VIJAYA BANK

BASEL II DISCLOSURES DOCUMENT AS AT 31st MARCH 2011

TABLE DF-1

SCOPE OF APPLICATION

Not applicable as the Bank does not have any group entities where consolidation of accounts takes place, though we have an affiliate - Visvesvaraiah Grameena Bank. Our Bank has no subsidiary.

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 enhanced from ₹ 1500 crores to ₹ 3000 crores on 10.11.2009. The issued & paid up equity capital is ₹ 472.67 crores. In March 2009 and June 2010, the Bank has received capital support of ₹ 500 crores and ₹ 700 crore respectively from Govt. of India in the form of Perpetual Non-Cumulative Pref. Shares. In March 2011, Govt. of India has subscribed to the equity shares of the Bank with face value of ₹ 39.16 crore at a premium of ₹ 328.84 crores. Unsecured Redeemable Subordinated Debts in the form of Promissory note, as on 31.03.2011 aggregates to ₹ 1500 crores of which ₹ 1450 crores is reckoned for Tier II capital. The terms & conditions of the above debt instruments are as under:

Details of outstanding Tier I/Tier II issues of the Bank as on 31.03.2011

Sl. No	Issue Details	Amount raised (₹. cr.)	Tenor	Date of Allotment	Due Date	Coupon Rate (Payable annually on 31st March)	Rating
1	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	CARE AA
2	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	CARE AA
3	Lower Tier II Series IV	250.00	123 months	15.03.2005	15.06.2015	7.15 %p.a.	CARE AA +
4	Lower Tier II Series V	250.00	120 months	01.08.2006	01.08.2016	9.25% p.a.	CARE AA +
5	Lower Tier II Series VI	200.00	123 months	31.07.2007	31.10.2017	9.50% p.a.	CARE AA +
6	Lower Tier II Series VII	200.00	124 months	31.12.2007	30.04.2018	9.35% p.a.	CARE AA +
	TOTAL	1500.00					

Quantitative Disclosures		**Rupees in Crore**
(b) The amount of Tier 1 capital		
Paid up capital:		**472.67**
Perpetual non-cumulative Pref. shares**:**		**1200.00**
Reserves:		**1887.54**
Surplus**:**		**962.96**
Innovative instruments		Nil
Other capital instruments		Nil
Adjustment for illiquid investment		--
Amounts deducted from Tier 1 capital:		
Other intangible assets (Deferred Tax Asset)		(**-**) **65.44**
Total Tier I capital		**4457.73**
(c) The amount of Tier 2 capital (net of deductions from Tier 2 capital):		
(i) Revaluation Reserve	132.22	
(ii) General Provision	223.41	**355.63**
(d) Debt Capital instruments eligible for inclusion in Upper Tier 2 capital:		
• Total amount outstanding	600.00	
• Of which amount raised during the year	Nil	
• Amount eligible to be reckoned as capital funds	600.00	**600.00**
(e) Subordinated debt eligible for inclusion in lower Tier II capital:		
• Total amount outstanding	900.00	
• Of which raised during the year	Nil	
• Amount eligible to be reckoned as capital funds	850.00	**850.00**
(f) Other deductions from capital if any:		**NIL**
Total Tier 2 Capital:		**1805.63**
(g) **Total eligible capital:** Tier 1 Capital:	4457.73	
Tier 2 Capital:	1805.63	**6263.36**

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.	 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 follows ICAAP policy, put in place by the Bank. ICAAP is being 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 (b) Capital requirements for Credit Risk: • Portfolios subject to standardised approach • Securitisation exposures	**(Rupees in crore)** **₹. 3554.70 (including other assets)** **NIL -** as the Bank has no exposure under securitisation.
(c) Capital requirements for Market Risk Standardised duration approach: • Interest rate risk • Foreign Exchange Risk • Equity Risk	 **₹. 258.42** ₹. 191.74 ₹. 1.85 ₹. 64.83
(d) Capital requirements for Operational Risk – Basic Indicator Approach	**₹. 246.90**
Capital required:	------------ **₹. 4060.02 - Minimum Capital required**
Capital Maintained:	**₹. 6263.36 - Capital Funds as at 31.03.2011**
(e) Total and Tier 1 Capital Ratio	**Basel I** / **Basel II** **CRAR ---- : 12.59% / 13.88%** CRAR – Tier 1 Capital : 8.96% / 9.88% CRAR – Tier 2 Capital : 3.63% / 4.00%
• For the top consolidated group) • For significant Bank subsidiaries)	Not applicable, as our Bank has no subsidiary.

TABLE DF-4
CREDIT RISK – GENERAL DISCLOSURES

Qualitative Disclosures (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	The Credit Risk Management Process of the Bank is driven by sound system, procedures and policies. While the Board of Directors & Risk Management Committee of the Board gives directions, the Credit Risk Management Committee headed by Chairman & Managing Director ensures its implementation. 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 (b) Total gross Credit Risk exposures - fund based & non-fund based (c) Geographical distribution of exposures -fund based & non fund based separately • Overseas • Domestic **** loans & advances + Investments** (d) Industry type distribution of credit	**Gross Credit risk exposure :** Fund based ** : ₹. 67652.91 crore Non fund based : ₹. 4691.26 crore **Total: ₹. 72344.17 crore** --------------------- **Overseas: Fund based & Non fund based: Nil** **Domestic:** Fund based ** : ₹. 67652.91 crore Non fund based : ₹ 4691.26 crore **Total : ₹. 72344.17 crore**

INDUSTRYWISE DEPLOYMENT OF CREDIT	(Rupees in crore)
Infrastructure - Power	6948.09
Infrastructure - Telecommunications	221.86
Infrastructure – Roads & Ports	1626.15
Infrastructure – Others	891.56
Petroleum	8.29
Iron & Steel and other Metal products	1089.70
Construction	597.53
Food Processing	151.40
Mining	67.62
Cement	131.49
Vehicles & Transport equipments	46.47
All Engineering and Electronics	322.12
Gems & Jewellary	23.99
Textiles (Cotton, Jute & Others)	354.20
Beverages & Tobacco	29.63
Paper & paper products	71.45
Leather & leather products	22.50
Wood & Wood products	25.19
Rubber & Rubber products	75.48
Drugs / Pharmaceuticals/ Chemicals	176.80
Other Industries	1664.88
TOTAL	**14546.40**

(e) Residual contractual maturity breakdown of assets **as at 31.03.2011: (Rupees in crores)**

	1 day	2-7 days	8-14 days	15-28 days	29 days- 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
Advances	240.19	301.18	315.77	605.62	1832.63	2058.31	4013.40	28451.34	5287.53	5612.86	**48718.63**
Investment	110.59	933.99	79.41	148.47	1299.47	292.83	818.76	1651.95	6935.21	12867.88	**25138.56**
F.C.Assets	62.38	158.05	3.69	13.82	142.71	180.52	8.07	0	0	0	**569.24**

Position as on 31.03.2011 (Rupees in crores)

(g) Amount of NPAs (Gross)	**1259.19**
• Substandard	778.38
• Doubtful 1	216.04
• Doubtful 2	192.74
• Doubtful 3	29.80
• Loss	42.23
(h) Net NPAs	**741.16**
(i) NPA Ratios:	
• Gross NPAs to gross advances	**2.56 %**
• Net NPAs to net advances	**1.52 %**
(j) Movement of NPAs (Gross):	
• Opening balance	994.45
• Additions	1362.26
• Reductions	1097.52
• Closing balance	1259.19
Movement of NPA (Net)	
• Opening balance	581.83
• Additions	159.33
• Reductions	0.00
• Closing balance	741.16
(k) Movement of provisions for NPAs	
• Opening balance	408.40
• Provisions made during the period	405.27
• Write off	307.60
• Write back of excess provisions	0.00
• Closing balance	506.07
(l) Amount of Non-Performing Investments (Under HTM Category)	19.25
(m) Amount of provisions for depreciation on investments (NPI)	19.25
(n) Movement of provisions for depreciation on investments:	
• Opening balance	19.25
• Provisions made during the period	0.00
• Write off	0.00
• Write back of excess provisions	0.00
• Closing balance	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 (Rupees in Crore)**
• Below 100% risk weight ..	45,377.24
• 100% risk weights ..	19,918.66
• More than 100% risk weight ..	3,600.33
• Deducted - Financial collaterals ..	3,447.94
TOTAL ..	**72,344.17**

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 and an indication of the extent to which the Bank makes use of, on and off balance sheet netting • 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 Credit Risk Mitigation (CRM) is not double counted. The financial collaterals taken for the purpose of CRM mainly includes Bank's own term deposits, cash margin, life policies, NSCs, KVPs and gold benchmarked to 99.99 purity. Guaranteed exposure includes those guaranteed by central / state Governments, ECGC, Bank and CGTSI. The CRM / Guaranteed exposure are not subject to any market fluctuation and these exposures are well diversed.

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.

Rupees in crores

Credit risk exposure	**Loans & advance**	**Non fund based**	**Invest-ment**	**Total**
Exposure	**49222.24**	**4691.26**	**18430.67**	**72344.17**
CRM (fin. collaterals)	2734.16	713.78	0.00	3447.94
Net exposure	**46488.08**	**3977.48**	**18430.67**	**68896.23**

(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)

Rupees in crores

Guarantee status	**Loans & advance**	**Non fund based**	**Invest-ment**	**Total**
Exposure	**49222.24**	**4691.26**	**18430.67**	**72344.17**
Central/ State Govt.	3526.58	0.00	16207.96*	19734.54
ECGC/BANK /CGTSI	1220.60	0.00	0.00	1220.60
Guarantee total	**4747.18**	**0.00**	**16207.96**	**20955.14**
Net exposure	**44475.06**	**4691.26**	**2222.71**	**51389.03**

***** this includes bonds/instruments issued by the Central/State Government and/or guaranteed by Central Government.

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

The Bank has not securitised any asset during the financial year 2010-11 either in Banking book or in trading book.

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 the potential risk due to market movements in interest rates, equity prices, foreign currencies and commodity prices.

Basel-II proposes two approaches for Market Risk viz **Standarised Duration Approach and Internal Model Approach**. At present, the bank has implemented "**Standardized Duration Approach"** and moving forward to implement Internal Model Approach. The Standardized Duration Approach has got following features.

1. The capital requirement under standardized approach is calculated based on Interest rate risk, Equity price risk, Foreign Exchange risk and Commodity risk.
2. The general Market risk is calculated based on modified duration and change in yield.
3. The specific risk is calculated based on external risk rating , duration of the instrument etc.

Quantitative disclosures

(b) The capital requirement for
- Interest rate risk
- Equity position risk
- Foreign Exchange risk

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

Aggregation of the capital charge for Market Risk as on 31.03.2011 **Rupees in crore**

Risk Category	Capital charge
(A) Capital Charge for Market Risk for securities held under HFT	**0.00**
Interest Rate (a+b)	**1.22**
a. General Market Risk	1.22
(i) Net position (parallel shift)	1.22
(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)	**190.52**
a. General Market Risk	129.60
(i) Net position (parallel shift)	129.27
(ii) Horizontal disallowance (curvature)	0.00
(iii) Vertical disallowance (basis)	0.33
b. Specific risk	60.92
(C) Alternative total capital charge for securities held under AFS	**108.15**
I. Interest rate related instruments {A+(B or C whichever is more)}	**191.74**
II. Equity (a+b)	**64.83**
a. General market risk	32.32
b. Specific risk	32.51
III. Foreign Exchange & Gold	**1.85**
IV. Total capital charge for Market Risks (I+II+III)	**258.42**
Total Risk Weighted Assets	**2871.33**

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 from 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 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
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AVERAGE OF GROSS INCOME FOR THE LAST 3 YEARS

(Rupees in Crore)

		31.03.08	**31.03.09**	**31.03.10**
1.	Net Profit	361.28	262.48	507.30
	ADD			
2.	Provisions & contingencies	299.60	636.43	549.67
3.	Operating Expenses	701.27	924.70	1071.57
4.	**Sub Total**	**1362.15**	**1823.61**	**2128.54**
	LESS			
5.	Realised Profit / Loss from the sale of securities in the HTM category	0.00	221.51	88.77
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	0.00	0.00	0.00
8.	Reversal during the year in respect of provisions and write offs made during the year	5.37	54.61	0.24
9.	Income from the disposal of items of movable and immovable property	6.00	0.23	-0.26
10.	Income from legal settlements in favour of the Bank	0.00	0.00	0.00
11.	**Sub Total**	**11.37**	**276.35**	**88.75**
12.	GROSS INCOME FOR THE PURPOSE OF COMPUTATION OF OPERATIONAL RISKS	**1350.78**	**1547.26**	**2039.79**

Average of 3 years gross income = ₹ 1645.94 Crores

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

= ₹ 246.89 crores

Equivalent Risk weighted Assets: ₹ 2743.24 crores.

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.

<u>Interest Rate Risk Management:</u>

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.

<u>Analytics used by the Bank:</u>

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.

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 up to 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	**₹.113.18 crores**

The Bank has fixed the tolerance limit at ₹ 165 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 based on draft RBI guidelines. As a prudential measure, limits shall be fixed for net duration gap of the assets and liabilities and the same shall be monitored at regular intervals based on final guidelines received from RBI on 4th November 2010.