

DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES) FOR THE YEAR ENDED 31 MARCH 2009

I) SCOPE OF APPLICATION

Qualitative Disclosures

(a) *The name of the top bank in the group to which the framework applies:*

The framework of disclosures applies to The Ratnakar Bank Ltd; a scheduled commercial bank, incorporated on 6th August 1943. The Bank does not have any subsidiary.

(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; (ii) that are pro-rata consolidated; (iii) that are given a deduction treatment; and (iv) that are neither consolidated nor deducted (e.g. where the investment is risk weighted)*

Not applicable

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*

Not applicable

(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.*

Not applicable

II) 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 Bank has authorised share capital of Rs. 200.00 Crore, comprising of 20,00,00,000 equity shares of Rs. 10/- each. As on 31 st March 2009 the Bank has subscribed and paid up capital of Rs. 104.72 Crore, constituting fully paid 10,47,20,080 shares of Rs. 10/- each. Bank's Tier I capital comprises of Equity share capital and Reserves. Reserves comprises of Statutory Reserve, Capital Reserve representing surplus arising from sale proceeds of investment in banking book (HTM category), Share Premium, Balance in Profit & Loss account. Tier II capital consists of Revaluation Reserves at a discount of 55%, Provisions on Standard Assets and subordinated debts.

Subordinated Debt:

As on 31st March 2009, the Bank has subordinated debt (unsecured redeemable non-convertible debentures) aggregating to Rs. 3.80 Crores. Of this, Rs. 0.76 Crores qualifies as Lower Tier 2 capital after discounting the same as per New Capital Adequacy Framework. Details are as follows:

(Rs. in crores)

Sr. No.	Date of Allotment	Date of Redemption	Rate of Interest	Amount
1	31.03.2005	30.06.2010	8.40%	2.00
2	31.05.2005	31.08.2010	8.40%	1.50
3	30.06.2005	30.09.2010	8.40%	0.30
	Total			3.80

Quantitative Disclosures

(Rs. in crores)

	Amount
(b) Tier 1 Capital	338.12
Of which	
- Paid-up Share Capital	104.72
- Reserves and surplus	235.28
- Innovative instruments	-
- Other capital instruments	-
- Amount deducted from Tier 1 capital (Deferred Tax assets)	1.88
(c) Total amount of Tier II Capital (net of deductions from Tier II capital)	4.95
(d) Debt Capital instruments eligible for inclusion in Upper Tier 2 capital	
- Total amount outstanding	NIL
- Of which amount raised during the current year	NIL
- Amount eligible to be reckoned as capital funds	NIL
(e) Subordinated debt eligible for inclusion in Lower Tier 2 capital	
- Total amount outstanding	3.80
- Of which amount raised during the current year	-
- Amount eligible to be reckoned as capital funds	0.76
(f) Other Tier 2 Capital - (Revaluation Reserves, Provision for Standard Assets)	4.19
(g) Other deductions from capital, if any	-
(h) Total Eligible Capital	343.07

III) 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

Bank is subjected to the Capital Adequacy guidelines stipulated by RBI which are based on the framework of the Basel Committee on Banking Supervision (BCBS). As per the guidelines Bank is required to maintain minimum CRAR of 9% with regard to Credit Risk, Market Risk & Operational Risk. In line with the guidelines, Bank has adopted Standardised Approach for Credit Risk, Standardised Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk for computing CRAR.

Capital to support future activities:

Bank has a Internal Capital Adequacy Assessment Policy (ICAAP) to evaluate and document all risks and substantiate appropriate capital allocation. An assessment of the capital requirement of the Bank has been carried out for next five years through projection of future business. Presently Bank is having capital in excess of its assessed required under NCAF (New Capital Adequacy Framework).

Quantitative Disclosures

A summary of Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31 st March 2009 is presented below:

		(Rs. in crores)
		Amount
(b)	Capital requirements for Credit risk	
	- Portfolios subject to standardized approach	61.31
	- Securitisation exposures	-
(c)	Capital requirements for Market risk	
	- Standardised duration approach	
	- Interest rate risk	2.21
	- Foreign exchange risk (including gold)	-
	- Equity risk	0.84
(d)	Capital requirements for Operational risk	
	- Basic indicator approach	8.64
(e)	Total Capital Adequacy Ratio of the Bank (%)	42.30%
	Tier 1 CRAR (%)	41.69%

IV) CREDIT RISK- GENERAL DISCLOSURES

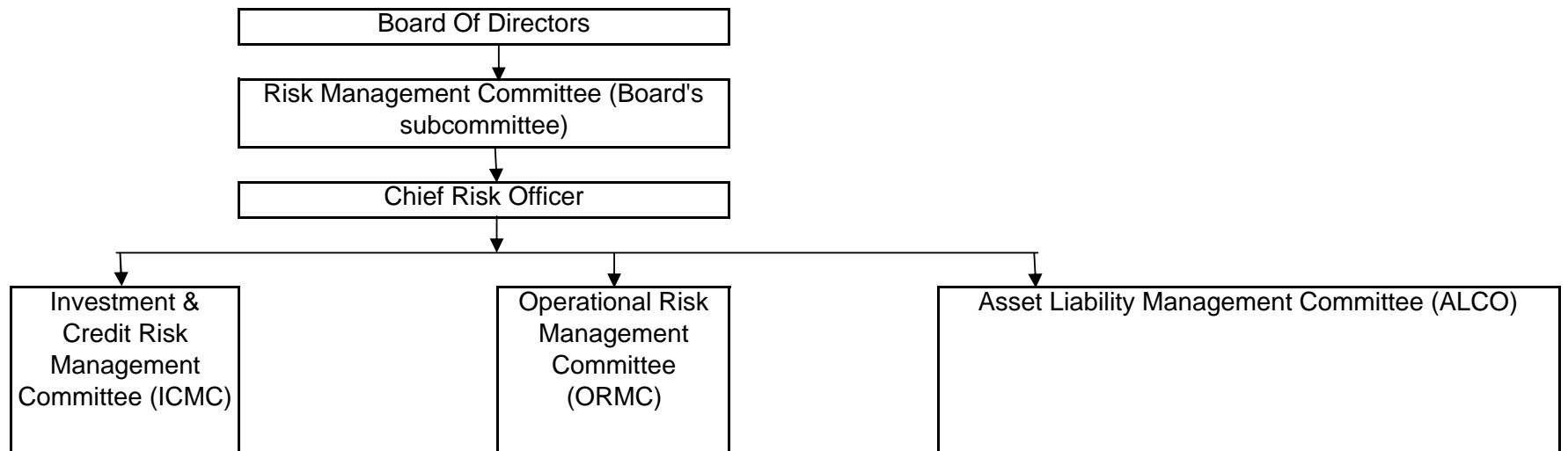
Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to credit risk, including:

- Discussion of the bank's credit risk management policy
- Definitions of past due and impaired (for accounting purposes);

Risk Management -

The Risk Management Architecture of the Bank is as follows:



Board of Directors, at the Apex level, maintains overall oversight of management of risks. The Risk Management Committee (RMC) which is a sub-committee of the Board is headed by the Managing Director and CEO. Committee reviews / recommends risk management processes / systems. At operational level, Investment and Credit Risk Management committee (ICMC), Operational Risk Management Committee (ORMC), Asset Liability Management Committee (ALCO) are committees of executives / officers of the Bank which oversee the risks to which the Bank is exposed.

Credit Risk Management-

Credit Risk is defined as the probability of losses associated with reduction of credit quality of borrowers or counterparties. In Bank's portfolio, losses arise from outright default or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlements, or any other financial transaction.

Risk Measurement - At present credit risk is assessed through credit rating at the individual level and through risk weighting of assets at the portfolio level and capital is maintained based on risk weights. Besides, the level & direction of credit risk for the Bank is measured using risk profile templates prescribed by RBI, on quarterly basis and findings are reported to RMC and Board.

Policies:

Bank has Lending / Credit policy, Investment policy and Recovery policy which address issues relating to Credit Risk. Policies are drafted considering regulatory directives, business strategy and requirement.

Processes:

Credit risk at individual level is assessed by considering:

- the financial position of the borrower by analysing financial statements, past financial performance and prospects;
- position of the borrower in the market and operating efficiency;
- quality of the management of the borrowers' business.

In addition to above:

(a) Credit Approving Authority - Delegation of Powers - Bank has well- defined discretionary powers for different levels of authorities of the Bank for sanction of advances.

(b) Credit Rating - Bank has put in place rating system, which serves as a single point indicator of diverse risk factors of a counterparty and supports credit and pricing decisions.

(c) Investment and Credit Risk Management Committee (ICMC): This committee:

- assesses adequacy and adherence to loan policies and procedures by ensuring compliance with post sanction follow up, monitoring and supervision measures undertaken by Credit and Inspection Dept.

- examines the quality of credit processing and recommend steps for improvement;

(d) Credit Risk Mitigation techniques: Credit Risk Mitigants like financial collateral, Non financial collaterals and guarantees are used to mitigate credit risk exposure. This reduces effective exposure on the borrower or transfers the risk to a credit worthy party.

Non- performing Assets - Bank has adopted definitions of non- performing assets (for accounting purpose) as defined by RBI in 'Prudential norms on Income Recognition, Asset Classification (IRAC)'

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where;

- (i) interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- (ii) the account remains 'out of order' continuously for 90 days in respect of an Overdraft / Cash Credit (OD/CC),
- (iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- (iv) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- (v) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- (vi) Bank guarantees / Letter of Credits devolved on the Bank are not reimbursed by the customer even after 90 days from the date of payment.

'Out of Order' status - An account where the outstanding balance remains continuously in excess of the sanctioned limit / drawing power and /or there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover interest debited during the same period.

'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

1 Total gross credit risk exposure, fund based & non- fund based -

(Rs. in crores)

Category	Amount
Fund Based	1604.38
Advances	812.94
Investment in Banking book	290.09
All other Assets	501.35
Non-Fund Based *	58.53
Total	1662.91

*Guarantees given on behalf constituents, acceptances, endorsements

2 Geographic distribution of exposure, fund based & non- fund based -

(Rs. in crores)

Category	Domestic	Overseas	Total
Fund Based	1,604.38	-	1,604.38
Non-Fund Based *	58.53	-	58.53
Total	1,662.91	-	1,662.91

*Guarantees given on behalf constituents, acceptances, endorsements

3 Industry type distribution of exposures, fund based-

(Rs. in crores)

Sr. No.	Industry Classification	Amount
		Fund Based
1	Iron and steel	0.84
2	Other Metal and Metal Products	4.99
3	All engineering	9.81
3.1	Of which Electronics	0.22
4	Electricity	2.93
5	Cotton Textiles	7.50
6	Other Textiles	9.77
7	Food Processing	6.13
8	Vegetable Oil and Vanaspati	0.74
9	Paper and Paper Products	2.55
10	Rubber and Rubber Products	0.33
11	Chemicals, Dyes, Paints, etc.	65.82
11.1	Of which Fertilizers	1.04
11.2	Of which Drugs & Pharmaceuticals	37.20
12	Cement	0.69
13	Gems and Jewellery	1.36
14	Construction	3.03
15	Automobiles including trucks	0.55
16	Computer Software	-
17	Infrastructure	29.51
17.1	Of which Power	3.79
18	Other Industries	42.01
19	Residual exposures to balance the total exposure	624.38
	Total	812.94

As on 31st March 2009 the Bank's exposure to the industries stated below was more than 5% of the total gross credit exposure (advance):

Sr. No.	Industry classification	Percentage of the total gross credit exposure
1	Chemicals, Dyes, Paints, etc.	8.10%

4 Residual contractual maturity breakdown of assets

(Rs. in crores)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1 day	36.85	16.45	37.21	3.49
2 to 7 days	108.45	16.19	36.20	1.27
8 to 14 days	28.12	10.12	28.87	1.12
15 to 28 days	36.28	5.98	42.80	1.69
29 days to 3 months	84.74	20.32	86.07	4.60
3 to 6 months	87.75	44.16	9.38	1.68
6 to 12 months	35.34	63.80	56.59	2.98
1 to 3 years	35.82	159.69	290.33	3.85
3 to 5 years	2.11	18.95	113.02	-
Over 5 years	4.96	51.11	100.64	20.25
Total	460.42	406.77	801.11	40.93

5 Movement of NPA and Provisions for NPA's -

Rs. In Crores

A	Amount of NPA's (Gross)	17.27
	- Substandard	4.04
	- Doubtful 1	1.98
	- Doubtful 2	3.26
	- Doubtful 3	5.34
	- Loss	2.65
B	Net NPA's	5.45
C	NPA Ratio's	
	- Gross NPA's to Gross advances	2.13%
	- Net NPA's to Net advances	0.68%
D	Movement of NPA's (Gross)	
	- Opening balance	37.09
	- Additions	4.71
	- Reductions	24.53
	- Closing balance	17.27
E	Movement of provisions for NPA's	
	- Opening balance	31.28
	- Provisions made during the period	2.23
	- Write-off / Write back of excess provisions during the year	21.69
	- Closing balance	11.82

6 NPI and movement of provision for depreciation of NPI's -

Rs. In Crores

A	Amount of non- performing investments	2.29
B	Amount of provisions held for non- performing investments	2.29
C	Movement of provisions held for depreciation on investments	
	- Opening balance	4.68
	- Provisions made during the period	1.19
	- Write-off/ Write-back of excess provisions	1.11
	- Closing balance	4.76

V) CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH

Qualitative Disclosures

For portfolios under standardised approach:

Names of credit rating agencies used, plus reasons for any changes;

exposures for which each agency is used; and

process used to transfer public issue ratings onto comparable assets in the banking book

-
- Types of
- A description of the

Bank has decided to use credit rating awarded by Eligible Credit Rating Assessment Institutions namely CARE, CRISIL, FITCH, ICRA for portfolios under Standardised Approach for Credit Risk. Issue ratings has been used if the Bank has an exposure in the rated issue and this include fund based and non fund based working capital facilities as well as loans and Investments. Ratings of all these agencies are being used for all exposures subjected to rating for risk weighting purposes under the standardized approach under Basel II. The rating published by the rating agency on their websites are used for this purpose.

Quantitative Disclosures

Details of Exposure amount (Fund based and Non-fund based) subject to Standardised approach based on Risk-Weight:

(Rs. in crores)

	Amount
Below 100% risk weight	1,261.24
100% risk weight	385.74
More than 100% risk weight	15.93
Credit Risk Mitigants (CRM) Deducted	131.23

VI) CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACHES

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk mitigation including:
processes for collateral valuation and management;
collateral taken by the bank;
creditworthiness; and
mitigation taken

- policies and
- a description of the main types of
- the main types of guarantor counterparty and their
- information about (market or credit) risk concentrations within the

Bank employs various methods and techniques to reduce the impact of credit risks they are exposed to in their daily operations. This process is known as credit risk mitigation.

Bank has put in place 'Policy on Credit Risk Mitigation Techniques and Collateral Management'. Main objectives of this policy are to:

- ensure that Credit Risk Management Techniques are strengthened and management of collateral is such that capital requirement is aligned with Credit Risk involved in the claim.
- encourage accepting collaterals that can be easily liquidated.
- ensure that 'Credit Risk Mitigation' techniques do not increase other risk such as legal, operational, liquidity and Market risk.

Bank also has Policy on Valuation of Properties and Empanelment of valuers. Main objectives of policy are to:

- obtain fair valuation of prime / collateral securities movable as well as immovable.
- lay down periodicity of valuation
- ensure that Reserve Bank of India guidelines/directives regarding valuation are observed
- get fair market value of securities for correct measurement of capital adequacy position of Bank.

Main types of collateral taken by Bank - Bank uses various collaterals both financial as well as non- financial, guarantees and credit insurance as credit risk mitigants. The main collaterals include bank deposits, NSC/KVP/LIC, plant and machinery, book debts, residential and commercial mortgages, vehicles and other movable properties. All collaterals are not recognised as credit risk mitigants under the standardised approach. The following are the eligible financial collaterals which are considered under standardised approach:

- i. Fixed Deposit Receipts issued by the Bank,
- ii. Securities issued by Central and State Governments,
- iii. Kisan Vikas Patra (KVP) and National Saving Certificate (NSC),
- iv. Life Insurance Policies (LIC) with declared surrender value of an insurance company which is regulated by an insurance sector regulator.

Collateral Valuation and Management - As stipulated in RBI guidelines, the Bank uses a comprehensive approach. Under this approach, the Bank reduces its credit exposure to a counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified.

Main type of guarantor counterparties - The main types of guarantors are:

- i. Individuals (Personal Guarantees)
- ii. Corporates

Concentration Risk in Credit Risk Mitigants- The Bank has no major risk concentration of credit risk mitigants as most of the CRM are term deposits issued by the Bank.

Quantitative Disclosures

For disclosed credit risk portfolio under the standardised approach, the total exposure that is covered by:

- eligible financial collateral; after the application of haircuts*

Exposure covered by eligible financial collateral; after application of haircuts: Rs. 131.23 cr.

VII SECURITISATION

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to securitisation, including a discussion of:

- the bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities;

- the roles played by the bank in the securitisation process and an indication of the extent of the bank's involvement in each of them; and

- the regulatory capital approach that the bank follows for its securitisation activities.

(b) Summary of the banks accounting policies for securitisation activities, including:

- recognition of gain on sale; and

- key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes

(c) Names of ECAI's used for securitisation and the types of securitisation exposure for which each agency is used.

Not applicable

Quantitative Disclosures

(d) The total outstanding exposures securitised by the bank and subject to the securitisation framework by exposure type;

(e) For exposures securitised by the bank and subject to the securitisation framework:

- amount of impaired/ past due assets securitised; and

- losses recognised by the bank during the current period broken down by exposure type.

(f) Aggregate amount of securitisation exposure retained or purchased broken down by exposure type.

(g) Aggregate amount of securitisation exposures retained or purchased broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from Tier I capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by type of underlying exposure type.

Not applicable

VIII) MARKET RISK IN TRADING BOOK

Qualitative Disclosures

The general qualitative disclosure requirement for market risk including the portfolios covered by the standardised approach

Market Risk Management

Bank has well defined Risk Management Policy, Investment Policy, Asset Liability Management Policy, Equity Investments Policy which covers important areas of market risk management.

Bank defines market risk as the risk of loss in on- balance sheet and off- balance sheet positions arising from movements in market prices. Under market risk management, liquidity risk, interest rate risk, equity price risk are monitored.

Liquidity Risk -

Gap analysis is followed for monitoring Liquidity Risk on a fortnightly basis. Prudential limit - for percentage of cumulative gap to cumulative outflow - based on RBI guidelines for short-term buckets is monitored. Besides these, prudential limits are in place for market borrowing - daily and average call borrowing, Inter bank liabilities etc.

The level & direction of market risk, liquidity risk is measured using risk profile templates prescribed by RBI on quarterly basis and findings are reported to RMC and Board

Interest Rate Risk -

Prudential limits have been fixed for duration of SLR and Non- SLR Investments. Bank's investment portfolio is monitored on the basis of duration analysis.

Equity Price Risk -

The Bank's Equity Investment Policy has fixed stop loss limits for equity. Daily reporting to top management on the transactions and profit is done. In case where the Bank desires to remain invested in any scrip beyond the cut / stop loss position, the matter is referred to Equity Investment Committee for approval. All such instances then reported to Board.

Besides these following tools are used for market risk management / mitigation -

- (a) Delegation of Powers - Bank has well- defined discretionary powers for different level authorities of the Bank for taking investment decisions.
- (b) Prudential Limits - Various limits such as exposure limit, stop loss limits, duration etc. have been fixed.
- (c) Internal Rating System - For Non- SLR investment other than equity shares and mutual funds, Bank has own internal rating system, which serve as a single point indicator of diverse risk factors of a counterparty and support investment decisions. In addition to this external credit rating is also considered.
- (d) Asset Liability Management Committee (ALCO) - Under Risk Management Architecture of Bank ALCO committee of executives is constituted and is monitoring management of liquidity and interest rate risk. ALCO support group of executives / officers is constituted to support ALCO.
- (e) Equity Investment Committee: This is a committee of executives. This committee takes decisions regarding Investment and disinvestment in equity shares of companies.

Portfolios covered by Standardised Approach -

Trading book portfolio is covered by standardised approach. It includes investments under Held For Trading (HFT) and Available For Sale (AFS). Bank has put in place a proper system for calculating capital charge on market risk in trading portfolio as per RBI guidelines viz Standardised Duration Approach.

Quantitative Disclosures

Capital Requirement for Market Risk -

Rs. in crores

	Amount of Capital required
- Interest Rate Risk	2.21
- Equity Position Risk	0.84
- Foreign Exchange Risk	-

IX) OPERATIONAL RISK

Qualitative Disclosures

In addition to the general qualitative disclosure requirement, the approach (es) for operational risk capital assessment for which the bank qualifies

Operational Risk Management

Bank has well defined Risk Management Policy, Operational Risk Management Policy covering the important areas of operational risk management.

Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Following tools are used for operational risk management / mitigation -

(a) Manual of instructions - Bank has put in place manuals on all important functional areas viz. manual on Deposits, Advances, Treasury, IT roles & responsibilities etc. and have been circulated among all concerned.

(b) Risk Based Internal Audit (RBIA) - RBIA is introduced and branches are audited as per RBIA.

(c) Operational Risk Management Committee (ORMC) - At operational level ORMC of executives / officers is formed which recommends actions to be taken to manage operational risk.

(d) Risk Measurement - The level & direction of operational risk is measured using risk profile templates prescribed by RBI on quarterly basis and reported to Board and RMC. The Bank has adopted Basic Indicator Approach (BIA) for computation of capital charge for operational risk.

X) INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) -

Qualitative Disclosures

The general qualitative disclosure requirement, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non- maturity deposits, and frequency of IRRBB measurement

Interest rate risk is the risk of potential variability in earnings and capital value resulting from changes in market interest rates. Bank holds assets, liabilities with different maturity and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets. Interest rate risk in the banking book refers to the risk associated with interest rate sensitive instruments that are not held in the trading book of the Bank.

Key assumptions

1. Current deposits excluding term deposits which are matured, are considered as non- sensitive to interest rate change. Term deposits which are matured are distributed in the time buckets as per behavioural analysis.
2. With regard to saving bank deposits, interest paying portion (core portion) calculated on the basis of behavioural analysis is considered as sensitive to interest rate change and included in over 3 to 6 months time bucket and volatile portion is considered as non- sensitive to the interest rate change.
3. Term loans are assumed as sensitive on maturity whereas cash credit and overdrafts are distributed as per behavioural analysis.

Earnings perspective - Impact on earnings is calculated using Interest Rate Sensitivity Statement. Midpoint of each time bucket is taken as a proxy for maturity of all assets and liabilities of that time bucket and impact of change in interest rate is worked out.

Economic value perspective - Duration Gap Analysis (DGA) method is used to calculate impact on Market Value of Equity (MVE). Modified durations of assets and liabilities are used to arrive at modified duration of equity.

Quantitative Disclosures

The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (where the turnover is more than 5% of the total turnover).

Earnings Perspective

(Rs. in crores)

Interest rate shock	Impact
At 1% change for 1 year	0.81
At 2% change for 1 year	1.62

Economic Value Perspective

(Rs. in crores)

Interest rate shock	Impact
At 200 basis points	34.10