BASEL II DISCLOSURES DOCUMENT AS AT 30TH SEPTEMBER 2009

TABLE DF-1

SCOPE OF APPLICATION

Qualitative Disclosures	
(a) Name of the top Bank in the group to which the framework applies	**VIJAYA BANK**
(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	**Not applicable** as the Bank does not have any group entities where consolidation of accounts takes place, though we have an affiliate in Visvesvaraiah Grameena Bank. Our Bank has no subsidiary.
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 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 deductions	**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	Bank's authorized capital is Rs.1500 crores and issued & paid up equity capital is Rs.433.52 crores. The authorized Capital is enhanced to Rs.3000.00 Crores with effect from 10.11.2009. During the year 2008-09 the Bank has (in March 2009) received capital support of Rs.500 crores from Govt. of India, in the form of Perpetual Non-Cumulative Pref. Shares. The Bank has also raised Rs.1650 crores in the form of Unsecured Redeemable Subordinated Debts in the form of Promissory note, of which Rs.600 crore, as upper Tier II bond which is reckoned for Tier II Capital **and** Rs.1050 crore as Lower Tier II bonds of which Rs.900 crore is reckoned for Tier II capital. The terms & condition of above debt instruments are as under:

Details of outstanding Tier I/Tier II issues of the Bank as on 30.09.2009

Sl. No	Issue Details	Amount raised (Rs. cr.)	Tenor	Date of Allotment	Due Date	Coupon Rate (Payable annually on 31st March)	Rating
1.	Tier I Perpetual Non-cumulative Preference Shares	500.00	Perpetual	31.03.2009	-	Floating – 100 bps over Repo rate to be adjusted annually based on the prevailing Repo rate on the relevant date.	- NA -
2	Upper Tier II Series I	300.00	180 months with call option at the end of 10th year	20.03.2007	20.03.2022	10.10% p.a. with step up of 50 bps after 10th year, if call option not exercised	AA by FITCH & CARE
3	Upper Tier II Series II	300.00	180 months with call option at the end of 10th year	17.03.2008	17.03.2023	9.45% p.a. with step up of 50 bps after 10th year, if call option not exercised	AA by FITCH & CARE
4	Lower Tier II Series III **	150.00	90 months	08.11.2002	08.05.2010	7.50% p.a.	AA by CRISIL
	** maturity less than 1 year & hence not reckoned as Capital Fund.						
5	Lower Tier II Series IV (Interest rate swap with Barclay's Bank)	250.00	123 months	15.03.2005	15.06.2015	7.15 %p.a.	AA+ by FITCH & CARE
6	Lower Tier II Series V	250.00	120 months	01.08.2006	01.08.2016	9.25% p.a.	AA+ by FITCH & CARE
7	Lower Tier II Series VI	200.00	123 months	31.07.2007	31.10.2017	9.50% p.a.	AA+ by FITCH & CARE
8	Lower Tier II Series VII	200.00	124 months	31.12.2007	30.04.2018	9.35% p.a.	AA+ by FITCH & CARE

TOTAL : **Rs.2150 crores,** of which Rs.500 crore is reckoned as Tier I capital
Rs.600 crore is reckoned as Upper Tier II Capital
Rs.900 crore is reckoned as Lower Tier II capital.

30.09.2009

Quantitative Disclosures		**Rs.in Crore**
(b) The amount of Tier 1 capital		
Paid up capital:		**433.52**
Perpetual non-cumulative Pref.shares:		**500.00**
Reserves:		**1134.09**
Surplus:		**1002.26**
Innovative instruments		Nil
Other capital instruments		Nil
Amounts deducted from Tier 1 capital:		
Other intangible assets (Deferred Tax Asset)		**-123.03**

Total Tier I capital		**2946.84**

(c) The amount of Tier 2 capital (net of deductions from Tier 2 capital):		
(i) Revaluation Reserve	144.64	
(ii) General Provision	223.41	**368.05**
(d) Debt Capital instruments eligible for inclusion in Upper Tier 2 capital:		**600.00**
• Total amount outstanding	600.00	
• Of which amount raised during the year	Nil	
• Amount eligible to be reckoned as capital funds	600.00	
(e) Subordinated debt eligible for inclusion in lower Tier II capital:		**900.00**
• Total amount outstanding	1050.00	
• Of which raised during the year	Nil	
• Amount eligible to be reckoned as capital funds	900.00	
(f) Other deductions from capital if any:		**NIL**

Total Tier 2 Capital:		**1868.05**

(g) **Total eligible capital:** Tier 1 Capital:	2946.84	
Tier 2 Capital:	1868.05	**4814.89**

TABLE DF-3
CAPITAL ADEQUACY
30.09.2009

Qualitative Disclosures	
(a) A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	As per RBI directives on Basel II, our Bank has adopted 'Standardised Approach' for Credit Risk, 'Standardised Duration Approach' for Market risk and 'Basic Indicator Approach' for Operational risk w.e.f. 31.03.2009. For assessment of additional Capital to support the current and future activities, the Bank shall follow ICAAP policy and ICAAP document put in place by the Bank. ICAAP will be reviewed on a half yearly basis in order to maintain adequate capital above the regulatory minimum on a continuous basis taking care of the future growth in business.
Quantitative Disclosures	**(Rupees in crore)**
(b) Capital requirements for Credit Risk:	
• Portfolios subject to standardised approach	**Rs.2781.62 (including other assets)**
• Securitisation exposures	**NIL -** as the Bank has no exposure under securitisation.
(c) Capital requirements for Market Risk Standardised duration approach:	**Rs.232.16**
• Interest rate risk	Rs. 167.93
• Foreign Exchange Risk	Rs. 1.85
• Equity Risk	Rs. 62.38
(d) Capital requirements for Operational Risk – Basic Indicator Approach	**Rs.209.60** **------------**
Capital required:	**Rs.3223.38 - Minimum Capital required**
Capital Maintained:	**Rs.4814.89 - Capital Fund as at 30.09.2009**
(e) Total and Tier 1 Capital Ratio	**Basel I** **Basel II** **CRAR ---- : 12.04% 13.44%** CRAR – Tier 1 Capital : 7.37% 8.22% CRAR – Tier 2 Capital : 4.67% 5.22%
• For the top consolidated group) • For significant Bank subsidiaries)	Not applicable, as our Bank has no subsidiary.

TABLE DF-4
CREDIT RISK – GENERAL DISCLOSURES

Quantitative Disclosures	The Credit Risk Management Process of the Bank is driven by sound system, procedures and policies. While Risk Management Committee of the Board gives directions, the Credit Risk Management Committee consisting of senior executive ensures its implementation.
(a) The general qualitative disclosure requirement with respect to Credit Risk, including • Definitions of past due and impaired (for accounting purposes) • Discussion on the Bank's Credit Risk Management Policy	Policy guidelines for Credit Risk Management, Collateral Management and Credit Risk Mitigants (CRM), Ratings etc. are put in place, wherein the set of objectives, scope and nature of risk reporting, its measurement systems, policies, strategies to be adopted in containing / minimizing the risk through CRM, processing steps, developing monitoring and supervision mechanisms for the continuing effectiveness of mitigants have been detailed. To move towards advanced approach of Basel II norms, the Bank has taken up implementation of integrated Risk Management System through six solutions for Credit Risk Rating, Credit Risk, Market Risk, Operation Risk, ALM & FTP. **The Bank's policy on IRAC (Income Recognition & Asset Classification) norms** is in tune with guidelines issued by the Reserve Bank of India, as amended from time to time. Ninety days delinquency norm is being followed in classifying the assets as 'performing' & 'non-performing' assets. The entire IRAC data has been subjected to audit. Adequate provisions as prescribed have been made on both Standard Assets (performing) and Non-Performing Assets. Apart from these, the Bank has created a general floating provision and additional provision for restructured assets. **Definition of impaired assets (for accounting purposes):** An asset becomes non-performing when it ceases to generate income for the Bank when (a) interest and/or installment of the loan remains 'overdue' (*) for a period of more than 90 days in respect of term loan (b) the account remains 'out of order' (#) for a period of more than 90 days, in respect of operative limits such as Cash Credit (Hyp./Misc.) (c) the bill remains 'overdue' for a period of more than 90 days in cases of bills purchased /discounted (d) the interest charged during any quarter, not fully serviced within 90 days from the end of the quarter (e) the installment of principal or interest thereon remains overdue for 2 crop seasons in the case of short duration crop loans and if installment of principal or interest thereon remains overdue for one crop season in the case of long duration crop loans, as far as agricultural loans are concerned (f) 90 days from the date of crystallization of non-fund based commitments expire.

	* ‘overdue’ means any amount due to the Bank under any credit facility, if not paid on the due date fixed, or on crystallization of non fund based commitment. # ‘out of order’ means the outstanding balance remains continuously in excess of the sanctioned limit/drawing power **or** if there are no requisite amount of credits continuously for 90 days or where credits in the account are not enough to cover the interest debited prior to 90 days. **Discussions on Bank’s Credit Risk Management Policy:** The Bank has formulated a comprehensive Credit Risk Management Policy and constituted various committees such as Credit Risk Management Committee, Basel II Working Group etc. to address host of management techniques which help the Bank in identifying, measuring, monitoring and controlling of credit risks by taking into account both external and internal factors affecting the credit risk. The Bank has fine tuned the Risk Management Policies & Lending Policy, to include credit appraisal standard like benchmark/hurdle ratios on key financial indicators, internal ceilings, prudential norms for large credit proposals, standards for loan collateral, portfolio management, credit concentration, Loan Review Mechanism / Credit Audit, special review of high value borrowal accounts (Comprehensive Credit Monitoring Report), risk concentration / monitoring and pricing based on risk ratings, and review based on risk ratings etc, besides covering exposure ceiling for sensitive sectors such as capital market, real estate and commodity sector. A comprehensive Recovery Policy of the Bank is also put in place and revised from time to time.
Quantitative Disclosures	**Gross Credit exposure: (excluding indrawn portion)**
(b) Total gross Credit Risk exposures - fund based & non-fund based separately.	**Fund based: Book balance: Rs.37,762.74 crore** **Non-fund based: “ Rs. 4,061.64 crore** **Total Rs.41,824.38 crore** **Fund based : Risk weight Rs.24,967.90 crore** **Non fund based : Risk weight Rs. 1,784.33 crore** **Total Rs.26,752.23 crore**
(c)Geographical distribution of exposures -fund based & non fund based separately	
• Overseas	**Overseas: Fund based & Non fund based: Nil**
• Domestic	**Domestic** **}** Fund based **:** **Rs. 37,762.74 crore** (book balance) **}** Non fund based**:** **Rs 4,061.64 crore** **TOTAL Rs.41,824.38 crore**

(d) Industry type distribution of credit

INDUSTRYWISE DEPLOYMENT OF CREDIT	(Rs.in crore)
Infrastructure - Telecommunication, Electricity (generation & transmission) Roads, Ports, water supply etc.)	9642.49
Iron & Steel	551.21
Other Metals	86.30
Coal & Mining	46.08
Cement	139.75
Constructions	529.05
Engineering, Electronics	395.06
Vehicle, Vehicle parts & Transport equipments	168.67
Gems & Jewellery	280.46
Textiles (Cotton, Jute & Others)	421.91
Paper & paper products	69.70
Rubber, Plastic & their products	70.21
Leather & leather products	59.46
Food Processing (Marine & Other food)	214.96
Beverages & Tobacco	22.42
Chemicals / Dyes / Paints. Drugs / Pharmaceuticals	132.71
Petroleum, coal products	85.09
Glass & glass ware	24.58
Wood & wood products	18.36
Other Industries	187.52

(e) Residual contractual maturity breakdown of assets **as at 30.09.2009: (Rs. in crores)**

	1 day	2-7 days	8-14 days	15-28 days	29days- 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Investment	4380.30	122.19	0.49	98.74	320.39	111.42	555.44	1561.69	2176.37	13564.80	22891.83
Advances	286.81	518.88	698.34	840.96	2264.31	2650.14	3593.75	17294.07	4000.18	5058.61	37206.05
F.C.Assets	119.47	92.85	43.57	1.83	53.56	4.50					315.78

(Rupees in Crore)

(g) Amount of NPAs (Gross)	**Rs.1098.50**
• **Substandard**	**Rs. 710.68**
• **Doubtful 1**	**Rs. 168.55**
• **Doubtful 2**	**Rs. 165.18**
• **Doubtful 3**	**Rs. 11.74**
• **Loss**	**Rs. 42.35**
(h) Net NPAs	**Rs.541.79**
(i) NPA Ratios:	
• **Gross NPAs to gross advances**	**2.91 %**
• **Net NPAs to net advances**	**1.46%**
(j) Movement of NPAs (Gross):	
• **Opening balance**	**Rs. 698.82**
• **Additions**	**Rs. 686.63**
• **Reductions**	**Rs. 286.95**
• **Closing balance**	**Rs.1098.50**
Movement of NPA (Net)	
• **Opening balance**	**Rs.292.30**
• **Additions**	**Rs.249.49**
• **Reductions**	**Rs. 0.00**
• **Closing balance**	**Rs.541.79**
(k) Movement of provisions for NPAs	
• **Opening balance**	**Rs.400.84**
• **Provisions made during the period**	**Rs.232.27**
• **Write off**	**Rs. -**
• **Write back of excess provisions**	**Rs. 83.11**
• **Closing balance**	**Rs.550.00**
(l) Amount of Non-Performing Investments	**Rs.21.33**
(m) Amount of provisions for depreciation on investments (NPI)	**Rs.19.25**
(n) Movement of provisions for depreciation on investments:	
• **Opening balance**	**Rs.19.25**
• **Provisions made during the period**	**Rs. 0.00**
• **Write off**	**Rs. 0.00**
• **Write back of excess provisions**	**Rs. 0.00**
• **Closing balance**	**Rs.19.25**

TABLE DF-5

CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH

Qualitative disclosures	
(a) For portfolios under the standardised approach:	
• Names of credit rating agencies used plus reasons for any changes	The Bank has used ratings given by RBI approved external credit rating agencies, viz CRISIL / ICRA / FITCH / CARE only. In order to facilitate the process of external rating and enabling the customers to solicit external ratings for their exposure, the Bank has entered into a separate MOU with these four credit rating agencies. The agreement provides for concessional fees for Bank's customers.
• Types of exposure for which each agency is used	All Corporate exposure above Rs.5 Crore and exposure to public sector entities.
• A description of the process used to transfer public issue ratings onto comparable assets in the banking book	Bank has used only bank ratings which are available in public domain. Further the Bank has not used any public issue ratings.
Quantitative disclosures	
(b) 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:	**Credit exposure (Rs. in Crore)**
• Below 100% risk weight	20,991.28
• 100% risk weights	16,709.23
• More than 100% risk weight	1,291.43
• Deducted	2,832.44
• **TOTAL**	**41,824.38**

TABLE DF-6

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACH

Qualitative disclosures (a) The general qualitative disclosure require- ment with respect to credit risk mitigation including: • Policies and processes for collateral valuation and management • A description of the main types of collateral taken by the bank • The main type of guarantor counterparty and their creditworthiness • Information about (market or credit) risk concentration within the mitigation taken	The general principles, like having a specific lien, requisite minimum margin stipulation, valuation, legal certainty, documentation, periodical inspection, easy liquidity etc. as enumerated in Basel II final guidelines of RBI has been used for credit risk mitigation techniques. All the prescribed haircuts with adjustments for currency mismatch & maturity mismatch are done. The financial collaterals available are netted out of the credit exposure before assigning the risk weights. The effect of CRM is not double counted.

Quantitative disclosures

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

1) Financial Collaterals (Credit exposure – fund based & non-fund based)

CRM type	Qualitative disclosure	**Quantitative disclosure** Rs. in crore
Cash and Term deposits	Cash (as well as Certificate of Deposit or comparable instruments including FDRs issued by the lending Bank) on deposit with the Bank which is incurring the counterparty exposure – present book value	2271
Gold/ Jewels	Market value is arrived after notionally converting pledged gold jewellery to 99.99% purity	426
Central/State Govt. securities / NSC/KVP	Accrued value depending upon the number of years completed, provided no lock in period is operational and can be encashed within the holding period.	51
LIC Policies	Latest surrender value obtained from the Insurance company.	84
Debt Securities (rated/ un rated)	As rated by Credit rating agency and easy market liquidity	--
Total		**2832**

For the credit risk portfolio under the standardised approach (fund & non-fund based), the total eligible financial collaterals are reckoned after the application of haircuts wherever applicable.

TABLE DF-7
SECURITISATION
DISCLOSURES FOR STANDARDISED APPROACH

Qualitative disclosures	
(a) The general qualitative disclosure requirement with respect to securitisation	**Our Bank has no exposure under securitisation.**
(b) Summary of the Bank's accounting policies for securitisation activities	
(c) Names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used	
Quantitative disclosure	
(d) The total outstanding exposures securitised by the Bank and subject to the securitisation framework by exposure type	**NIL**
(e) For exposures securitised by the Bank and subject to the securitisation framework	**NIL**
(f) Aggregate amount of securitisation exposures retained or purchased	**NIL**
(g) Aggregate amount of securitisation exposure retained or purchased broken down into a meaningful number of risk weight bands	**NIL**
(h) Summary of securitisation activity presenting a comparative position for 2 years, as a part of Notes on Accounts to the Balance sheet.	**NIL**

TABLE DF-8

MARKET RISK IN TRADING BOOK

Qualitative disclosure

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

Market Risk is managed through Asset Liability Management exercises and reported to the Asset Liability Committee (ALCO) / Market Risk Management Committee (MRMC). Policies are framed to deal with various aspects on the tools, techniques and processes for managing interest rate risk, foreign exchange risk and liquidity risk management. The mid office cell in respect of Treasury operations, reports to Risk Management Dept. on risk aspects and in determining compliance in terms of exposure analysis, tracking of limits, funding and various other risks, sensitive to market parameters.

For the purpose of calculation of capital charge, the bank has adopted 'Standardised Duration Approach', as detailed below:

Quantitative disclosures

(b) The capital requirements for

- Interest rate risk
- Equity position risk
- Foreign exchange risk

Aggregation of the capital charge for Market Risk as on 30.09.2009 **Rs.in crore**

Risk Category	**Capital charge**
(A) Capital Charge for Market Risk for securities held under HFT	**0.00**
Interest Rate (a+b)	0.00
a. General Market Risk	0.00
(i) Net position (parallel shift)	0.00
(ii) Horizontal disallowance (curvature)	0.00
(iii) Vertical disallowance (basis)	0.00
b. Specific risk	0.00
(B) Capital charge for Market Risk for securities held under AFS	
Interest Rate (a+b)	**167.93**
a. General Market Risk	80.92
(i) Net position (parallel shift)	75.71
(ii) Horizontal disallowance (curvature)	4.93
(iii) Vertical disallowance (basis)	0.28
b. Specific risk	87.01
(C) Alternative total capital charge for securities held under AFS	**159.82**
I. Interest rate related instruments {A+(B or C whichever is more)}	**167.93**
II. Equity (a+b)	**62.38**
a. General market risk	31.12
b. Specific risk	31.26
III. Foreign Exchange & Gold	**1.85**
IV. Total capital charge for Market Risks (I+II+III)	**232.16**
Total Risk Weighted Assets	**2579.56**

TABLE DF-9

OPERATIONAL RISK

Qualitative disclosures

As stipulated in the RBI final guidelines on Basel II, the Bank is adopting Capital charge calculations for Operational Risk as per 'Basic Indicator Approach'. The Bank has set up Operational Risk Management Committee to identify, monitor and control all operational risks apart from measures to mitigate such risks, by putting in place detailed policy guidelines on BCP, BCDRP, managing risks on 'outsourcing', KYC norms and Anti-Money Laundering guidelines. The Bank has identified 'Risk Monitors' at executive level and 'Regional Risk Officers' at senior officers level at Regional Offices to take care of all the requirements in respect of risk management areas.

Further the Bank has put in place the following measures to manage, control and mitigate operational risks:-

- Book of Instructions/Manuals are being updated at periodic intervals besides revising various policies on review at regular/annual level.
- Loss Events on account of fraud and other aspects are being reported to Operational Risk Management Committee on quarterly basis
- The Bank has put in IT Security Policy and has implemented various IT security related solutions like Anti Virus for Data Centre and Branches, Fire Walls, Encryption Technologies, Intrusion Detection Systems, Router based security policies, Network Security Policies. The Bank has implemented policies relating to application access controls, password security, guidelines to avoid misuse of passwords, etc. in the Core Banking scenario. The Bank has been subjecting its network and data centre facilities to vulnerability assessment and penetration testing to find the loop holes if any and taking steps to correct. The Bank has been subjecting all its third party software applications to the process of IS audit to continuously improve the confidentiality, integrity, and availability of all its IT resources.
- In order to mitigate the probability of system disruptions resulting in the business discontinuity, the Bank has implemented various levels of disaster recovery and business continuity mechanisms and measures specially for critical applications like Core Banking System, Network Facilities, ITMS, IRMS, HRMS.
- Risk Based Internal Audit (RBIA) is made applicable for all the branches in the year 2008-09 based on the revised RBIA format.
- Our Bank has achieved 100% coverage under the Core Banking Solution (CBS) and adequate training is imparted to staff members both on CBS technology & risk management aspects.
- Risk & Control Self Assessment (RCSA) process is being put in place and Key Risk Indicators are being identified through the assistance of reputed external consultant for the Integrated Risk Management System (IRMS) project
- The process of building a comprehensive data base of loss Events / losses due to operational risks is initiated so as to move towards Advanced Measurement Approach at a later date.

Quantitative disclosures:

Calculation of capital charge on Operational Risk

=================================

AVERAGE OF GROSS INCOME FOR THE LAST 3 YEARS

(Rupees in Crore)

		31.03.07	**31.03.08**	**31.03.09**
1.	Net Profit	331.34	361.28	262.48
	ADD			
2.	Provisions & contingencies	364.68	299.60	636.43
3.	Operating Expenses	650.72	701.27	924.70
4.	**Sub Total**	**1346.74**	**1362.15**	**1823.61**
	LESS			
5.	Realised Profit / Loss from the sale of securities in the HTM category	0.00	0.00	221.51
6.	Income from insurance activities and insurance claims in favour of the Bank	0.00	0.00	0.00
7.	Extraordinary / Irregular item of income and expenditure	10.50	0.00	0.00
8.	Reversal during the year in respect of provisions and write offs made during the year	42.40	5.37	54.61
9.	Income from the disposal of items of movable and immovable property	-0.07	6.00	0.23
10.	Income from legal settlements in favour of the Bank	0.00	0.00	0.00
11.	**Sub Total**	**52.83**	**11.37**	**276.35**
12.	GROSS INCOME FOR THE PURPOSE OF COMPUTATION OF OPERATIONAL RISKS	**1293.91**	**1350.78**	**1547.26**

Average of 3 years gross income = Rs.1397.32 Crore

CAPITAL CHARGE FOR OPERATIONAL RISKS = Average of gross Income * alpha (15%)

= **Rs. 209.60 crore**

Equivalent Risk weighted Assets: Rs.2328.89 crore.

TABLE DF-10
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 Management:

The process of Interest rate risk management by the bank involves determination of the business objectives, understanding the money markets and debt capital markets in which it operates and within the context of these parameters, recognizing and quantifying its appetite for market risk.

The Bank uses two techniques/approaches to manage interest rate risks inherent in the Balance sheet:

1) The first approach is the on-balance sheet Asset Liability Management (ALM) using the results of the Traditional Gap analysis. This involves careful balancing/rebalancing of assets and liabilities, based on the interest rate view of the bank, so as to eliminate the interest earnings at risk. This is achieved through an exercise towards minimizing exposure to risks by holding the appropriate combination (type and maturity) of assets and liabilities so as to meet certain objectives of the bank (such as achieving targeted earnings while simultaneously minimizing risk).

2) The second approach is off-balance sheet Asset Liability Management (ALM) through hedging. Hedging creates off-balance sheet positions. The OTC derivative product used by the Bank to hedge its trading portfolio and certain liabilities are the Interest Rate Swaps (IRS).

The Asset Liability Management techniques are deliberated by the Market Risk Management/Asset Liability Committee (MRMC/ALCO) in its fortnightly meetings, in addition to the discussions in the Balance Sheet Management Group meetings.

Analytics used by the Bank:

The Bank regularly analyses the Duration and Modified duration of Investment portfolio and rebalances the portfolio to minimize interest rate risk. This portfolio management technique is reviewed by the ALCO/MRMC fortnightly and the Board at monthly intervals.

The Interest Rate Sensitivity (IRS) Gap statement based on the 1999 Guidelines on Asset Liability Management is prepared on a fortnightly basis. The bucket-wise rate sensitive gaps as a percentage of the rate sensitive assets are monitored by the MRMC/ALCO, at fortnightly intervals, against the Board stipulated Tolerance limits.

In the event of the tolerance limit breach, the MRMC/ALCO ratifies the breach with or without directing the operational departments to restructure the maturity profile of the Balance sheet items. This is commensurate with the view on interest rates and the market scenario. While preparing the Interest Rate Sensitivity statement, the Bank takes into account the results of the behavioral analysis conducted on the following:

(i) Volatile and Core portion of Savings deposits.
(ii) Repricing character of CC/OD accounts.
(iii) Embedded options in the investment portfolio.
(iv) Renewal pattern of term deposits.
(v) Premature closure of TD and pre payment of term loans.
(vi) Devolvement of LC / BG.
(vii) Bills payable

Earnings at Risk (EaR):

The Earnings at Risk (EaR) due to parallel and non-parallel shifts in the yield curve on the interest rate sensitive asset liability gaps up to the 3 months, 6 months and 1 year horizon is calculated. This analysis is conducted on a fortnightly basis and placed before the MRMC/ALCO in the fortnightly meetings and later to the Board in its monthly meetings.

Based on the gap profile upto 1 year and the Bank's interest rate view, the EaR amount that should trigger on or off balance sheet hedging strategies, is tracked on a fortnightly basis.

Quantitative disclosure:

(b) 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 at Risk (EaR):

For a 100 basis point assumed increase in interest rates, the impact on NII for a 1 year gap horizon	**Rs.125.33 crores**

Economic value approach:

The economic value, i.e. impact on Capital Fund due to change in interest rate by 200 bps is assessed through Modified Duration Gap method. As a prudential measure, limits have been fixed for net duration gap of the assets and liabilities and the same is monitored at regular intervals.