

**DISCLOSURES UNDER NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II)
FOR THE YEAR ENDED 31ST MARCH 2011**

I. GENERAL:

The framework of disclosures applies to The Ratnakar Bank Ltd; a scheduled commercial bank, incorporated on 6th August 1943. As on 31st March 2011, The Bank does not have any subsidiary. The Bank does not have any interest in any insurance entity.

II. CAPITAL STRUCTURE:

In line with the capital adequacy norms prescribed by Reserve Bank of India (RBI), capital funds are classified into Tier-1 and Tier-2 capital. Tier-1 capital consists of paid-up share capital, share premium, statutory reserves, revenue & other disclosed free reserves. Tier-2 capital consists of revaluation reserves (at a discount of 55%), general provisions & loss reserves.

Equity Capital:

In a view to taking the Bank on the next phase of growth, the Bank Board and management have recognized the need to undertake a 'transformation' of the bank's business strategy, operations, products, processes and strengthen capital base by augmentation of equity capital. Accordingly, during financial year 2010-11, the Bank raised equity capital by issuing equity shares on a rights basis. As a consequence, paid-up share capital of the Bank has increased by ₹ 110.23 Crore and reserves by ₹ 616.55 Crore.

As on 31st March 2011, the Bank has authorised share capital of ₹ 400.00 Crore, comprising of 40 Crore equity shares of ₹ 10 each. The Bank has subscribed and paid up capital of ₹ 214.95 Crore, comprising of fully paid up 21.49 Crore shares of ₹ 10 each.

The Bank has a strong capital base with Core (Tier 1) capital at 99.15% of total capital funds. As of March 31, 2011, there is no Innovative Perpetual Debt Instruments (IPDI), Upper Tier II bonds, Lower Tier II bonds or Subordinated debt issued and outstanding.

Quantitative Disclosures –

		₹ in Crores	
		31-3-2011	31-3-2010
(a)	Tier I Capital:		
	- Paid-up Share Capital	214.95	104.72
	- Reserves	867.85	246.58
	- Innovative instruments;	-	-
	- Other capital instruments	-	-
	- Less -Deferred Tax Assets	8.25	2.27
	Total Tier -I Capital	1074.55	349.03
(b)	The total amount of Tier II capital (net of deductions from Tier II capital)	9.17	5.70

(c)	Debt Capital instruments eligible for inclusion in Upper Tier II capital		
	- Total amount outstanding	NIL	NIL
	- Of which amount raised during the current year	NIL	NIL
	- Amount eligible to be reckoned as capital funds	NIL	NIL
(d)	Subordinated debt eligible for inclusion in Lower Tier II capital		
	- Total amount outstanding	NIL	3.80
	- Of which amount raised during the current year	NIL	-
	- Amount eligible to be reckoned as capital funds	NIL	-
(e)	Other deductions from capital, if any.	NIL	NIL
(f)	Total Eligible Capital	1083.72	354.73

III. CAPITAL ADEQUACY:

Regulatory capital assessment:

The Bank is subjected to Capital Adequacy guidelines stipulated by RBI. The Bank is required to maintain minimum Capital Adequacy Ratio (CAR) of at least 9% under both Basel I & Basel II on an ongoing basis and a Tier-1 CAR of 4.5% & 6% respectively. As on 31st March 2011, minimum capital for credit & market risk should be higher of minimum capital requirement as per Basel II or 80% of the minimum capital required to be maintained as per Basel I.

In line with RBI guidelines, Bank has adopted Standardised Approach for Credit Risk, Standardised Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk while computing CAR as per Basel II.

For the year ended 31st March 2011, CAR of the Bank is well above regulatory minimum requirement of 9%.

Assessment of adequacy of Capital to support current and future activities:

In line with RBI guidelines under Pillar-2 of Basel II framework, the Bank has put in place Internal Capital Adequacy Assessment Policy (ICAAP) to evaluate & document all risks and substantiate appropriate capital allocation for not only risks identified under Pillar 1 but for the ones identified under Pillar 2 as well. An ICAAP document is prepared on annual basis to include the capital adequacy assessment & projections of capital requirement for ensuing year, along with the plans and strategies for meeting the same.

ICAAP enables the Bank to ensure the adequacy of capital to take care of the future business growth so that the minimum capital required is maintained on a continuous basis & also at the times of changing economic conditions / economic recession.

The Board of Directors of the Bank reviews capital adequacy position of the Bank on a quarterly basis.

Quantitative Disclosures –

A summary of Bank's capital requirement for credit, market and operational risk along with CAR as on 31st March 2011 is presented below:

		₹ in Crores	
		31-03-2011	31-03-2010
(a)	Capital requirements for credit risk:		
	- Portfolios subject to standardised approach	153.17	81.95
	- Securitisation exposures.	-	-
(b)	Capital requirements for Market risk:		
	Standardised duration approach;		
	- Interest rate risk	8.64	2.01
	- Foreign exchange risk (including gold)	-	-
	- Equity risk	1.09	1.10
(c)	Capital requirements for Operational risk:		
	- Basic indicator approach;	10.02	8.64
(d)	Total Capital Adequacy Ratio of the Bank (%)	56.41%	34.07%
	Tier-1 Capital Adequacy Ratio of the Bank (%)	55.93%	33.53%

IV. CREDIT RISK- GENERAL DISCLOSURES:

Strategies & Processes for Credit Risk Management –

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

The Bank has put in place Commercial Credit Policy, Lending policy, Investment Policy, Recovery Policy, Risk Management Policy, Policy on Credit Risk Mitigation Techniques & Collateral Management duly approved by the Board whereby credit risk can be identified, quantified and managed within the framework that is considered consistent with the scale, size of business and risk appetite of the Bank. These policies prescribe various methods for credit risk identification, measurement, grading, monitoring, reporting, risk control / mitigation techniques and management of problem loans / credit.

Credit Risk Management is ensured through following initiatives:

- A rigorous control framework from which only authorized departures are permitted;
- Clear, agreed roles and responsibilities;
- Qualified, experienced and well-motivated personnel;
- A predetermined credit risk measurement and monitoring methodology;
- Consistent reporting and relevant MIS;
- A statement of operating principles;
- Robust systems, applications and data warehousing architecture.

Structure & Organisation of Credit Risk Management function –

The organizational structure of the Bank for Credit Risk Management function has the Board of Directors at the apex level that maintains overall oversight on the management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes credit risk. RMCB approves the Bank's credit policies, prudential exposure limits, business segments, credit assessment and approval system, margin and collateral management, credit documentation, credit pricing framework, credit administration and monitoring system, non-performing assets management policy, credit risk management system and exception management. At operational level, Management Credit Committee (MCC) will be responsible for operationalizing the credit policy and implementing credit framework.

Risk measurement, mitigation, monitoring & reporting systems –

Credit Appraisal System –

A credit proposal involves a rigorous credit appraisal process before it is recommended for sanction. Credit proposal is examined in depth to evaluate credit worthiness and credit requirement and credit facility is sanctioned accordingly. The appraisal involves assessment of various types of risks such as management risk, industry & business risk, financial risk etc.

Credit Rating Framework –

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. The Bank has implemented a Credit Rating framework in order to differentiate borrowers by risk exposure. Rating is mandatory for all funded as well as non-funded facilities, irrespective of tenor. The Bank intends to adopt a 10 point credit risk scale to segregate the lending portfolio based on likelihood of default.

Besides, External Bank Loan Rating (BLR) has been made mandatory for facilities greater than ₹ 5 Crore. For facilities less than ₹ 5 Crore, the Bank encourage borrowers to seek external credit rating.

Delegation of powers –

The Bank has adopted the 'Four Eyes' principle for credit approval. Generally at least two people must create, examine and approve credit proposal. Most of the loan proposals require Joint Signature Approvals (JSA). This helps to avoid credit approval based on judgement of one functionary alone, ensures compliance & reduces risk from errors & prejudices.

Early Warning System (EWS) –

The Bank follows EWS for early identification of problem loans. EWS works on the basis of various predefined symptoms. The accounts under 'watch list category' involve high risk and are monitored very closely by Special Mention Assets (SMA) Group.

Non-performing Assets (NPA) –

A non-performing asset (NPA) is a loan or an advance where:

- i) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan. 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.
- ii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- iii) Installment of principal or interest thereon remains overdue for two crop seasons for short duration crops, and one crop season for long duration crops;
- iv) The regular / ad hoc credit limits have not been reviewed / renewed within 180 days from the due date / date of ad hoc sanction;
- v) The account remains 'out of order' in respect of an Overdraft / Cash Credit (OD/CC). An account is treated as 'out of order' if:
 - a. the outstanding balance remains continuously in excess of the sanctioned limit / drawing power; or
 - b. where outstanding balance in principal operating account is less than 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 interest debited during the same period;
- vi) Drawings have been permitted in working capital account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than 3 months old even though the unit may be working or the borrower's financial position is satisfactory;
- vii) Bank guarantees / Letter of Credits devolved on the Bank which is not reimbursed by the customer even after 90 days from the date of payment;
- viii) A loan for an infrastructure / non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset';
- ix) A loan for an infrastructure (/ non-infrastructure) project will be classified as NPA if it fails to commence commercial operations within 2 years (/ 6 months) from original date of commencement of commercial operations, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset'.

Non-performing Investments (NPI) –

NPI is one where:

- i) Interest / installment (including maturity proceeds) is due and remains unpaid for more than 90 days;
- ii) The fixed dividend is not paid in case of preference shares;
- iii) In case of equity shares, in the event the investment in the shares of any company is valued at Re. 1 per company on account of the non-availability of latest balance sheet in accordance with RBI instructions;

- iv) If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer would be treated as NPI and vice versa;
- v) The investments in debentures / bonds which are deemed to be in the nature of advance would also be subjected to NPI norms as applicable to investments.

Quantitative Disclosures –

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

₹ in Crores

Category	31-3-2011	31-3-2010
Fund Based	2,791.60	1985.67
Advances	1,919.83	1186.72
Investment in Banking book	447.98	390.86
All other Assets	423.79	408.09
Non-Fund Based **	105.02	82.61
Total	2,896.62	2068.28

* Represents book value as on 31st March.

** Guarantees given on behalf constituents, acceptances, endorsements.

(b) Geographic distribution of exposure*, Fund based & Non- fund based separately

₹ in Crores

Category	31-3-2011			31-3-2010		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Fund Based	2,791.60	-	2,791.60	1985.67	-	1985.67
Non-Fund Based **	105.02	-	105.02	82.61	-	82.61
Total	2,896.62	-	2,896.62	2068.28	-	2068.28

* Represents book value as on 31st March;

** Guarantees given on behalf constituents, acceptances, endorsements.

(c) Industry type distribution of exposures- Funded & Non-funded

₹ in Crores

Sr. No.	Industry Classification	31-3-2011		31-3-2010	
		Fund Based	Non-Fund Based	Fund Based	Non-Fund Based
1	Iron and steel	50.87	-	1.67	-
2	Other Metal and Metal Products	3.05	-	0.61	-
3	All engineering	76.58	0.47	9.09	-
3.1	Of which Electronics	2.62	-	0.28	-
4	Electricity	1.42	-	3.02	-
5	Cotton Textiles	9.71	-	11.71	-
6	Other Textiles	58.16	0.01	59.45	-
7	Food Processing	63.61	0.18	9.74	-
8	Vegetable Oil and Vanaspati	0.61	-	0.56	-
9	Paper and Paper Products	2.92	-	3.10	-
10	Rubber and Rubber Products	78.49	-	0.30	-
11	Chemicals, Dyes, Paints, etc.	127.30	10.66	52.99	11.24
11.1	Of which Drugs & Pharmaceuticals	115.92	-	25.54	6.69
12	Cement	1.91	0.09	0.54	-
13	Gems and Jewellery	0.87	-	1.66	-
14	Construction	14.62	27.84	8.68	-
15	Automobiles including trucks	0.43	5.80	0.76	-
16	Computer Software	37.04	-	0.52	-
17	Infrastructure	31.95	28.87	41.54	39.90
17.1	Of which Power	27.10	-	34.02	-
18	NBFC's	96.54	-	10.99	-
19	Other Industries	153.87	1.28	86.10	-
20	Residual exposures to balance the total exposure	1109.89	29.82	883.69	31.47
	Total	1919.83	105.02	1186.72	82.61

As on 31st March 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	
		31-3-2011	31-3-2010
1.	Chemicals, Dyes, Paints, etc.	6.81%	5.06%
2.	Infrastructure	3.00%	6.42%

(d) Residual contractual maturity breakdown of assets

As on 31-03-2011

₹ in Crores

Maturity bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1 day	61.04	0.00	26.89	7.65
2 to 7 days	74.88	101.03	37.22	0.16
8 to 14 days	5.73	24.90	64.36	0.41
15 to 28 days	14.86	55.46	72.29	0.00
29 days to 3 months	58.94	192.99	337.57	1.14
3 to 6 months	33.35	10.72	106.53	0.38
6 to 12 months	38.84	39.13	395.35	6.25
1 to 3 years	57.62	58.93	436.11	10.13
3 to 5 years	3.46	94.42	218.45	2.99
Over 5 years	1.46	314.90	210.40	52.75
Total	350.18	892.48	1,905.17	81.86

As on 31-03-2010

₹ in Crores

Maturity bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
1 day	145.51	11.98	59.42	6.35
2 to 7 days	16.64	27.29	43.76	0.07
8 to 14 days	4.29	-	50.23	0.72
15 to 28 days	13.61	31.60	28.88	1.48
29 days to 3 months	45.88	37.07	134.42	5.97
3 to 6 months	53.10	2.59	56.40	2.70
6 to 12 months	21.35	7.57	114.42	4.34
1 to 3 years	49.81	63.75	338.15	5.86
3 to 5 years	2.83	46.76	145.85	-
Over 5 years	3.05	278.61	198.92	24.54
Total	356.08	507.22	1170.44	52.01

(e) Non-Performing Assets (NPA) –

₹ in Crores

		31-3-2011	31-3-2010
(a)	Amount of NPAs (Gross)	21.51	27.64
	- Substandard	5.73	10.23
	- Doubtful 1	5.46	2.60
	- Doubtful 2	1.40	5.30
	- Doubtful 3	4.76	5.50
	- Loss	4.16	4.01
(b)	Net NPAs	6.89	11.36
(c)	NPA ratios		
	- Gross NPAs to gross advances	1.12%	2.33%
	- Net NPAs to Net advances	0.36%	0.97%
(d)	Movement of NPAs (Gross)		
	- Opening balance	27.64	17.27
	- Additions	4.85	14.83
	- Reductions	10.98	4.46
	- Closing balance	21.51	27.64
(e)	Movement of provisions for NPAs		
	- Opening balance	16.28	11.82
	- Provisions made during the period	3.84	6.82
	- Write-off	-	-
	- Write-back of excess provisions	5.50	2.36
	- Closing balance	14.62	16.28

(f) NPI and movement of provision for depreciation of NPIs –

₹ in Crores

(a)	Amount of Non- Performing Investments	2.29	2.29
(b)	Amount of provisions held for Non- Performing Investments	2.29	2.29
(c)	Movement of provisions for depreciation on investments		
	- Opening balance	3.66	7.05
	- Provisions made during the period	1.34	0.08
	- Write-off	-	-
	- Write-back of excess provisions	2.41	3.47
	- Closing balance	2.59	3.66

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

Bank uses credit rating awarded by Eligible Credit Rating Assessment Institutions namely CARE, CRISIL, FITCH, ICRA for its credit portfolio under Standardised Approach for Credit Risk. For working capital or term facilities above ₹ 5 crores, the Bank is mandating borrowers to get bank loan ratings from one of these credit rating agencies. These bank loan ratings, short term or long term instrument ratings for listed debt instruments or investments and issuer ratings in certain cases, which are assigned by the accredited rating agencies and available in public domain are used to assign risk weights in terms of RBI guidelines under the Standardised Approach.

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:

Particulars	₹ in Crores	
	31-3-2011	31-3-2010
- Below 100% risk weight	1553.89	1473.77
- 100% risk weight	1288.49	567.54
- More than 100% risk weight	54.23	27.00
- Credit Risk Mitigants (CRM) Deducted	164.29	164.02

VI. CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACHES:

Policies and processes –

In line with RBI guidelines, the Bank has put in place Board approved 'Policy on Credit Risk Mitigation Techniques & Collateral Management'. Objectives of the policy are to:

- to strengthen Credit Risk Mitigation Techniques;
- 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.

Policy addresses Bank's approach to credit risk mitigation for computation of capital requirement. Collaterals used by the Bank as credit risk mitigants comprise of financial collaterals where the Bank has legally enforceable netting arrangement, involving specific lien.

The Bank has also put in place Lending Policy, Commercial Credit 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.

Credit Risk Mitigation –

In line with RBI guidelines, the Bank uses comprehensive approach for credit risk mitigation. Under this approach, the Bank reduces its credit exposure to the counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified.

Main types of collateral taken by Bank –

Bank uses various collaterals 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.

- Fixed Deposit receipts issued by the Bank;
- Securities issued by Central and State Governements;
- Kisan Vikas Patra (KVP) and National Saving Certificate (NSC);
- Life Insurance Policies (LIC) with declared surrender value of an insurance company which is regulated by an insurance sector regulator;

Main type of guarantor counterparties –

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.

Concentration Risk in Credit Risk Mitigants –

The Bank has no risk of concentration of credit risk mitigants as most of the CRM are term deposits placed with the Bank.

Quantitative Disclosures –

₹ in Crores			
SN	Particulars	31-3-2011	31-3-2010
1.	Total Exposure (on and off balance sheet) covered by eligible financial collateral after application of haircuts	164.29	164.02
2.	Total Exposure (on and off balance sheet) covered by guarantees / credit derivatives	NIL	NIL

VII. SECURITISATION EXPOSURES: DISCLOSURE FOR STANDARDISED APPROACH:

The Bank has not undertaken any securitization transaction and does not carry any securitization exposures.

VIII. MARKET RISK IN TRADING BOOK:

Strategies & Processes –

Bank defines market risk as the risk of adverse movement in the mark-to-market value of the trading portfolio due to movements in market variables such as interest rates, equity prices etc. Bank's exposure to market risk arises from investment in trading book (AFS & HFT category). Under market risk management, liquidity risk, interest rate risk and equity price risk are monitored.

Market Risk is managed in accordance to the Board approved Investment Policy, Risk Management Policy, Asset Liability Management (ALM) Policy, Equity Investments Policy. The policies lay down well-defined organisation structure for market risk management functions and processes whereby the market risks carried by the Bank are identified, measured, monitored and controlled.

Market Risk Management function –

The organizational structure of the Bank for Market Risk Management function has the Board of Directors at the apex level that maintains overall oversight on management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes market risk. At operational level, Asset Liability Management Committee (ALCO) monitors management of market risk. The main functions of ALCO include balance sheet planning from a risk return perspective including the strategic management of interest rates and liquidity risks.

Risk reporting, measurement, mitigation & monitoring systems –

Exposure Limits –

The Bank has put in place various prudential limits for Market Risk Management such as financial benchmarks, maturity limits, entry level ratings for investment, operations in various market segments, issuer wise limits, single party exposure limits, industry wise exposure limits, modified duration based limits, stop loss limits etc. The risk limits are monitored across different levels of the Bank.

Liquidity Risk Management –

- Gap analysis based on residual maturity / behavioural pattern of assets and liabilities as prescribed by RBI, Monitoring of prudential (tolerance) limits set for different residual maturity time buckets for efficient asset liability management.
- Short term Dynamic Liquidity Statement is used to monitor the Bank's short term liquidity position on a dynamic basis in a time horizon spanning 1-90 days. Short term liquidity profile is estimated on the basis of business projections and other commitments.
- Monitoring of Large Deposits and Loans on a continuous basis. ALCO monitors Bank's liquidity position by reviewing various liquidity ratios.

Interest Rate Risk Management –

- Gap Analysis of rate sensitive assets & rate sensitive liabilities and monitoring of prudential (tolerance) limits prescribed.
- Duration Gap Analysis framework is in place for management of interest rate risk. The Bank estimates and monitors Earnings at Risk (EaR) and Modified Duration Gap (MDGap) periodically against adverse movement in interest rates for assessing impact on Net Interest Income (NII) and Market Value of Equity (MVE). EAR and MVE thresholds have been prescribed and monitored for managing the market risk.

Equity Price Risk Management –

The Bank's Equity Investment Policy contains the limits on exposure to capital market, stop loss limits for management of equity price risk. Equity Investment Committee of executives is constituted to take decisions of investment / dis-investment.

Portfolios covered by Standardised Approach -

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

Capital requirement for:

Particulars	₹ in Crores	
	31-3-2011	31-3-2010
Interest Rate Risk	8.64	2.01
Equity Position Risk	1.09	1.10
Foreign Exchange Risk	-	-

IX. OPERATIONAL RISK:

Strategies & Processes –

Bank defines operational risk as the 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. The Bank faces Operational Risk due to its exposure to potential errors, frauds, or unforeseen catastrophes resulting in unexpected losses in the course of business activities.

Operational Risk is managed in accordance with the Board approved Risk Management Policy. Other policies adopted by the Bank which deal with management of operational risk are Information Technology Policy, Policy on Know Your Customer & Anti Money Laundering, Policy on Outsourcing of Financial Services.

Operational Risk Management function –

The organizational structure of the Bank for Operational Risk Management function has the Board of Directors at the apex level that maintains overall oversight of management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes operational risk. At operational level, Operational Risk Management Committee (ORMC) monitors management of operational risk. The main functions of ORMC are to monitor and ensure appropriateness of operational risk management and recommend suitable control measures for mitigating the same.

Risk reporting, measurement, mitigation & monitoring systems –

- Operational Risk Loss Events reporting system is in place. The events and losses reported were discussed at ORMC meeting for appropriate actions.
- Manual of Instructions - Bank has put in place manuals on all important functional areas viz. manual on Deposits, Commercial Credit, Advances, Treasury, IT roles & responsibilities etc. covering entire gamut of business and are circulated among all concerned. Amendments and modifications to these guidelines are implemented through circulars sent to all the offices.
- Insurance cover has been obtained for major potential operational risk losses.
- Risk Measurement - The level & direction of operational risk is assessed using risk profile templates prescribed by RBI on quarterly basis and reported to Board and RMCB.

Approach for Operational Risk capital assessment –

In accordance with RBI guidelines, 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):

Policies, Strategies & Processes –

Interest rate risk in banking book represents the Bank's exposure to adverse movements in interest rates with regard to its non-trading exposures. Interest rate risk is measured by doing a gap analysis as well as factor sensitivity analysis. 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 is managed in accordance to the Board approved Asset Liability Management (ALM) Policy, Risk Management Policy. The policies lay down well-defined organisation structure for interest rate risk management functions and processes whereby the interest rate risks carried by the Bank are identified, measured, monitored and controlled.

Interest Rate Risk Management function –

The organizational structure of the Bank for Interest Rate Risk Management function has the Board of Directors at the apex level that maintains overall oversight of management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes interest rate risk. At operational level, Asset Liability Management Committee (ALCO) monitors management of interest rate risk. The main functions of ALCO include balance sheet planning from a risk return perspective including the strategic management of interest rates and liquidity risks.

Risk reporting, measurement, mitigation & monitoring systems –

- Gap Report – Gap or mismatch risk is calculated by calculating gaps for interest rate sensitive assets, liabilities and off-balance sheet positions in different time buckets.
- Earnings perspective - Based on the gap report, Earnings at Risk (EaR) approximates the impact of an interest rate / re-pricing shock for a given change in interest rate on the net interest income (difference between total interest income and total interest expense) over a one year horizon.
- Economic value perspective - As against the earnings approach, interest rate risk is monitored based on the present value of the Bank's expected cash flows. A modified duration approach is used to ascertain the impact on interest sensitive assets, liabilities and off-balance sheet positions for a given change in interest rates.

Nature of IRRBB and Key assumptions –

- Interest rate risk is measured by using Earnings Perspective and Economic Value Perspective method on quarterly basis.
- The distribution into rate sensitive assets and liabilities under Interest Rate Sensitivity Statement, Coupons, Yields are as prescribed in ALM policy of the Bank.
- Non-maturity deposits (current and savings) are classified into appropriate buckets according to the study of behavioral pattern for last 3 years. In case of these deposits, volatile portion is classified into '1-28 Days' time bucket and remaining core portion into '1-3 years' time bucket.

Quantitative Disclosures –

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.

Earnings Perspective –

	₹ in Crores	
Interest rate shock	31-3-2011	31-3-2010
1% change in interest rate for 1 year	6.44	1.50

Economic Value Perspective –

	₹ in Crores	
Interest rate shock	31-3-2011	31-3-2010
200 basis point shock	21.62	24.88