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: Maharashtra Executor and Trustee Company P 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).

However for computing CRAR under Basel-II, the investment in above subsidiary is given deduction treatment and is not consolidated as the subsidiary is not a financial services entity.

(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: Maharashtra Executor and Trustee Company P Ltd.

2. Name of the Associate: Maharashtra Gramin Bank.

Country of Incorporation: India

Proportion of ownership: 35%

(As per the notification dt.20.07.2009 issued by the Government of India, Marathtwada Gramin-Bank and Maharashtra Godavari Gramin Bank sponsored by Bank of Maharashtra in the State of Maharashtra are amalgamated in to a single Regional Rural Bank which is “ Maharashtra Gramin Bank” with its head office at Nanded)

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, Reserves & Surplus and Innovative Perpetual Bonds. 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	31st 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) Put Option-None
II	30th 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) 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 (Rs in crore)	Coupon Rate	Tenor	Other Important Terms and conditions
I	14th 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 14th October 2016.	15 years	Call Option- Can be exercised at par by the Bank after 10 years from the date of allot- ment (with prior approval of RBI) Put Option-None

II	21st 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 21st 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) Put Option-None
III	30th 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 allot- ment, the bonds shall carry coupon rate of 10.75% p.a. for the remaining period of 5 years from 30th 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) Put Option-None
IV	19th 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 allot- ment, the bonds shall carry coupon rate of 10.85% p.a. for the remaining period of 5 years from 19th 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) Put Option-None
V	30th 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 10th 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 30th September 2019.	15 years	Call Option- can be exercised at par by the Bank the end of 10th year from the date of allotment (with prior approval of RBI) Put Option-None
VI	1st February 2010	300.00	8.65% p.a. for first 10 years. If call option is not exercised by the Bank the end of 10th year from the date of allot- ment, the bonds shall carry coupon rate of 9.15% p.a. for the remaining period of 5 years from 01st February 2020.	15 years	Call Option- can be exercised at par by the Bank the end of 10th year from the date of allotment (with prior approval of RBI) 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 Al- lotment	Amount (Rs in crore)	Coupon Rate	Tenor	Other Important Terms and conditions
V	31st March 2005	167.50	7.10% p.a.	63 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
VI (a)	19th January 2006	200.00	7.50% semi-annually	84 months	
VI (b)	1st March 2006	200.00	7.70% semi-annually	84 months	

VII	25th July 2006	225.00	9.45% p.a.	120 months	subordinated debts of the Bank & subordinate to the claims of all other creditors & depositors.
VIII	15th 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	30th 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. There is no call and put option.

TABLE DF-3 - CAPITAL ADEQUACY

Qualitative Disclosures:

a) A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities:

Capital Adequacy is the cushion required to be maintained for covering the risk of loss in value of exposure, businesses etc. so as to protect the depositors and general creditors against such losses. In line with the guidelines of the Reserve Bank of India, the Bank has adopted Standardised Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Duration Approach for Market Risk for computing Capital Adequacy.

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. As regards the adequacy of capital to support the future activities, the Bank has assessed capital requirement for three years as a part of the Internal Capital Adequacy Assessment Process (ICAAP) document (in line with RBI guidelines on requirements under Pillar 2 of Basel II framework), duly approved by the Board.

The Bank is already geared up to adopt the best practices in risk management in conformity with the Basel II Framework. Comprehensive risk management architecture is in place to address various issues concerning Basel II.

76.77% of Bank's equity is held by the Government of India. As such, Bank may raise additional equity capital by bringing down the GOI holding to 51%. The headroom available to the Bank for mobilizing Tier 1 and Tier 2 capital shall support capital structure to meet the required Capital Adequacy for future activities.

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) 90% 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, 2010 is 90% of the capital requirement under Basel I norms i.e. Rs. 3399.17 crore or capital requirement as per Basel II norms i.e. Rs. 3321.14 crore, whichever is higher.

However, the actual capital (Tier 1 and Tier 2) maintained by the Bank as on March 31, 2010 is Rs. 4716.86 crore, which is above the prudential floor limit.

Quantitative Disclosures: **(Rs. In Crore)**

	31 .03.2010
(b) Capital requirements for Credit Risk: Standardised Approach	
Portfolios subject to Standardised Approach	2929.42
Securitisation exposures	0.00
Total	**2929.42**
(c) Capital requirements for Market Risk: Standardised Duration Approach	
Interest Rate Risk	122.92
Foreign Exchange Risk (including gold)	7.20
Equity Risk	38.87
Total	**168.99**
(d) Capital requirements for Operational Risk:	
Basic Indicator Approach	**222.73**
Actual Position	
(e) Total and Tier 1 Capital Ratio:	
• For the Bank	
o Total CRAR (%)	12.78%
o Tier 1 CRAR	6.41%
• For the top consolidated group	
o Total CRAR (%)	12.78%
o Tier 1 CRAR (%)	6.41%
• For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied).	
o Total CRAR	N.A.
o Tier 1 CRAR (%)	N.A.

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 potential 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 Credit Concentration Risk. The Credit Risk Management framework of the Bank is built on the building blocks namely Policy & Strategy, Organizational Structure and various systems / process and tools.

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.

Organisational 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 / Central Office for considering fresh / existing proposals with or without enhancement. A structure namely, New Business Group (NBG) headed by the Chairman & Managing Director is in place at Central 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 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 standardised credit appraisal / approval processes. Credit risk rating is a facilitating process that enables the Bank to assess the inherent merits and demerits of a proposal. It is a decision-enabling tool that helps the Bank to take a view on acceptability or otherwise of any credit proposal. It also enables fixing the appropriate price on credit facilities as per the Risk-based Pricing Framework of the Bank. With a view to widening the scope and coverage further and strengthening the credit risk management practices, 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.

The internal credit risk rating models factor the qualitative and quantitative risk factors relating to Financial Risk, Account Operating Risk, Management Risk, Business Risk, Industry Risk and Project Risk. The industry risk ratings of various industries are periodically updated based on the market conditions and made available on the WAN based software for use by the branches.

Credit risk rating, as a concept, has been well internalized in the Bank. Rating for every borrower is reviewed at least once in a year. Bi-annual credit risk rating is also undertaken for high value exposures and inferior rated borrowers. As a measure of robust credit risk management practices, the Bank has in place a framework for approval of credit risk ratings. For the proposals falling under the powers of Bank's Central Office, the approval of the risk ratings are done at the Integrated Risk Management Department at Central Office.

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 are in place for extension of credit 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. Minimum entry level rating benchmarks are in place. A suitable mechanism is in place to provide a centralized overview on the aggregate exposure on other banks. Country exposures are monitored. 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

As per the prudential norms applied for 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.
- Interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

'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:

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

Rs. In Crores

Funded	49119.47
Non Funded	9273.50

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

i. Overseas

	(Rs. In Crores)
Funded	Nil
Non Funded	Nil

ii. Domestic

Rs. In Crores

Funded	49119.47
Non Funded	9273.50

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

Rs. In Crores

Code	Industry	Amount FUNDED	Code	Industry	Amount NONFUNDED
1	COAL	2.14	1	COAL	0.05
2	MINING	473.93	2	MINING	77.35
3	IRON & STEEL	1769.19	3	IRON & STEEL	343.73
4	OTH METAL & PRODUCTS	314.18	4	OTH METAL & PRODUCTS	60.00
5	ALL ENGINEERING	1480.73	5	ALL ENGINEERING	2050.39
5.1	ENGG. ELECTRONICS	390.65	5.1	ENGG. ELECTRONICS	201.90
6	ELECTRICITY	2620.12	6	ELECTRICITY	339.19
7	COTTON TEXTILE	440.13	7	COTTON TEXTILE	15.91
8	JUTE TEXTILTE	3.04	8	JUTE TEXTILTE	0.12
9	OTHER TEXTILES	1003.20	9	OTHER TEXTILES	356.57
10	SUGAR	57.95	10	SUGAR	3.20
11	TEA	0.85	11	TEA	0.00
12	FOOD PROCESSING	316.80	12	FOOD PROCESSING	19.29
13	VEGETABLE OILS AND VANASPATI	51.79	13	VEGETABLE OILS AND VANASPATI	35.35
14	TOBACCO & TOBACCO PRODUCTS	86.25	14	TOBACCO & TOBACCO PRODUCTS	0.32
15	PAPER & PAPER PRODUCTS	341.27	15	PAPER & PAPER PRODUCTS	46.52
16	RUBBER & RUBBER PRODUCTS	27.46	16	RUBBER & RUBBER PRODUCTS	51.08
17	CHEMICALS, DYES, PAINTS ETC	849.45	17	CHEMICALS, DYES, PAINTS ETC	239.10
17.1	OF WHICH FERTILIZERS	19.38	17.1	OF WHICH FERTILIZERS	0.12
17.2	OF WHICH PETRO CHEMICAL	19.61	17.2	OF WHICH PETRO CHEMICAL	31.08
17.3	DRUGS & PHARMACEUTICALS	254.72	17.3	DRUGS & PHARMACEUTICALS	40.93
18	CEMENT	206.71	18	CEMENT	11.89
19	LEATHER & LEATHER PRODUCTS	30.98	19	LEATHER & LEATHER PRODUCTS	1.78
20	GEMS AND JEWELLERY	151.90	20	GEMS AND JEWELLERY	593.02
21	CONSTRUCTION	1319.25	21	CONSTRUCTION	301.63
22	PETROLEUM	683.37	22	PETROLEUM	0.66
23	AUTOMOBILES INCLUDING TRUCKS	568.33	23	AUTOMOBILES INCLUDING TRUCKS	85.49
24	COMPUTER SOFTWARE	30.73	24	COMPUTER SOFTWARE	52.72
25	INFRASTRUCTURE	9734.54	25	INFRASTRUCTURE	1724.32
25.1	OF WHICH POWER	6265.81	25.1	OF WHICH POWER	339.19
25.2	OF WHICH TELECOMMUNICATIONS	991.91	25.2	OF WHICH TELECOMMUNICATIONS	4.09
25.3	OF WHICH ROADS AND PORTS	996.23	25.3	OF WHICH ROADS AND PORTS	407.77
26	NBFCs	5858.49	26	NBFCs	14.14
27	TRADING	2843.39	27	TRADING	577.02
28	OTHERS	691.45	28	OTHERS	221.45
	TOTAL	**31957.62**		**TOTAL**	**7222.29**
29	RESIDUARY OTHER ADVANCES	17161.85	29	RESIDUARY OTHER ADVANCES	2051.21
	GRAND TOTAL	**49119.47**		**GRAND TOTAL**	**9273.50**
Industry exposure is more than 5% of gross fund based exposure			**Industry exposure is more than 5% of gross non-fund based exposure**		
6	ELECTRICITY	2620.12	5	ALL ENGINEERING	2050.39
25	INFRASTRUCTURE	9734.54	20	GEMS AND JEWELLERY	593.02
26	NBFCs	5858.49	27	TRADING	577.02
27	TRADING	2843.39	25	INFRASTRUCTURE	1724.32

(e) Residual maturity breakdown of assets:

Rs. in crore

Maturity Pattern	Advances	Investments	Foreign Currency Assets
1 day	1876.33	71.78	23.12
2 to 7 days	396.95	186.40	8.21
8 to 14 days	693.51	139.00	51.90
15 to 28 days	780.66	129.87	38.48
29 days to 3 months	4417.62	463.61	204.48
Over 3 months & up to 6 months	3347.03	397.83	248.18
Over 6 months & up to 1 year	3097.17	217.42	0.24
Over 1 year & up to 3 years	16378.42	1938.79	0.00
Over 3 years & up to 5 years	5486.74	3000.13	0.00
Over 5 years	3840.26	14779.02	0.00
Total	**40314.69**	**21323.85**	**574.61**

Rs. in Crores

Items	31 .03.2010
(f) Amount of NPAs Gross	1209.79
• Substandard	599.51
• Doubtful 1	267.37
• Doubtful 2	88.58
• Doubtful 3	69.43
• Loss	184.90
(g) Net NPAs	662.43
(h) NPA Ratios	
Gross NPAs to Gross advances (%)	2.96%
Net NPAs to Net advances (%)	1.64%
(i) Movement of NPAs (gross)	
Opening balance	798.41
Additions	875.72
Reductions	464.34
Closing balance	1209.79
(j) Movement of provisions for NPAs	
Opening balance	504.31
Provisions made during the period	250.62
Write-off	235.82
Write back of excess provisions	--
Closing balance	519.11
(k) Amount of Non-Performing Investments	18.64
(l) Amount of provisions held for non performing Investments	18.64
(m) Movement of provisions for depreciation on investments	
Opening balance	93.77
Provisions made during the period	-
Write-off	-
write-back of excess provisions	54.07
Closing balance	39.70

Table DF – 5 - <u>CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH</u>

Qualitative Disclosures:

a) For portfolios under the Standardised 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:
  1. Credit Rating Information Services of India Limited (CRISIL),
  2. Credit Analysis and Research limited (CARE),
  3. FITCH India and
  4. 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.

- 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 reckoned 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:

For exposure amounts after risk mitigation subject to the Standardised Approach, amount of a bank's outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted.

Rs. in crore

Classification	31.03.2010		
	Exposure	**Rated**	**Unrated**
Below 100% risk weight	76380.25	12829.63	63550.62
100% risk weight	11517.13	2648.33	8868.80
More than 100% risk weight	3943.82	880.86	3062.96
Deducted (Risk Mitigants)	2344.03	104.82	2239.21
Total	**94185.23**	**16463.64**	**77721.59**

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

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, the Bank has put in place a Board approved Policy on Credit Risk Mitigation Techniques & Collateral Management. The collaterals used by the Bank as the risk mitigants comprise of the financial collaterals (i.e. bank deposits, Govt. / Postal securities, Life policies etc. where Bank has legally enforceable netting arrangements, involving specific lien. A 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 line with RBI guidelines, the Bank has put in place a Board approved Policy on Credit Risk Mitigation Techniques & Collateral Management. The Bank also has 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 collaterals commonly used by the Bank as risk mitigants comprise of financial collaterals (i.e. Bank Deposits, Government Securities, Life Insurance Policies etc.) and other movable and immovable assets.

- **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 creditworthiness of the guarantor is normally not linked to or affected by the borrower's financial position. 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:

(b) 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.

(Rs. in crores)

The total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.	2344.03

(c) 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)

(Rs. in crores)

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 - SECURITISATION: DISCLOSURE FOR STANDARDIZED APPROACHES

Qualitative Disclosures:
The Bank has not securitised any exposure during the year 2009-10

Quantitative Disclosures: NIL

TABLE DF - 8 MARKET RISK IN TRADING BOOK

Qualitative disclosures:

(a) Market Risk:

Market Risk is defined as the possibility of loss to a bank caused by changes / 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. The objective of the market risk management is to minimize the impact of losses on earnings and equity capital arising from market risk.

Policies for management of market risk

The Bank has put in place Board approved Investment Management Policy & Investment Risk Management Policy, 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. The policies also set various risk limits for effective management of market risk 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 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 as per RBI guidelines.

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 (N II) and Economic Value of Equity (EVE) with a view to optimizing shareholder value.

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.

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:
(b) The capital requirements for

Rs. in crore

Type of Market Risk	Capital Requirement 31.03.2010
• Interest rate Risk	122.92
• Equity Position Risk	38.87
• Foreign Exchange Risk	7.20

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 Reputational Risk.

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.

Policies on management of Operational Risk:
The Bank has framed Risk Management Policy duly approved by the Board. The other policies adopted by the Board which deal with management of operational risk are (a) Information System Security Policy, (b) Business Continuity Planning Policy, (c) Compliance Policy and (d) Outsourcing Policy. The Bank has issued guidelines on Know Your Customer" (KYC) and "Anti-Money Laundering" (AML) procedures. 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:
In line with the final guidelines issued by RBI, our Bank has adopted the Basic Indicator Approach (BIA) for calculating capital charge for operational risk.

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 primary objective of Asset Liability Management is maximizing the Net Interest Income within the overall risk bearing capacity of the Bank. The Bank identifies the risks associated with the changing interest rates on its on-balance sheet and off-balance sheet exposures in the Banking Book from a short term (Earning Perspective) and long term (Economic Value Perspective). The impact on income (Earning Perspective) is measured through use of Gap Analysis by applying notional rate shock up to 100 basis point (bps). Prudential limit has been prescribed for such impact as a percentage to Net Interest Income (NII) of the Bank and the same is monitored on fortnightly basis. The Bank has adopted Traditional Gap Analysis and Duration Gap Analysis for assessing the impact (as a percentage) on the economic value of equity (Economic Value Perspective) by applying a notional interest rate shock of 200 bps. As per the Draft guidelines issued by the RBI on April 17, 2006, Bank calculates Modified Duration Gap (DGAP) and the impact on the economic value of equity. The measurement of interest rate risk is assessed by Earnings Perspective method on fortnightly basis and Economic Value Perspective method on quarterly basis.

The strategy adopted for mitigating the risk is by conducting various stress tests beforehand by assuming various interest rate changes in different time buckets with different combinations. It evaluates the Earnings at Risk by means of parallel shift in the interest rates across assets and liabilities. The Asset Liability Management (ALM) reports namely, Structural Liquidity and Interest Rate Sensitivity statement, Short Term Dynamic Liquidity statement, report on Earnings at Risk are placed to the ALCO. These ALM reports reveal the liquidity position and the interest rate risk of the Bank. With the approval of the Board, tolerance level is stipulated within which the Bank endeavours to operate. Any breach in the limit is reported to the ALCO, which in turn directs remedial measures to be initiated. Thus, the hedging and / or mitigating measures are initiated by the ALCO to contain the Liquidity Risk and the Interest Rate Risk by evolving strategies to reduce the mismatches in assets and liabilities. The minutes of ALCO meetings with details of discussions are placed before the Board.

Quantitative Disclosure:
The impact on earnings and economic value of equity for notional interest rate shock.

Earnings at Risk Rs. in crore

Change in Interest rate	Repricing at 1 year 31.03.2010
0.25%	35.67
0.50%	71.33
0.75%	107.00
1.00%	142.67

Economic Value of Equity

For a 200 bps rate shock the drop in equity value	18.34%