (CRAR) would be 11.50%.

Basel III framework consists of three mutually reinforcing pillars:

(i) Pillar 1: Minimum Capital Requirements for Credit Risk, Market Risk and Operational Risk
(ii) Pillar 2: Supervisory Review of Capital Adequacy
(iii) Pillar 3: Market Discipline

Market Disclipline (Pillar 3) consists of set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections:

DF-1: Scope of Application

Name of the head of the banking group to which the framework applies: **BANK OF MAHAARASHTRA**

(i) Qualitative Disclosures:

a. List of group entities considered for consolidation:

1. The Maharashtra Executors & trustee Co. Pvt Ltd (METCO)/ India
2. Maharashtra Gramin Bank (MGB)

Name of the entity / Country of incorporation	Whether the entity is included under accounting scope of consolidation (yes / no)	Explain the method of consolidation	Whether the entity is included under regulatory scope of consolidation15 (yes / no)	Explain the method of consolidation	Explain the reasons for difference in the method of consolidation	Explain the reasons if consolidated under only one of the scopes of Consolidation
The Maharashtra Executors & trustee Co. Pvt Ltd (METCO)/ India	Yes	Line by Line basis (As per AS-21) issued by ICAI	No	NA	**NA**	The entity is not a banking company, hence outside the perview of regulatory consolidation. Investment is deducted.
Maharashtra Gramin Bank (MGB) India	Yes	Equity method Basis as per AS-23 issued by ICAI	No	NA	**NA**	The entity is RRB, an associate, hence outside the perview of regulatory consolidation. Investment is risk weighted at 250%.

b. List of group entities not considered for consolidation both under the accounting and regulatory scope of consolidation

Name of the entity / Country of incorporation	Principle activity of the entity	Total Balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity	Regulatory treatment of bank's investments in the capital instruments of the entity	Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)
NIL					

(ii) <u>Quantitative Disclosures:</u>

c. List of group entities considered for consolidation

Name of the entity / Country of incorporation	Principle activity of the entity	Total Balance sheet equity (as stated in the accounting balance sheet of the legal entity)	Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)
The Maharashtra Executors & trustee Co. Pvt Ltd (METCO)/ India	Trusteeship	20.00 lakhs (BOM share 100%)	899.69 Lakhs
Maharashtra Gramin Bank (MGB)	Banking	20634.62 lakhs (BOM share 7222.11 lakhs i.e, 35%)	430792.34 lakhs

d. The aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:

There is no capital deficiency in the subsidiary of the Bank which are not included in the regulatory scope of consolidation as of September 30, 2013

e. The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk weighted

Name of the entity / Country of incorporation	Principle activity of the entity	Total Balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity / proportion of voting power	Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction

				method.
NA	NA	NA	NA	NA
Bank is not having any subsidiary having insurance business.				

f. Any restrictions or impediments on transfer of funds or regulatory capital within the banking group

There is no restriction or impediments on transfer of funds or regulatory capital within the banking group.

DF – 2: Capital Adequacy

Qualitative Disclosures

a. Capital Management

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the bank has adequate capital to support all risks inherent to its business. The Bank actively manages its capital to meet regulatory norms by considering available options of raising capital.

Organisational Set-up:

The Capital Management of the Bank is administered by the Financial Management and Accounts Department of the Bank in co-ordination with Integrated Risk Management Department under the overall supervision of the Board of Directors.

Internal Assessment of Capital:

The Bank's Capital Management framework includes a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) conducted annually which determines the adequate level of capitalisation for the Bank to meet regulatory norms and current and future business need, including under stressed scenarios. The ICAAP encompasses capital planning for a two year time horizon, after the identification and evaluation of the significance of all risks that the Bank faces, which may have an adverse material impact on its financial position. The Bank considers the following as material risks it is exposed to in the normal course of its business and considers for capital planning:

- Credit Risk – including residuary risk
- Market Risk
- Operational Risk
- Settlement Risk
- Interest Rate Risk on Banking Book
- Reputational Risk

- Credit Concentration Risk
- Liquidity Risk
- Country Risk
- Compliance Risk
- Strategic Risk
- Pension Obligation Risk
- Legal Risk
- Risk of underestimation of Credit Risk under the Standardized approach

The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

Monitoring and Reporting:

The Board of Directors of the Bank monitors the capital adequacy levels of the Banks. On a quarterly basis an analysis of the capital adequacy position and the risk weighted assets and an assessment of the various aspects of Basel III on capital and risk management as stipulated by RBI, are undertaken by the Board.

Quantitative Disclosures

b. Capital Requirement

Bank's capital requirements have been computed using the Standardized Appraoch for Credit Risk, Standardized Duration Method for Market Risk and Basic Indicator Approach for Operational Risk. The minimum capital required to be held at 9.00% for credit, market and operational risks is given below:

(Amount Rs. in Million)

Sr. No.	Particulars	Amount	Amount
(A)	**Capital Required for Credit Risk**		
(i)	Portfolios subject to Standardized Approach @9%	63919.93	
(ii)	For Securitisation Exposure	0.00	
	Total capital charge for credit risks under standardized approach (i+ii)		**63919.93**
(B)	**Market Risk**		
(i)	Interest Rate Risk	559.78	
(ii)	Foreign Exchange Risk (including Gold)	45.00	
(iii)	Equity Risk	364.65	
	Total capital charge for credit risks under standardized duration approach (i+ii+iii)		**969.43**

(C)	**Capital Required for Operational Risk under Basic Indicator Approach**		**5146.95**
(D)	**Capital Ratios**		**Standalone (in %)**
	Common Equity Tier 1 Capital Ratio		**5.95**
	Tier 1 Capital Ratio		**6.74**
	Total Capital Ratio		**10.71**

Table DF-3: Credit Risk - General Disclosures

Qualitative Disclosures

Credit Risk is defined as the possibility of losses associated with dimunition in the credit quality of borrowers or counterparties. In a Bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

Organizational Structure for Credit Risk Management

The Bank has comprehensive credit risk management architecture. The Board of Directors of the bank approves the credit risk policies of the Bank. The Board has formed committees to oversee the risk management processes, procedures and systems in the Bank. Risk Management Committee is responsible for devising policy and strategy for credit risk management. Credit Risk Management Committee (CRMC), a separate committee is constituted for the purpose of managing the Credit Risk. The CRMC reports the Risk Management Committee of the Board. CRMC is responsible for overseeing implementation of credit risk management framework across the Bank and providing recommendations to the RMC.

Policy & Strategy

The Bank has been following a conservative risk philosophy. The important aspects of the risk philosophy are embodied in various policies, circulars, guidelines etc. The business objectives and the strategy of the bank is decided taking into account the profit considerations, the level of various risks faced, level of capital, market scenario and competition. The Bank is conscious of its asset quality and earnings and judiciously matches profit maximization with risk control.

The Bank has put in place the following policies approved by the Board.

i) Lending & Loan Review Policy
ii) Credit Risk Management Policy

iii) Credit Risk Mitigation Techniques & Collateral Management Policy
iv) Investment Management Policy & Investment Risk Management Policy

The Lending & Loan Review Policy, Credit Risk Management Policy documents define organizational structure, role and responsibilities and, the processes and tools whereby the credit risks carried by the Bank can be identified, quantified and managed within the framework that the Bank considers consistent with its mandate and risk appetite. The policies prescribe various prudential and exposure limits, collateral standards, financial benchmarks for the purpose of credit risk management. The policy on Credit Risk Mitigation Techniques & Collateral Management lays down the details of eligible collaterals for credit risk mitigation under Basel III framework. The Investment Management Policy and Investment Risk Management Policy forms an integral part of credit risk in the Bank.

Systems / Process / tools for Credit Risk Management

Credit Appraisal standards: The Bank has in place proactive credit risk management practices like consistent standard for the credit origination, maintenance and documentation for all credit exposures including off balance sheet items. Systems of periodic reviews, periodic inspections and collateral management systems are in place.

Exposure Limits: Credit risk limits including single / group borrower limits, substantial exposure limits, exposure limits in respect of sectors / industries are in place. The exposure vis-à-vis the limits are monitored on an ongoing basis.

Credit Risk Approval Grids: Credit Approval Grids have been constituted at various levels covering very large branches / Regional offices / Head Office for considering fresh / existing proposals with or without enhancement. A structure namely, New Business Group (NBG) is in place at Head Office level for considering in-principle approval for taking up fresh credit proposal above a specified cut-off.

Sanctioning Powers: The Bank follows a well-defined multi-layered discretionary power structure for sanctioning of loans. Higher sanctioning powers are delegated to sanctioning authorities for sanctioning loans and advances to better rated customers in line with RBI guidelines. In respect of high value loans, committee approach is adopted.

Credit Risk Rating and Appraisal Process: The Bank manages its credit risk through continuous measuring and monitoring of risks at each obligor (borrower) and portfolio level. The Bank has in place an internal credit risk rating framework and well established standardized credit appraisal / approval processes. Credit risk rating enables the Bank to accurately assess the risk in a credit proposition and take a decision to accept or reject the proposal based on the risk appetite of the Bank. It also enables risk pricing of credit facilities for risk return trade off. The Bank has developed and put in place credit risk rating models for retail loans also. The Bank has in-house developed software for undertaking credit risk rating, which is available on the Wide Area Network (WAN) of the Bank facilitating instant access by the Branches / Field Offices for undertaking credit risk rating of borrowers.

As a measure of robust credit risk management practices, the Bank has in place a framework for approval of credit risk ratings. Rating for every borrower is reviewed at least once in a year. Credit portfolio quality is monitored by undertaking bi-annual credit risk rating for high value exposures and inferior rated borrowers. Credit risk rating, as a concept, has been well internalized in the Bank.

Loan review Mechanism: The objectives of the Loan Review Mechanism in place in the Bank are:

i) To ensure that credit decisions by various authorities are in conformity with the Bank's Lending Policy and delegated lending powers.

ii) To ensure that stipulated terms & conditions of sanction are complied with and various post sanction follow up, monitoring and supervision measures prescribed by the Bank are adhered to.

iii) To ensure that all credit facilities are reviewed / renewed well in time so as to revise the risk perception and take necessary corrective action if necessary, immediately.

iv) To aim at achieving maintenance of standard assets quality and improvement in non-performing assets (NPAs) so as to have a favourable impact on profitability of the Bank through prevention / reduction / up gradation of NPAs.

v) To assess the health of credit portfolio of the Bank and to apprise the Top Management about the same from time to time.

Checks and balances viz. separation of credit risk management from credit sanctions, system of assigning credit risk rating, validation of ratings, mechanism to price credit facilities depending on risk rating of customer, credit audit etc. are in place. Minimum entry level rating benchmarks are stipulated. A suitable mechanism is in place to monitor aggregate exposure on other banks and country exposures. A diversified credit portfolio is maintained and a system to conduct regular analysis of portfolio so as to ensure ongoing control of credit concentration is in place.

Loans past due and Impaired:

The regulatory guidelines are adhered to in respect of income recognition, asset classification and provisioning, the Bank considers following categories of loans and advances as Non-performing Assets, wherein:

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC)
- The bill remains overdue for a period of more than 90 days in the case of Bills Purchased and Discounted
- In case of agricultural advances, interest and/or installment of principal remains overdue for 2 crop seasons (in respect of short duration crops) & 1 crop season (in respect of long duration crops).
- Any amount receivable that remains overdue for a period of more than 90 days in respect of other accounts.

'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 also treated as **'out of order'**.

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.

<u>Quantitative Disclosures</u>

1. The Total Gross Credit Risk Exposure is:

(Amount Rs. in Million)

Category	Outstanding Amount as on 30.09.2013
Fund Based	884193.50
Non-Fund Based	99427.67

2. The Geographic Distribution of exposure is:

(Amount Rs. in Million)

Category	Outstanding Amount as on 30.09.2013	
	Overseas	**Domestic**
Fund Based	NIL	884193.50
Non-Fund Based	NIL	99427.67

3. Industry-wise Distribution as on 30.09.2013:

(Amount Rs. in Million)

Sr. No.	Name of the Industry	Fund Outstanding	Non Fund Outstanding
1	**Mining & Quarrying (incl. Coal)**	4283.90	1.52
2	**Food Processing**	**6258.40**	**821.97**
2a	Sugar	3213.90	0.73
2b	Edible Oils & Vanaspati	427.20	623.13
2c	Tea	0.00	0.00
2d	Others	2617.30	198.11
3	**Beverage & Tobacco**	**1851.90**	**619.55**
4	**Textiles**	**18469.10**	**2225.29**
4a	Cotton Textiles	5784.20	535.62
4b	Jute Textiles	138.60	72.46
4c	Man-Made Textiles	11.90	0.00
4d	Other Textiles	12534.40	1617.21
5	**Leather & Leather Products**	523.10	9.54
6	**Wood & Wood Products**	973.40	0.00
7	**Paper & Paper Products**	3381.80	278.02
8	**Petroleum, Coal Products & Nuclear Fuels**	23150.80	391.78
9	**Chemicals & Chemicals Products**	**15556.90**	**1128.33**
9a	Fertiliser	1053.50	21.23
9b	Drugs & Pharmaceuticals	8873.00	774.09
9c	Petro Chemicals	4845.90	193.30
9d	Others	784.60	139.71
10	**Rubber, Plastic & Products**	4527.00	512.00
11	**Glass & Glassware**	1195.30	0.00
12	**Cement & Cement Products**	10271.50	81.17
13	**Basic Metal & Metal Product**	**41883.20**	**5535.99**
13a	Iron & Steel	24010.40	2722.19
13b	Other Metal & Metal Product	17872.80	2813.80
14	**All Engineering**	**25734.70**	**15342.14**
14a	Electronics	3454.00	949.34
14b	Others	22280.70	14392.80
15	**Vehicles, Vehicle Parts & Transport Equipment**	16572.60	374.68
16	**Gems & Jewellery**	5746.40	1633.03
17	**Construction**	4198.20	147.74
18	**Infrastructure**	**140645.50**	**13415.10**
18a	Power	96069.40	1123.24
18b	Telecommunications	6032.50	619.53
18c	Roads	16532.60	6634.69
18d	Other Infrastructure	22010.90	5037.64
19	**Other Industries**	**8609.70**	**546.68**
(i)	**Total Industries**	**333833.40**	**43064.53**

(ii)	**Residuary other Advances**	**536429.96**	**56363.14**
(iii)	**Total Non-Food Advances (i+ii)**	**870263.36**	**99427.67**
(iv)	**Total Food Advances**	**13930.14**	**0.00**
(v)	**Total Gross Advances (iii+iv)**	**884193.50**	**99427.67**

Industry having more than 5% of gross credit exposure

Industry	**% of Exposure**
Power	9.88%

4. The Residual Maturity break down of Assets:

(Amount Rs. in Million)

Maturity Pattern	**Investments**	**Advances**	**Foreign Currency Assets**
1 day	8947.52	19495.87	9489.04
2 to 7 days	978.38	25279.81	6532.02
8 to 14 days	1334.39	39225.45	3434.86
15 to 28 days	1245.57	30579.48	731.50
29 days to 3 months	1351.74	69014.20	36833.62
Over 3 months and upto 6 months	1500.62	63666.02	22884.35
Over 6 months and upto 1 year	5871.00	68036.38	22976.90
Over 1 year and upto 3 years	53197.51	376507.47	16.65
Over 3 years and upto 5 years	62386.30	117626.58	0.00
Over 5 years	197424.12	74762.24	0.00
Total	**334237.15**	**884193.50**	**102898.94**

5. Disclosures for NPAs & NPIs :

(Amount Rs. in Million)

		30.09.2013
(A).	**Gross NPA**	
	Sub-standard	18715.22
	Doubtful 1	3092.08
	Doubtful 2	1542.55
	Doubtful 3	649.18
	Loss	505.75
	Total	**24504.78**
(B).	**Net NPA**	**15353.30**
(C).	**NPA Ratios**	
	% of Gross NPAs to Gross Advances	2.77%

	% of Net NPAs to Net Advances	1.76%
(D).	**The movement of Gross NPA**	
i	Opening Balance	11375.50
ii	Add-Addition during the period	16399.00
iii	Less- Reduction during the period	3269.80
	Closing balance as at the end of the half year (i +ii-iii)	**24504.70**
(E).	**The movement of provision for NPAs**	
i	Opening Balance (including countercyclical provisioning buffer)	7069.90
ii	Provisions made during the period	3089.09
iii	Write-off made during the period	1409.71
iv	Write – back of excess provisions	0.00
	Closing balance (i+ii- iii-iv)	**8776.29**
(F).	**Non Performing Investments (NPI)**	**246.50**
(G).	**Provisions for NPI**	**36.72**
(H).	The movement of provision for depreciation on investments	
i	Opening balance	653.80
ii	Provisions made during the period	0.00
iii	Write-off made during the period	0.00
iv	Write–back of excess provision made during the period	170.29
	Closing balance (i+ii-iii-iv)	483.51

Table DF-4 - Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

a. **Qualitative Disclosures:**

For portfolios under the Standardised Approach:

The Bank uses the standardized approach to measure the capital requirements for credit risk. As per the Standardised Approach, Bank accepts rating of following RBI approved ECAI (External Credit Assessment Institution) for credit risk rating and has used these ratings for calculating risk weighted assets wherever such ratings are available.

1. Credit Rating Information Services of India Limited (CRISIL),
2. Credit Analysis and Research limited (CARE),
3. India Ratings and
4. ICRA Limited.
5. Brickwork
6. SME Rating Agency of India Ltd. (SMERA)

Types of exposures for which each agency is used:

The Bank has used the solicited ratings assigned by the above approved credit rating agencies for all types of exposures in excess of Rs.5.00 crore, both the balance sheet and off balance sheet , whether short-term or long-term, in the manner permitted in the RBI guidelines on the New Capital Adequacy Framework (NCAF). The Bank has not made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.

The key aspects of the Bank's External Ratings application framework are as follows:

- The Bank shall use the ratings assigned by any of these credit rating agencies as solicited and accepted by the borrowers in line with RBI guidelines.
- Where ever available, the Bank uses facility rating or bank loan rating for risk weighting the borrower's exposures. Where issuer rating is available the Bank uses such ratings unless the bank loan is specifically rated.
- The Bank ensures that the external rating of the facility/borrower has been reviewed at least once by the ECAI during the previous 15 months.
- When a borrower is assigned a rating that maps to a risk weight of 150%, then this rating is applied on all the unrated facilities of the borrower and risk weighted at 150%.
- The RBI guidelines outline specific conditions for facilities that have multiple ratings. In this context, the lower rating, where there are two ratings and the second-lowest rating where there are two or more ratings are used for a given facility.
- While mapping/applying the ratings assigned by the credit rating agencies, the Bank is guided by Regulatory guidelines / Bank's Board approved policy.

b. <u>Quantitative Disclosures:</u>

At 30.09.2013, the credit risk exposures subject to the Standardised Approach after adjusting for credit risk mitigation by risk weights were as follows:

(Amount in Rs. Million)

Sr. No.	Particulars	30.09.2013		
		Exposure F+NF	Rated	Unrated
i	Below 100 % risk weight exposure outstanding	1310060.60	275878.00	1034182.60
ii	100 % risk weight exposure outstanding	346524.86	109752.20	236772.66
iii	More than 100 % risk weight exposure outstanding	129019.69	82643.04	46376.65
	sub total	**1785605.15**	**468273.24**	**1317331.91**
iv	Deducted CRM Value is added	43305.14		
	Total Exposure	**1828910.29**		

Table DF-5 – Credit Risk Mitigation: Disclosures for Standardized Approach

Qualitative Disclosures

- **Policies for Credit Risk Mitigation:**

The Bank has a Board approved policy framework for collateral management and credit risk mitigation techniques, which include among other aspects guidelines on acceptable types of collateral, ongoing monitoring of collateral including the frequency and basis of valuation and application of credit risk mitigation techniques.

- **Collateral Management**

The Bank defines collateral as it is an additional or sub-ordinate security given, over and above the primary security or in substitution thereof. It serves as an additional comfort to the bank for recovery of loans in default situations. At times, these securities are not connected to the main business of the borrower or may not be owned by the borrower. The Bank ensures that the underlying documentation for the collateral provides the Bank appropriate rights over the collateral or other forms of credit enhancement including the right to liquidate retain or take legal possession of it in a timely manner in the event of default by the counterparty.

- **Collateral Valuation**

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its capital exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible collateral as specified in the Basel III guidelines. The Bank also applies appropriate haircuts. Bank has also put in place Lending Policy duly approved by the Board. These policies lay down the types of securities normally accepted by the Bank for lending, and administration / monitoring of such securities in order to safeguard/protect the interest of the Bank so as to minimize the risk associated with it. Both the fixed and the current assets obtained to secure the loans granted by the Bank as per policy prescription are subjected to valuation by outside valuers empanelled by the Bank.

- **Description of the main types of collateral taken by the Bank**

For the purpose of computation of capital requirement for Credit Risk, the Bank recognizes only those collaterals that are considered as eligible for risk mitigation in RBI guidelines, which are as follows:

  - Cash Deposit with banks
  - Gold, including bullion and jewellery
  - Securities issued by Central and State Governments
  - Kisan Vikas Patra and National Savings Certificate
  - Life Insurance Policies with a declared surrender value of an insurance company which is regulated by the insurance sector regulator

- o Debt securities rated at least BBB(-), PR3/F3/A3
- o Units of Mutual Funds, where the investment is in instruments mentioned above.

- **Main types of guarantor counterparty and their creditworthiness**
  Wherever required the Bank obtains personal or corporate guarantee as an additional comfort for mitigation of credit risk which can be translated into a direct claim on the guarantor which is unconditional and irrevocable. The Bank also accepts guarantee given by State / Central Government/ECGC/CGTMSE as a security comfort.

- **Concentrations within Credit Risk Mitigation**

  The RBI guidelines, among its conditions for eligible credit risk mitigants, require that there should not be a material positive correlation between the credit quality of the counterparty and the value of the collateral being considered. Currently, Bank does not have any concentration risk within credit risk mitigation.

Quantitative Disclosures:

(a). For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.

(Amount in Rs. Million)

	30.09.2013
The total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts	43305.14

(b) For each separately disclosed portfolio the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI)

	30.09.2013
Total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI)	NIL

Table DF-6 SECURITIZATION

<u>Qualitative Disclosures:</u>

The Bank has not securitized any exposure during the half-year ended 30.09.2013.

<u>Quantitative Disclosures:</u>

Quantitative Disclosure for Standardized Approaches is **Not Applicable**

Table DF-7 MARKET RISK IN TRADING BOOK

Qualitative Disclosures:

Market Risk:

Market Risk is defined as the possibility of loss to a bank caused by adverse movements in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. Bank's exposure to market risk arises from domestic investments (interest related instruments and equities) in trading book (both AFS and HFT categories), the Foreign exchange positions. Bank is not trading in commodities. The objective of the market risk management is to minimize the impact of losses on earnings and equity arising from market risk.

Policies, strategies and processes for management of Market Risk

The Bank has put in place Board approved Investment Management Policy & Investment Risk Management Policy, Market Risk Management Policy and Asset Liability Management (ALM) Policy for effective management of market risk in the Bank. The above policies lay down well-defined organization structure for market risk management functions and processes whereby the market risks carried by the Bank are identified, measured, monitored and controlled within the policy framework consistent with the Bank's risk tolerance. The policies deal with the reporting framework for effective monitoring of market risk and also set various risk limits such as Overnight Limit, Intra-day limit, Aggregate Gap limit, Stop Loss limit, VaR limit etc. Exposure limits are set for the counterparty banks and the exposures are monitored on daily basis.

The ALM Policy specifically deals with liquidity risk and interest rate risk management framework. As envisaged in the policy, liquidity risk is managed through the Traditional Gap Analysis & Duration Gap Analysis based on the residual maturity / behavioural pattern of assets and liabilities as prescribed by the RBI. The Bank has put in place mechanism of short term dynamic liquidity management and contingency plan for liquidity management. Prudential (Tolerance) limits are set for different residual maturity time buckets for efficient asset liability management. The Bank's contingency plan for liquidity management comprises various contingent measures to deal with any kind of stress on liquidity position. The Bank has put in place Board approved Stress Testing Policy and conducts periodic stress tests on liquidity risk, interest rate risk and foreign exchange risk.

Interest rate risk is managed through use of Gap Analysis of rate sensitive assets and liabilities and monitored through prudential (Tolerance) limits prescribed. The Bank also has put in place Duration Gap Analysis framework for management of interest rate risk. The Bank estimates Earnings at Risk (EaR) and Modified Duration Gap (DGAP) periodically against adverse movement in interest rate for assessing the impact on Net Interest Income (NII) and Economic Value of Equity (EVE).

The Asset Liability Management Committee (ALCO) / Board monitors adherence of prudential limits fixed by the Bank and determines the strategy in light of the market conditions. Dealing room activities are centralized and system is in place to monitor the dealing room activities. The Mid- Office at the Treasury & International Banking Department (TIBD) also monitors adherence of prudential limits on a continuous basis.

Market Risk Management Policy - To ensure that the Bank's operations are in line with Management expectations of return vis-à-vis market risk, it is crucial that the Bank has a defined set of principles and processes in place for articulating how it plans to manage the market risks it faces, in the Trading or Banking Book.

The Bank's Market Risk Management Policy aims to set out the broad outlines of the processes by which the market risks carried by the Bank shall be managed i.e. identified, measured, controlled and monitored in such a way that the risk taken is within the approved risk tolerance limits. The scope of this policy covers market risks arising from the bank's "Trading book" and investment portion of "Banking book". Funding liquidity and interest rate risk arising on account of "Banking book" investments are managed by ALM function in accordance with bank's ALM policy and RBI prescriptions.

The aggregate exposure on country-wise basis is taken for monitoring the country risk. For risk categorization of various countries, the ECGC risk classification is used by the Bank. Exposure on High Risk countries are taken with proper risk mitigation.

Quantitative Disclosure:

The Capital requirements for Market Risk are as under:

(Amount in Rs. Million)

	Risk Category	**30.09.2013**
i	Interest Rate Risk	559.78
ii	Equity Position Risk	364.65
iii	Foreign Exchange Risk (including gold)	45.00
	Total capital charge for market risks under standardized duration approach (i+ii+iii)	**969.43**

Table DF-8 OPERATIONAL RISK

Qualitative disclosures:

Operational risk:

Operational Risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes Legal risk but excludes Strategic and Reputation Risk.

Policies on management of Operational Risk:

The Bank has framed Operational Risk Management Policy in line with the RBI Guidelines for the Advanced Approaches for Operational Risk (TSA & AMA), duly approved by the Board. The other policies approved by the Board which deal with management of operational risk are (a) Information System Security Policy, (b) Business Continuity Planning Policy, (c) Compliance Policy, (d) Outsourcing Policy and (e) Fraud Risk Management Policy. The Bank has issued guidelines on 'Know Your Customer' (KYC) and 'Anti-Money Laundering' (AML) procedures.

Strategies and processes: The Operational Risk Management process of the Bank is driven by a strong organizational culture and sound operating procedures, involving corporate values, internal control culture, effective internal reporting. Policies are put in place for effective management of Operational Risk in the Bank.

The Bank has been constantly reviewing the legal documents to ensure that the legal documents are comprehensive and enforceable. As a measure of risk transfer, the Bank has obtained insurance cover for all the assets owned by the Bank. It is also ensured that the assets financed by the Bank are also adequately insured as a risk mitigation measure. The operational risk management policy outlines the organization structure and detail processes for management of operational risk. The basic objective of the policy is to closely integrate operational risk management system into the day-to-day risk management processes of the Bank by clearly assigning roles for effectively identifying, assessing, monitoring and controlling / mitigating operational risks and by timely reporting of operational risk exposures including material operational losses. Operational risks in the Bank are managed through comprehensive and well-articulated internal control framework.

Approach adopted for capital charge computation for operational risk:

The Bank is following Basic Indicator Approach (BIA) for calculating capital charge for Operational Risk. The Bank is preparing for migrating to The Standardized Approach (TSA) and then for Advanced Measurement Approach (AMA) for calculation of capital risk charge for Operational Risk.

Quantitative Disclosure:

Capital charge for Operational Risk under Basic Indicator approach is **Rs. 5146.90 million.**

Table DF-9 INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Qualitative Disclosures:

Interest Rate Risk in the Banking Book:
Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's Banking Book from changes in interest rates. The interest rate risk is measured and monitored through two approaches.

(i) Earnings at Risk: The impact on income (Earning Perspective) is measured through use of Traditional Gap Analysis by applying notional rate shock (parallel shift in the interest rates across assets and liabilities) upto 100 basis point (bps).

(ii) Economic Value of Equity (Duration Gap Analysis): The Bank has adopted Duration Gap Analysis for assessing the impact (as a percentage) on the economic value of equity (Economic Value Perspective) in line with method suggested by RBI.

- Interest Rate Sensitivity statement as per DGA is prepared.
- The duration of each asset and liability is arrived at taking the midpoint of each time bucket as the maturity date and the average yield as coupon and taking the market rate for discounting purpose. For investments, the actual duration is taken.
- The impact on the Economic Value of Equity is analysed for a 200 bps rate shock as indicated by RBI.

The Economic Value of Equity is measured and monitored on a quarterly basis.

<u>Quantitative Disclosure</u>: Earning at Risk:

(Amount in Rs. Million)

Change in Interest rate	**Repricing at 1 Year**	
	30.09.2013	
	(+) 100 basis point	**(-) 100 basis point**
Impact on Net Interest Income	(-) 350.50	(+) 350.50

Economic Value of Equity:

	30.09.2013	
	(+) 200 basis point	**(-) 200 basis point**
Impact on economic value of equity	(-) 4.75%	(+) 4.75%

Table DF-10: General Disclosure for Exposures Related to Counterparty Credit Risk.

(a) Qualitative Disclosures:

Bank is participating in the derivative market as a user to hedge the risk of underlying exposure of its own and that of its customers. Keeping in view the business composition of the Bank, the nature and mix of clients, capital requirement as also risk appetite, the Bank is dealing in the following derivative products.

- Currency futures

- Foreign Exchange Forward contracts and currency swaps.
- Interest Rate Swaps – OIS & IRS.

Bank has not undertaken the transactions under Credit Default Swaps and Currency options during the period under report:

The measurement and management of various risks is ensured by setting up various limits such as counter party limits, stop loss limits, Day light Limits, Overnight limit, Stop Loss Limits and exposure limits etc. at various levels. The utilization of such limits would be subject to the guidelines of RBI/SEBI/Exchanges.

From the exchange side, the limits stipulated are (1) initial margin (2) mark to market margins (3) open interest. Open interest and mark to market margins are adhered to by the bank.

In respect of currency futures transactions, Bank is maintaining account with the exchange approved Bank for the purpose of clearing and settlement of the transactions and also maintains the margin in the form of cash/bank deposits/bank guarantees/ G-Sec or any other approved securities.

Purpose of booking forward contracts is to hedge an exposure to exchange risk in respect of transaction for which sale and/or purchase of foreign exchange is permitted under FEMA 1999. The Bank offers to its customer forward contract as a product for hedging their foreign currency exchange risk.

The Bank is doing IRS/FRA deals only with those counterparty banks which have executed ISDA Master agreement/CSAs and for whom the bank has set up counterparty exposure limits.

The Bank has made requisite provision on credit exposure of derivative contracts computed as per current exposure method.

- Bank will describe the methodology and will assign economic capital for the counter party credit exposure, as and when bank will migrate to the Advanced Approaches of measurement of Risk and related Capital requirement.

(b) Quantitative Disclosures (Amount Rs. in Million)

Sr. No.	**Particulars**	**Amount 30.09.2013**
1	Replacement Cost	4381.40
2	Potential Future Exposure	2836.40
3	Gross Credit Equivalent	7217.80
	Comprising:	

3.1	Interest Rate Contract	56.70
3.2	Credit Derivatives Contract	0.00
3.3	Equity Contracts	0.00
3.4	Foreign Exchange Contracts and Gold	7161.10
3.5	Commodities Contracts	0.00
4	Gross Credit Equivalent Amount	7217.80
5	Less: Effect of Netting Arrangements	0.00
6	**Credit Equivalent Amount after netting (4-5)**	**7217.80**
7	**Less: Collateral Amount**	
7.1	Eligible Financial Collateral	0.00
7.2	Other Eligible Collateral	0.00
8	**Net Credit Equivalent Amount**	**7217.80**

Counterparty credit exposure is mitigated by exposure netting through ISDA agreements and recognition of eligible collateral, effects of which have been included in regulatory capital calculations where appropriate.

(c) Credit Derivatives Transactions- (Amount Rs. in Million)

Particulars	Notional of Protection Bought	Credit Derivatives Protection Sold
Own Credit Portfolio	NIL	NIL
Client Intermediation Activities	NIL	NIL
Total	NIL	NIL
Credit default swaps	NIL	NIL
Total return swaps	NIL	NIL
Total	NIL	NIL