

## **BASEL II (PILLAR 3) DISCLOSURE**

### **TABLE DF-1-SCOPE OF APPLICATION**

#### **Qualitative Disclosures**

- a. The name of the top Bank in the group to which the frame work applies: **BANK OF MAHARASHTRA**
- b. An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group
- i) that are fully consolidated

Bank of Maharashtra is the top bank in the group to which the new capital adequacy frame works applies. The bank has only one subsidiary as under:

Name of the subsidiary: The Maharashtra Executor and Trustee Company Pvt. Ltd.

Country of Incorporation: India

Proportion of ownership: 100%

The above subsidiary is consolidated as per "Accounting Standard 21" issued by the Institute of Chartered Accountants of India (ICAI).

- (ii) that are pro-rata consolidated

There is no entity in the group which is consolidated on pro-rata basis.

- (iii) that are given a deduction treatment;

1. Name of the subsidiary: The Maharashtra Executor and Trustee Company Pvt. Ltd.

2. Name of the Associate: Maharashtra Gramin Bank.

Country of Incorporation: India

Proportion of ownership: 35%

The above entity is consolidated as per "Accounting Standard 23" issued by ICAI

- (iv) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted) - Nil

#### **Quantitative Disclosures**

- c. The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries – Nil
- d. 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 – Nil

**TABLE DF – 2- CAPITAL STRUCTURE**

**Qualitative Disclosures**

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Upper Tier 2.

The Capital Structure of the Bank comprises Equity, Preference shares, Reserves & Surplus and Innovative Perpetual Bonds. The Bank has raised equity capital of ₹605.09 crore (including share premium) during the year as under :

| ( ₹ in crore) |                           |                   |                      |                      |               |               |
|---------------|---------------------------|-------------------|----------------------|----------------------|---------------|---------------|
| Sr. No.       | Particulars               | Date of Allotment | No. of Shares issued | Equity share capital | Share premium | Total         |
| 1             | Government of India (Gol) | 30/03/2012        | 8,37,93,902          | ₹ 83.79              | ₹ 386.20      | ₹469.99crore  |
| 2             | LIC of India              | 30/03/2012        | 2,40,85,627          | ₹ 24.08              | ₹ 111.02      | ₹135.10crore  |
| Total         |                           |                   | 10,78,79,529         | ₹ 107.87             | ₹ 497.22      | ₹605.09 crore |

In view of the above infusion of share capital, the shareholding of the GOI has reduced to 78.95% as on 31.03.2012.

The Bank has issued Innovative Perpetual Bonds (Tier 1 capital) and also other bonds eligible for inclusion in Tier 2 capital. The some of the important terms and conditions of the bonds are given below:

- i. Fully Paid Up Unsecured, free of any restrictive clause Non- Convertible Subordinated Perpetual Bonds (Tier 1 Capital)

| Series | Date of Allotment          | Amount (Rs in crore) | Coupon Rate   | Tenor     | Other Important Terms and conditions   |
|--------|----------------------------|----------------------|---|-----------|--|
| I      | 31 <sup>st</sup> July 2007 | 225.00               | 10.65% p.a. for first 10 years. If call option is not exercised by the Bank on 31.07.2017, the step up coupon rate of 11.15% p.a. for subsequent years. | Perpetual | Call Option- at par on 31.07.2017 or thereafter on each anniversary date (with prior approval of RBI)<br>Put Option-None |
| II     | 30 <sup>th</sup> Sept 2009 | 70.00                | 9.25% p.a. for first 10 Years If call option is not exercised by the Bank on 30.09.2019 the step up coupon rate of 9.75% p.a. for subsequent years      | Perpetual | Call Option- at par on 30.09.2019 or thereafter (with prior approval of RBI)<br>Put Option-None                          |

Call options subject to RBI guidelines

ii. Fully paid up, unsecured, free of any restrictive clause redeemable with prior approval of RBI Subordinated (Upper Tier 2 Capital)

| Series | Date of Allotment               | Amount (₹ in crore) | Coupon Rate   | Tenor    | Other Important Terms and conditions   |
|--------|---------------------------------|---------------------|---|----------|--|
| I      | 14 <sup>th</sup> October 2006   | 300.00              | 9.10% p.a. for first 10 years. If call option is not exercised after 10 years by the Bank from the date of allotment, the bonds shall carry step up coupon rate of 9.60% p.a. for the remaining period of 5 years from 14 <sup>th</sup> October 2016.                   | 15 years | Call Option- Can be exercised at par by the Bank after 10 years from the date of allotment (with prior approval of RBI)<br>Put Option-None                   |
| II     | 21 <sup>st</sup> March 2007     | 200.00              | 9.90% p.a. for first 10 years. If call option is not exercised by the Bank after 10 years from the date of allotment, the bonds shall carry coupon rate of 10.40% p.a. for the remaining period of 5 years from 21 <sup>st</sup> March 2017.                            | 15 years | Call Option- Can be exercised by the Bank after 10 years from the date of allotment (with prior approval of RBI)<br>Put Option-None                          |
| III    | 30 <sup>th</sup> March 2007     | 150.00              | 10.25% p.a. for first 10 years. If call option is not exercised by the Bank after 10 years from the date of allotment, the bonds shall carry coupon rate of 10.75% p.a. for the remaining period of 5 years from 30 <sup>th</sup> March 2017.                           | 15 years | Call Option- Can be exercised at par by the Bank after 10 years from the date of allotment (with prior approval of RBI)<br>Put Option-None                   |
| IV     | 19 <sup>th</sup> July 2007      | 200.00              | 10.35% p.a. for first 10 years. If call option is not exercised by the Bank after 10 years from the date of allotment, the bonds shall carry coupon rate of 10.85% p.a. for the remaining period of 5 years from 19 <sup>th</sup> July 2017.                            | 15 years | Call Option- Can be exercised at par by the Bank after 10 years from the date of allotment (with prior approval of RBI)<br>Put Option-None                   |
| V      | 30 <sup>th</sup> September 2009 | 100.00              | 8.95% p.a. for first 10 years. If call option is not exercised by the Bank after the end of 10 <sup>th</sup> year from the date of allotment, the bonds shall carry coupon rate of 9.45% p.a. for the remaining period of 5 years from 30 <sup>th</sup> September 2019. | 15 years | Call Option- can be exercised at par by the Bank the end of 10 <sup>th</sup> year from the date of allotment (with prior approval of RBI)<br>Put Option-None |
| VI     | 1 <sup>st</sup> February 2010   | 300.00              | 8.65% p.a. for first 10 years. If call option is not exercised by the Bank the end of 10 <sup>th</sup> year from the date of allotment, the bonds shall carry coupon rate of 9.15% p.a. for the remaining period of 5 years from 01 <sup>st</sup> February 2020.        | 15 years | Call Option- can be exercised at par by the Bank the end of 10 <sup>th</sup> year from the date of allotment (with prior approval of RBI)<br>Put Option-None |

Call options subject to RBI guidelines

## iii. Fully Paid-up, Unsecured, Free from Restrictive Clause, Non Convertible Redeemable Subordinated Bonds (Tier II Capital)

| Series | Date of Allotment               | Amount (Rs in crore) | Coupon Rate         | Tenor      | Other Important Terms and conditions  |
|--------|---------------------------------|----------------------|---------------------|------------|---|
| VI (a) | 19 <sup>th</sup> January 2006   | 200.00               | 7.50% semi-annually | 84 months  | The bonds are redeemable on maturity of the bonds only with the prior approval of RBI. Claims of the investors in such tier II Bonds shall rank parri passu with the existing subordinated debts of the Bank & subordinate to the claims of all other creditors & depositors. |
| VI (b) | 1 <sup>st</sup> March 2006      | 200.00               | 7.70% semi-annually | 84 months  |   |
| VII    | 25 <sup>th</sup> July 2006      | 225.00               | 9.45% p.a.          | 120 months |   |
| VIII   | 15 <sup>th</sup> January 2008   | 200.00               | 9.20% p.a.          | 123 months | Bonds would constitute direct, unsecured and subordinated obligations of the bank without any preference among themselves. The bonds are redeemable on maturity only with the prior approval of RBI.  |
| IX     | 30 <sup>th</sup> September 2009 | 130.00               | 8.74% p.a.          | 115 months | Subordinated to the claims of other creditors, shall not be redeemable at the initiative of the holder or without the consent of the RBI.<br>There is no call and put option.   |

**TABLE DF-3 - CAPITAL ADEQUACY**
**Qualitative Disclosures:**

The Bank is subjected to the Capital Adequacy guidelines stipulated by RBI. Adequate capital is maintained by the Bank as a cushion for covering the risk of loss in value of exposure, businesses etc. so as to protect the depositors, general creditors and stakeholders against such losses. The Bank has evolved and put in place a Board approved Internal Capital Adequacy Assessment Process (ICAAP) framework. Assessment and review of Bank's capital requirements are carried out at periodical intervals.

The Bank has a process for assessing its overall Capital Adequacy in relation to its risk profile and the process provides an assurance that the Bank has adequate capital to support all risks in its business and an appropriate capital buffer based on its business profile. The Bank has a policy to maintain capital to take care of the future growth in business so that the minimum capital required is maintained on continuous basis.

In line with the guidelines of the RBI, the Bank has adopted the Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Duration Approach for Market Risk for computing Capital Adequacy Ratio under New Capital Adequacy Framework - Basel II.

Bank is in the process of migrating to the Advanced Approaches of the Basel II framework so as to enhance its Risk and Capital Management capabilities. Advanced approaches include Foundation and Advanced Internal Ratings Based Approach ('FIRBA' & 'AIRBA') for Credit Risk, The Standardized Approach and Advanced Measurement Approach ('TSA' & 'AMA') for Operational Risk and Internal Models Approach ('IMA') for Market Risk.

**Prudential floor limit for minimum capital requirement:**

The guidelines for implementation of the New Capital Adequacy Framework issued by RBI stipulates higher of the following amounts as minimum capital required to be maintained by the Bank.

- (a) Minimum capital as per Basel II norms for Credit, Market and Operational Risk.
- (b) 80% of Minimum capital as per Basel I norms for Credit and Market risks.

The minimum capital required to be maintained by the Bank as on March 31, 2012 is 80% of the capital requirement under Basel I norms i.e. ₹. 4204.92 Crore or capital requirement as per Basel II norms i.e. ₹ 4705.87 Crore, whichever is higher.

However, the actual capital (Tier 1 and Tier 2) maintained by the Bank as on March 31, 2012 is ₹ 6498.99 Crore, which is above the prudential floor limit.

**Quantitative Disclosures:**

(₹. Crore)

|             |  | <b>31.03.2012</b> |
|-------------|--|-------------------|
| <b>(a).</b> | <b>CREDIT RISK (Standardised Approach)</b>   |                   |
| i           | Portfolios subject to standardized approach @ 9%   | 4157.49           |
| ii          | Securitization exposure  | -                 |
|             | Total capital charge for credit risks (i+ii)   | <b>4157.49</b>    |
| <b>(b).</b> | <b>MARKET RISK (Standardized Duration Approach)</b>  |                   |
| i           | Interest Rate Risk   | 167.97            |
| ii          | Equity Position Risk   | 43.02             |
| iii         | Foreign Exchange Risk (including gold)   | 4.50              |
|             | Total capital charge for market risks (i+ii+iii)   | <b>215.49</b>     |
| <b>(c).</b> | <b>OPERATIONAL RISK (Basic Indicator Approach)</b>   |                   |
|             | Total capital charge for operational risks   | <b>356.03</b>     |
| <b>(d).</b> | <b>The Capital ratios of the bank and subsidiaries are:</b>  |                   |
|             | <b>Bank of Maharashtra</b>   |                   |
|             | CRAR %   | <b>12.43</b>      |
|             | CRAR – Tier I Capital (%)  | <b>8.31</b>       |
|             | CRAR – Tier II Capital (%)   | <b>4.12</b>       |
|             | <b>Consolidated Group</b>  |                   |
|             | CRAR %   | <b>12.43</b>      |
|             | CRAR – Tier I Capital (%)  | <b>8.31</b>       |
|             | CRAR – Tier II Capital (%)   | <b>4.12</b>       |
|             | <b>For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied)</b> |                   |
|             | CRAR %   | <b>N/A</b>        |
|             | CRAR – Tier I Capital (%)  | <b>N/A</b>        |
|             | CRAR – Tier II Capital (%)   | <b>N/A</b>        |

## **Table DF-4 - CREDIT RISK: GENERAL DISCLOSURES**

### **Qualitative Disclosures:**

#### **Credit Risk:**

Credit Risk is related to the losses associated with diminution in the credit quality of borrowers or counterparties in a bank's portfolio. Credit risk arises mostly from lending activities of the bank and it emanates from changes in the credit quality / worthiness of the borrowers or counterparties. Credit Risk is an aggregation of Transaction Risk (risk in various credit propositions), Industry and Business line risk wherein advances are lent, Geographic Concentration Risk and types of credit (such as loans, Cash credit, overdrafts etc.).

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

The Lending & Loan Review Policy, 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 II framework. The Investment Management Policy & Investment Risk Management Policy forms an integral part of credit risk in the Bank.

#### **Organizational Structure for Credit Risk Management**

The organizational structure of the Bank for Credit Risk Management function has the Board of Directors at the apex level that has the overall oversight of management of risks. The Risk Management Committee of the Board (RMC) devises the policy and strategy for Integrated Risk Management. At operational level, the Credit Risk Management Committee (CRMC) manages the credit risk. The main functions of the CRMC include implementation of the credit risk policy approved by the Board, monitoring credit risk on a bank wide basis and ensure adherence to threshold risk limits approved by the Board / Risk Management Committee. The Integrated Risk Management Department is headed by the Chief Risk Officer of General Manager rank.

#### **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.

**Credit 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:** Bank follows a well-defined multi-layered discretionary power structure for sanction of loans. Higher sanctioning powers are delegated to sanctioning authorities for sanctioning loans and advances to better rated customers in line with RBI guidelines.

**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 put 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, vetting of ratings, mechanism to price credit facilities depending of 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 should be 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.

**Quantitative Disclosures:**

- (a) Total gross credit risk exposures, Fund based and Non-fund based separately.

| (₹. In Crore) |          |
|---------------|----------|
| Funded        | 66179.53 |
| Non Funded    | 9302.29  |

- (b) Geographic distribution of exposures, Fund based and Non-fund based separately

i. Overseas

| (₹. In Crore) |     |
|---------------|-----|
| Funded        | Nil |
| Non Funded    | Nil |

ii. Domestic

| (₹. In Crore) |          |
|---------------|----------|
| Funded        | 66179.53 |
| Non Funded    | 9302.29  |

- (c) Industry type distribution of exposures, fund based and non-fund based separately

| (₹. In Crore)   |                         |                 |         |                     |         |
|---|-------------------------|-----------------|---------|---------------------|---------|
| INDUSTRYWISE FUNDED & NONFUNDED EXPOSURE AS OF 31.03.2012 |                         |                 |         |                     |         |
| SR.NO   | INDUSTRY                | FUNDED EXPOSURE |         | NON FUNDED EXPOSURE |         |
| 1   | IRON & STEEL            |                 | 2271.32 |                     | 374.28  |
| 2   | OTH METAL & PRODUCTS    |                 | 1569.83 |                     | 82.18   |
| 3   | ALL ENGINEERING         |                 | 2072.96 |                     | 2249.73 |
| 3.a   | ENGG. ELECTRONICS       | 444.58          |         | 184.04              |         |
| 3.b   | ENGG. ELECTRICAL        |                 |         |                     |         |
| 3.c   | ENGG. OTHERS            | 1628.38         |         | 2065.69             |         |
| 4   | AUTOMOBILE INCL. TRUCKS |                 | 526.05  |                     | 47.26   |
| 5   | COTTON TEXTILE          |                 | 584.05  |                     | 29.16   |
| 6   | JUTE TEXTILTE           |                 | 4.92    |                     | 2.05    |
| 7   | OTHER TEXTILES          |                 | 1157.85 |                     | 217.12  |
| 8   | SUGAR                   |                 | 56.29   |                     | 5.23    |
| 9   | TEA                     |                 | 0.00    |                     | 0.10    |
| 10  | FOOD PROCESSING         |                 | 130.73  |                     | 12.38   |
| 11  | VEGETABLE OILS          |                 | 42.48   |                     | 9.58    |
| 12  | TOBACCO & PRODUCTS      |                 | 105.95  |                     | 0.28    |
| 13  | PAPER & PRODUCTS        |                 | 311.18  |                     | 69.25   |
| 14  | RUBBER & PRODUCTS       |                 | 382.08  |                     | 15.72   |
| 15  | OTH CHEM,DYES,PAINT ETC |                 | 3667.16 |                     | 197.08  |
| 15.a  | OF WHICH PETRO CHEMICAL | 565.04          |         | 46.10               |         |
| 15.b  | OF WHICH FERTILIZERS    | 876.47          |         | 0.05                |         |
| 15.c  | OF WHICH DRUGS & PHARMA | 416.13          |         | 53.07               |         |
| 15.d  | OTH CHEM,DYES,PAINT     | 1809.52         |         | 97.86               |         |
| 16  | CEMENT                  |                 | 420.00  |                     | 6.57    |





| INDUSTRYWISE FUNDED & NONFUNDED EXPOSURE AS OF 31.03.2012 |                               |                 |                 |                     |                |
|---|-------------------------------|-----------------|-----------------|---------------------|----------------|
| SR.NO   | INDUSTRY                      | FUNDED EXPOSURE |                 | NON FUNDED EXPOSURE |                |
| 17  | LEATHER & PRODUCTS            |                 | 41.13           |                     | 4.20           |
| 18  | GEMS,JEWELLERY                |                 | 321.58          |                     | 605.96         |
| 19  | CONSTRUCTION                  |                 | 348.65          |                     | 781.94         |
| 20  | PETROLEUM                     |                 | 782.02          |                     | 0.00           |
| 21  | OTHERS                        |                 | 443.29          |                     | 0.00           |
| 22  | COMP. S/W                     |                 | 41.16           |                     | 37.05          |
| 23  | TRADING                       |                 | 4437.30         |                     | 980.96         |
| 24  | NBFC                          |                 | 9826.54         |                     | 0.00           |
| 25  | INFRASTRUCTURE                |                 | 9580.64         |                     | 3473.60        |
| 25.a  | OF WHICH POWER                | 7218.84         |                 | 2043.74             |                |
| 25.b  | OF WHICH TELECOMMUNICATION    | 511.96          |                 | 26.03               |                |
| 25.c  | OF WHICH ROADS                | 961.24          |                 | 935.65              |                |
| 25.d  | OF WHICH OTHER INFRASTRUCTURE | 888.60          |                 | 468.18              |                |
| 26  | RESIDUARY OTHER ADVANCES      |                 | 27054.37        |                     | 100.61         |
|   | <b>GRAND TOTAL</b>            |                 | <b>66179.53</b> |                     | <b>9302.29</b> |

INDUSTRY WISE EXPOSURE IS MORE THAN 5 % OF GROSS FUNDED & NON FUNDED EXPOSURE

|  |                               |         |         |
|--|-------------------------------|---------|---------|
|  | TRADING                       | 4437.30 | 980.96  |
|  | NBFC                          | 9826.54 | 0.00    |
|  | INFRASTRUCTURE                | 9580.64 | 3473.60 |
|  | Other Chem ,dyes, paint ,etc. | 3667.16 | 197.08  |
|  | All engineering               | 2072.96 | 2249.73 |

(d) Residual maturity breakdown of assets:

(Amount in ₹. Crore)

| Maturity Pattern                | Advances        | Investments     | Foreign Currency Assets |
|---------------------------------|-----------------|-----------------|-------------------------|
| 1 day                           | 577.70          | 17.75           | 778.76                  |
| 2 to 7 days                     | 918.31          | 278.85          | 661.09                  |
| 8 to 14 days                    | 780.35          | 0.00            | 99.20                   |
| 15 to 28 days                   | 1060.91         | 218.34          | 715.11                  |
| 29 days to 3 months             | 3479.28         | 1168.67         | 1747.79                 |
| Over 3 months and upto 6 months | 3726.87         | 54.81           | 1265.42                 |
| Over 6 months and upto 1 year   | 4928.08         | 499.65          | 541.49                  |
| Over 1 year and upto 3 years    | 30261.91        | 4320.31         | 0.00                    |
| Over 3 years and upto 5 years   | 5649.23         | 4201.27         | 0.00                    |
| Over 5 years                    | 5596.23         | 15438.62        | 0.00                    |
| <b>Total</b>                    | <b>56978.87</b> | <b>26198.26</b> | <b>5808.86</b>          |

( ₹Crore)

|      |              | 31.03.2012     |
|------|--------------|----------------|
| (e). | Gross NPA    | Recovery Dept. |
|      | Sub-standard | 681.49         |
|      | Doubtful 1   | 190.01         |
|      | Doubtful 2   | 188.61         |
|      | Doubtful 3   | 88.75          |
|      | Loss         | 148.15         |

|             |   |                |
|-------------|---|----------------|
|             | <b>Total</b>  |                |
| <b>(f).</b> | <b>Net NPA</b>  | <b>469.57</b>  |
| <b>(g).</b> | <b>NPA Ratios</b>   |                |
|             | % of Gross NPAs to Gross Advances                                 | 2.28           |
|             | % of Net NPAs to Net Advances                                     | 0.84           |
| <b>(h).</b> | <b>The movement of Gross NPA</b>                                  |                |
| I           | Opening Balance   | 1173.70        |
| ii          | Add-Addition during the period                                    | 875.88         |
| iii         | Less- Reduction during the period                                 | 752.55         |
|             | Closing balance as at the end of the half year (i +ii-iii)        | <b>1297.03</b> |
| <b>(i).</b> | <b>The movement of provision for NPAs</b>                         |                |
| i           | Opening Balance   | 511.28         |
| ii          | Provisions made during the period                                 | 673.44         |
| iii         | Write-off made during the period                                  | 394.61         |
| iv          | Write – back of excess provisions                                 | -              |
|             | Closing balance (i+ii- iii-iv)                                    | <b>790.11</b>  |
| <b>(j).</b> | <b>Non Performing Investments (NPI)</b>                           | <b>0.00</b>    |
| <b>(k).</b> | <b>Provisions for NPI</b>   | <b>0.00</b>    |
| <b>(l).</b> | <b>The movement of provision for depreciation on in-vestments</b> |                |
| I           | Opening balance   | 123.42         |
| ii          | Provisions made during the period                                 | 43.49          |
| iii         | Write-off made during the period                                  | 0.00           |
| iv          | Write –back of excess provision made during the period            | 0.00           |
|             | Closing balance (i+ii+-iii-iv)                                    | <b>166.91</b>  |

**Table DF-5 CREDIT RISK: PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH**

**Qualitative Disclosures:**

**For portfolios under the Standardized Approach:**

- Name of the credit rating agencies used:  
The Bank has approved the following external credit rating agencies, approved by RBI, for risk weighting claims on entities:
  - Credit Rating Information Services of India Limited (CRISIL),
  - Credit Analysis and Research limited (CARE),
  - FITCH India and
  - ICRA Limited.
- Types of exposure for which each credit rating agency is used: All the above agencies are approved for rating of all types of exposure in excess of ₹. 5 Crore.
- A description of the process used to transfer public issue ratings onto comparable assets in the banking book:

- 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. External ratings assigned, fresh or reviewed, at least during the previous 15 months only are considered for capital computation by the Bank.
- Wherever 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 does not simultaneously use the rating of one credit rating agency for one exposure and that of another credit rating agency for another exposure of the same borrower, unless the respective exposures are rated by only one of the chosen credit rating agencies. Further, the Bank does not use rating assigned to a particular entity within a corporate group to risk weight other entities within the same group.
- Running limits such as cash credit are treated as long term exposures and accordingly, long term ratings are used for assigning risk weights for such exposures.
- While mapping / applying the ratings assigned by the credit rating agencies, the Bank is guided by Regulatory guidelines / Bank's Board approved Policy.

**Quantitative Disclosures:**

The exposure amounts after risk mitigation (subject to the Standardized Approach) in different risk buckets are as under:

( ₹Crore)

| Sr No | Particulars                                      | 31.03.2012       |                 |                 |
|-------|--|------------------|-----------------|-----------------|
|       |  | Exposure         | Rated           | Unrated         |
| i     | Below 100 % risk weight exposure outstanding     | 82605.77         | 20678.80        | 61926.97        |
| ii    | 100 % risk weight exposure outstanding           | 22200.88         | 2817.09         | 19383.79        |
| iii   | More than 100 % risk weight exposure outstanding | 8401.10          | 4434.82         | 3966.27         |
| iv    | Deducted CRM Value is added                      | 2871.72          | 318.21          | 2553.51         |
|       | <b>Total Exposure</b>                            | <b>116079.47</b> | <b>28248.93</b> | <b>87830.54</b> |

**Table DF-6 CREDIT RISK MITIGATION**

**Qualitative Disclosures:**

- **Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting**  
In line with RBI guidelines on Advance approach for Credit Risk (FIRB/AIRB), the Bank has revised the Policy on Credit Risk Mitigation Techniques & Collateral Management, duly approved by the Board. The collaterals used by the Bank as the risk mitigants comprise of the financial collaterals (i.e. bank deposits, Govt. / Postal securities, Life policies with declared surrender value, gold jewellery etc.), where Bank has legally enforceable netting arrangements, involving specific lien. Software is in place for calculation of correct valuation and application of haircut.
- **Policies & processes for collateral valuation and management:**  
Collaterals and guarantees prudently stipulated and managed would serve to:
  - Mitigate the risk by providing secondary source of repayment in the event of borrower's default on a credit facility due to inadequacy in expected cash flow
  - Gain control on the source of repayment in the event of default;
  - Optimize risk weighted assets and to address residual risks adequately.
- In addition to the revised policy on Credit Risk Mitigation Techniques & Collateral Management, 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**

The main types of financial collaterals commonly used by the Bank as risk mitigants comprise of financial collaterals (i.e. Bank Deposits, Government Securities, KVP, NSC, Life Insurance Policies with declared surrender value, Gold jewellery etc.). Bank also accepts non-financial collateral i.e. stock, book debts, mortgage of residential & commercial property and plant & machinery.

- **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 as a security comfort.

- **Information about (Market or Credit) risk concentrations within the mitigation taken**

All types of securities eligible for credit risk mitigation are easily realizable financial securities. As such, no limit / ceiling have been prescribed for the present to address the concentration risk in credit risk mitigants.

**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.

|  | ( ₹Crore)         |
|--|-------------------|
|  | <b>31.03.2012</b> |
| The total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts. | 2871.72           |

(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)

|  | ( ₹. Crore)       |
|--|-------------------|
|  | <b>31.03.2012</b> |
| 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-7 SECURITIZATION**

**Qualitative Disclosures:**

The Bank has not securitized any exposure during the year 2011-12.

**Quantitative Disclosures:**

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

**Table DF-8 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, 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:

( ₹Crore)

|     | <b>Risk Category</b>  | <b>31.03.2012</b> |
|-----|---|-------------------|
| i   | Interest Rate Risk  | 167.97            |
| ii  | Equity Position Risk  | 43.02             |
| iii | Foreign Exchange Risk (including gold)  | 4.50              |
|     | Total capital charge for market risks under standardized duration approach (i+ii+iii) | <b>215.49</b>     |

**Table DF-9 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) under Basel II framework, 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 under Advanced Basel II approaches.

**Quantitative Disclosure:**

Capital charge for Operational Risk under Basic Indicator approach is ₹ **356.03 Crore**.



**Table DF-10 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. It is done by calculating modified duration of assets and liabilities to finally arrive at modified duration of equity.

- 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.

**Quantitative Disclosure:**

**Earning at Risk:**

( ₹Crore)

| Change in Interest rate | Reprising at 1 Year |
|-------------------------|---------------------|
|                         | 31.03.2012          |
| 0.25%                   | 20.58               |
| 0.50%                   | 41.17               |
| 0.75%                   | 61.76               |
| 1.00%                   | 82.34               |

**Economic Value of Equity:**

|  |            |
|--|------------|
| For a 200 bps notional rate shock the drop in equity value | 31.03.2012 |
|  | 8.04%      |

\*\*\*\*