

BASEL II (PILLAR III) DISCLOSURES

TABLE DF 1 –SCOPE OF APPLICATION

Qualitative Disclosures:

- a. The name of the Bank to which the framework applies: **THE DHANALAKSHMI BANK LTD**
- b. The outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group : The bank does not have any subsidiaries
 - (i) that are fully consolidated : NA
 - (ii) that are pro-rata consolidated : NA
 - (iii) that are given a deduction treatment ;(Associates-Holding above 30%)
NA
 - (iv) That is neither consolidated nor deducted (eg. where the investment is risk weighted.) NA

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.

NA

- d. The aggregate amounts (eg. 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.

NA

TABLE DF 2- CAPITAL STRUCTURE

Qualitative disclosures:

The Bank offered 3,20,57,800 equity shares of Rs.10 each at a premium of Rs.52 per equity share aggregating to Rs.198.76 crores on right basis to the existing shareholders of the Bank in the ratio of one equity share for every equity share held. The issue opened on 19 February 2008 and closed on 17 April 2008 and the allotment was made on 2 May 2008 on the basis as approved by the Mumbai Stock Exchange.

The object of the issue is to augment our capital base to meet the capital requirements and growth in our assets, primarily our loan and investment portfolio, compliance with regulatory requirements and for other general corporate purposes

Quantitative Disclosures:

(Rs. In lakhs)

Items	Amount
(a) The amount of Tier I capital, with separate disclosure of :	
• Paid-up share capital	6411.56
• Reserves	34069.42
• Innovative Instruments	Nil
• Other capital instruments	Nil
Sub-total	40480.98

Less amounts deducted from Tier I capital, including goodwill and investments.	418.83
Total Tier I capital	40062.15
(b) The total amount of Tier 2 capital (net of deductions from Tier 2 capital)	4754.95
(c) 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
(d) Subordinated debt eligible for inclusion in Lower Tier 2 capital.	
• Total amount outstanding	8200.00
• Of which amount raised during the current year.	Nil
• Amount eligible to be reckoned as capital funds.	2560.00
(e) Other deductions from capital, if any	Nil
(f) Total eligible capital- Tier I + Tier 2 (a+b-e)	44817.10

TABLE DF 3 –CAPITAL ADEQUACY

Qualitative disclosures:

Bank is geared up to adopt global best practices while implementing risk management stipulations that are in conformity with the Basel II framework. Comprehensive risk management architecture is in place to address various issues concerning Basel II.

Quantitative Disclosures:

(Rs in - Lakhs)

Items	Amount
(a) Capital requirements for credit risk	
• Portfolios subject to standardized approach	23515.55
• Securitisation exposures	--
(b) Capital requirements for market risk Standardized duration approach	
• Interest rate risk	438.56
• Foreign exchange risk(including gold)	67.50
• Equity position risk	12.86
(c) Capital requirements for operational risk	
• Basic Indicator Approach	29.61
(d) Total and Tier I CRAR for the Bank	
• Total CRAR (%)	15.38
• Tier I CRAR(%)	13.75
(e) Total and Tier I CRAR for the consolidated Group	
• Total CRAR(%)	NA
• Tier I CRAR (%)	NA
(f) Total and Tier I CRAR for the Significant subsidiary which are not under consolidated group	

<ul style="list-style-type: none"> • Total CRAR(%) • Tier I CRAR (%) 	NA NA
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TABLE DF 4 –CREDIT RISK: GENERAL DISCLOSURES

Qualitative disclosures:

A comprehensive Credit Policy for the Bank is in place which is reviewed and revised periodically. The Policy cited the following as its objectives:

- Maintain quality of loan assets.
- Ensure reasonable return on the assets.
- Ensure an acceptable risk profile.
- Achieve proper sectoral/geographical distribution of assets
- Compliance with regulatory norms in respect of exposure caps, pricing, IRAC guidelines, targeted credit etc

Strategies and processes:

The Bank has strategies in place for Credit Risk Mitigation, which includes identification of thrust areas and target markets, fixing of exposure ceiling based on regulatory guidelines and risk appetite of the Bank, Concentration Risk, and the acceptable level of pricing based on rating. Bank from time to time would identify the potential and productive sectors for lending, based on the performance of the segments and demands of the economy. The Bank restricts its exposures in sectors which do not have growth potentials, based on the Bank's evaluation of industries/ sectors taking into account the prevailing economic scenario etc.

The operational processes and systems of the Bank relating to credit are built on sound credit risk management principles and are subjected to periodical review. The bank has comprehensive credit risk identification processes carried out as part of due diligence on credit proposals. In order to improve the quality of appraisals and to ensure accelerated response to customers, particularly in respect of high value credits, relationships and appraisal functions are segregated between the concerned branch and the core credit groups at zonal / central offices.

Bank has initiated required steps to revise many of its existing systems, procedures and structures, especially in relation to the following main instruments of Credit Risk Management which are put to use on a Bank- wide basis, for managing Credit Risk.

1. Credit Approval Process
2. Credit Rating / Pricing
3. Prudential Limit
4. Portfolio Management
5. Loan Review Mechanism

Bank's philosophy on Credit Risk has been articulated in the Credit Policy Document, which spells out clearly the guidelines on all the instruments of Credit Risk management. The Bank has put in place CRMC to oversee managing of Credit Risk related functions.

Bank has a separate Monitoring Policy and Recovery Policy, which are reviewed from time to time and these policies adequately focus on the required procedures and processes for managing "problem loans". The Credit Policy, along with the Bank's Monitoring & Recovery Policy provides the framework for the entire Credit Risk Management Process. These policies are communicated

throughout the Organization so as to establish a common credit language and in determining the level of optimal risk and returns.

The structure and organization of the credit risk Management functions

The Bank has a Credit Risk Management Committee consisting of the following members:

- Managing Director & CEO
- Executive Director
- General Manager
- Head of Integrated Risk Management Department
- Head of Credit Department.
- Head of Credit Monitoring and Administration Cell.
- Head of Planning (Resource Mobilization) Department.
- Head of Operations Department.

The scope and nature of risk reporting and /or measurement systems:

The scope and nature of risk reporting in the bank include methods for credit risk identification, risk measurement, risk grading /Upgradation techniques, reporting, risk control / mitigation techniques and management of problem loans / credits.

Bank has an appropriate credit risk measurement and monitoring processes. The measurement of risk is through a pre-sanction exercise. The Bank has in place the following hierarchical sanctioning powers delegated for credit sanction and administration:

- Branch Heads
- Zonal Office Credit Committee (ZCC)
- Central Office Credit Committee (CCC)
- Management Committee of Directors (MC / Board).

The Bank has a set a rating framework with 10 rating grades from AAA to F (i.e., 7 Grades for performing assets and 3 Grades for Non-performing assets) which helps in standardizing the Credit Risk measurement. Presently the Bank has rating models for corporates, SMEs, Traders, NBFCs and others. For structured retail products, the Bank has put in place scoring models.

Bank has system in place for identification of credit weaknesses well in advance. Clear guidelines are in place for tracking the early warning signals and the surveillance and the monitoring approach to be adopted at various stages of lending operations. These are covered in the “Credit Monitoring Policy” of the Bank.

The Bank recognizes Credit Monitoring to be risk-based to capture the degradation / up-gradation happening to the quality of the asset during its life-cycle in the bank’s book. Bank will evaluate the asset quality by tracking the delinquencies and migration of borrower from one rating scale to another in various industry, business segment etc. Data on movements within grading categories will provide a useful insight into the nature and composition of loan book.

A Loan Review Mechanism for constantly evaluating the quality of loan book, by way of review of sanctions made, renewal process, submission of monitoring reports, credit related MIS, is in place. The Bank has a Credit Monitoring and Administration Cell which ensures ongoing review of the existing guidelines and its adherence to ensure effective monitoring of the credit portfolio at all times, and to initiate timely corrective action.

The bank has adopted 'Standardized approach' for entire credit portfolio for credit risk measurement. The bank is in the process of implementing a software solution namely B2RECAP to get system support for computation of RWAs and generate various credit related reports for review of exposure and monitoring, and conducting analysis of credit portfolio from various angles.

Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges /mitigants:

Bank primarily relies on the borrower's financial strength and debt servicing capacity while approving credits. Bank does not deny credit facilities to those assessed as credit worthy for mere want of adequate collaterals.

Corporate finance and project finance loans are typically secured by a first lien on fixed assets, normally consisting of property, plant and equipment. The Bank also takes security of pledge of financial assets like marketable securities and obtains corporate guarantees and personal guarantees wherever appropriate. Working capital loans are typically secured by a first lien on current assets, which normally consist of inventory and receivables.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals.

The bank's policy is to ensure portfolio diversification and evaluate total financing exposure in a particular industry/sector in light of forecasts of growth and profitability for that industry, and the risk appetite of the bank. The bank monitors all major sectors of the economy and specifically exposure to various industries and sensitive sectors. Exposure to industrial activities is subjected to the credit exposure ceilings fixed by the bank, based on the analysis on performance of the industry. The bank's exposures to single and group borrowers is monitored and restricted within the prudential ceiling norms advised by RBI from time to time.

Loans Past due and impaired:

As per the prudential norms applied for income recognition, asset classification and provisioning, the bank considers following categories of loans and advances as non- performing assets, wherein:

- Interests and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term loan
- The account remains 'out of order' in respect of an overdraft/ cash credit (OD/CC)
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In case of agricultural advances, interest and /or installment of principal remains overdue for 2 crop seasons(in respect of short duration crops) & 1 crop season(in respect of long duration crops)
- Any amount receivable that remains overdue for a period of more than 90 days in respect of other accounts.
- Interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Quantitative disclosures:

(a)Total Gross credit exposures: (After accounting offsets in accordance regime and without taking into account the effects of credit risk mitigation techniques e.g. Collateral and netting)

(Rs in lakhs)

Overall credit exposure as on 31.03.2009			TOTAL
Fund Based	Loans & advances	324529.53	338655.73
	Others (Fixed Assets & other Assets)	14126.20	
Non Fund Based	LC, BG etc	12501.13	13595.85
	Forward Contracts	175.42	
	Others	919.30	
Investments (Banking Book only)	--	60666.42	60666.42
Total of Credit Risk exposure	--	--	412918.00

(b) Geographic distribution of exposures:

(Rs in lakhs)

Exposures	31.03.2009		
	Fund based	Non-fund based	TOTAL
Domestic operations	399322.15	13595.85	412918.00
Overseas operations	Bank has no overseas operations		

(c) Industry type distribution of exposures:

(Rs in lakhs)

Sl no	Industry	Fund Based Outstanding		NFB Outstanding	
		31.03.2009	31.03.2008	31.3.2009	31.03.2008
2.1	Mining and Quarrying	--	62	--	--
2.2	Food Processing	1872	1923	19	19
2.2.1	Sugar	214	219	--	--
2.2.2	Edible oils and vanaspati	155	141	--	--
2.2.3	Tea	--	--	--	--
2.2.4	Others	--	--	--	--
2.3	Beverage & Tobacco	--	--	--	--
2.4.1	Textiles	--	--	--	--
2.4.2	Cotton Textiles	15388	5814	84	247
2.4.3	Jute Textiles	--	--	--	--
2.5	Leather & Leather products	--	--	--	--
2.6	Wood and Wood Products	--	--	--	--
2.7	Paper & paper products	234	505	--	55
2.8	Petroleum , coal products and nuclear fuels	--	--	--	--
2.9	Chemicals and chemical products	6075	5202	48	1233
2.9.1	Fertilizer	--	--	4	4
2.9.2	Drugs & pharmaceuticals	1129	955	--	--
2.9.3	Petro chemicals	--	91	--	--
2.9.4	Others	--	--	--	--
2.10	Rubber, plastic & their	6840	6148	--	--

	products				
2.11	Glass and glassware	--	--	--	--
2.12	Cement and cement products	-	-	--	--
2.13	Basic metal & metal products	--	--	--	--
2.13.1	Iron and steel	-	-	--	--
2.13.2	Other metal and metal products	123	3029	--	633
2.14	All engineering	4592	6109	183	183
2.14.1	Electronics	--	--	--	--
2.14.2	Others	--	--	--	--
2.15	Vehicles, vehicle parts and transport equipments	--	--	--	--
2.16	Gems & Jewellery	13542	5243	850	--
2.17	Construction	3887	4706	951	224
2.18	Infrastructure	53301	18316	1070	950
2.18.1	Power	14564	8128	--	--
2.18.2	Telecommunications	--	--	--	--
2.18.3	Roads & ports	478	534	--	--
2.18.4	Other infrastructure	--	--	--	--
2.19	Other Industries Industry (Total of small, medium and large scale)	2057	2567	112	197

(d) Residual maturity breakdown of assets:

(Rs in lakhs)

Maturity Pattern Assets	Advances	Investments	Foreign Currency
Day 1	129.12 (62.63)	1.73 (0.00)	13.60 (16.07)
2 to 7 Days	60.22 (52.64)	174.45 (6.46)	15.90 (10.03)
8 to 14 days	63.10 (46.01)	0.00 (0.00)	5.29 (3.47)
15 to 28 days	26.05 (73.01)	339.20 (24.13)	3.04 (5.13)
29 days up to 3 months	263.11 (166.52)	318.74 (173.02)	6.39 (21.09)
Over 3 months and up to 6 months	146.16 (99.45)	90.14 (111.01)	0.29 (0.68)
Over 6 months and up to 1 year	290.01 (207.02)	135.24 (73.80)	0.00 (0.12)
Over 1 year and up to 3 years	1338.46 (720.62)	16.18 (23.89)	0.00 (0.00)
Over 3 years and up to 5 years	290.36 (329.54)	34.63 (113.09)	0.00 (0.08)
Over 5 years	589.47 (344.59)	457.05 (549.65)	0.00 (0.00)
Total	3196.06 (2102.03)	1567.36 (1075.05)	44.51 (56.67)

(the figures of the previous year disclosed in the brackets under each figure)

(e) Non-performing assets:

(Rs in lakhs)

No	Items	Amount	
		31.03.2009	31.03.2008
1	Gross NPAs	6443	6321
1.1	Substandard	2330	1239
1.2	Doubtful 1	493	645
1.3	Doubtful 2	1053	855
1.4	Doubtful 3	1624	2390
1.5	Loss	943	1192
2	Net NPAs	2824	1856
3	NPA Ratios		
3.1	Gross NPAs to Gross Advances (%)	1.99	2.95
3.2	Net NPAs to Net Advances (%)	0.88	0.88
4	Movement of NPAs (gross)		
4.1	Opening balance	6321	9629
4.2	Additions	3745	1585
4.3	Reductions	3623	4893
4.4	Closing balance	6443	6321
5	Movement of provisions for NPAs		
5.1	Opening balance	4400	6339
5.2	Provisions made during the year	*1205	1114
5.3	Write-off	1222	3053
5.4	Write back of excess provisions	828	
5.5	Closing balance	3555	4400
6	Amount of non-performing investments	802.59	420.90
7	Amount of provisions held for non –performing investments	802.59	420.90
8	Movement of provisions for depreciation on investments		
8.1	Opening balance	754	541
8.2	Provisions made during the period	592	331
8.3	Write-off/ Write back of excess provisions	543	118
8.4	Closing balance	803	754

* Includes floating provision of Rs.200 lakhs

Table DF 5- Disclosures for portfolios subject to the standardized approach

Qualitative disclosures:

(A) for Portfolios under the standardized approach

1	Names of credit rating agencies used	Domestic Rating Agencies: CRISIL, CARE, FITCH, ICRA. International Credit rating agencies: Standard and poor, Moody's , FITCH
2	Changes if any, since prior period disclosure in the identified rating agencies and reasons for the same.	No change
3	Types of exposure for which each agency is used	All the above identified Rating Agency rating are used for various types of exposures as follows : (i) For Exposure with a contractual maturity of less than or equal to one year (except Cash Credit , Overdraft and other Revolving

		Credits) , Short -Term Rating given by ECAs will be applicable
		(ii) For Domestic Cash Credit , Overdrafts and other Revolving Credits (irrespective of the period) and (or Term Loan exposures of over one year, Long Term Rating will be applicable.
		(iii) For Overseas exposures, irrespective of the contractual maturity, Long Term Rating given by IRAs will be applicable.
		(iv) Rating assigned to one particular entity within a corporate group cannot be used to risk weight other entities within the same group.
4	Description of the process used to transfer public issue rating on to comparable assets in the banking book.	Long –term Issue Specific (our own exposures or other issuance of debt by the same borrower-constituent/counter-party) Ratings or Issuer(borrower-constituent/counter-party) Ratings can be applied to other unrated exposures of the same borrower-constituent/counterparty in the following cases :
		(i) If the Issue Specific Rating or Issuer Rating maps to Risk Weight equal to or higher than the unrated exposures , any other unrated exposure on the same counter-party will be assigned the same Risk Weight , if the exposure ranks paripassu or junior to the rated exposure in all aspects
		(ii) In cases where the borrower-constituent/counter-party has issued a debt (which is not a borrowing from our Bank), the rating given to that debt may be applied to Bank`s unrated exposures if the Bank`s exposure ranks pari-passu or senior to the specific rated debt in all respects and the maturity of unrated Bank`s exposure is not later than maturity of rated debt.

Quantitative disclosures

Amount of bank`s outstandings (rated & unrated) in major risk buckets- under standardized approach after factoring risk mitigants (i.e., collateral):

(Rs in lakhs)

Particulars	Amount		
	Fund based	Non fund based	Total
Below 100% risk weight	138499.89	2972.53	141472.42
100% risk weight	157286.29	10198.31	167484.60
More than 100% risk weight	23653.41	425.00	24078.41
Deducted (Risk mitigants)	Below 100% RW	67336.58	0
	100% RW	12546.00	0
	More than 100% RW	0	0
Total	399322.17	13595.84	412918.01

TABLE DF 6 –CREDIT RISK MITIGATION- STANDARDIZED APPROACH

QUALITATIVE DISCLOSURE:

Policies and processes for collateral valuation and management:

Collaterals and guarantees properly taken and managed would serve to:

- Mitigate the risk by providing secondary source of repayment in the event of borrower`s default on a credit facility due to inadequacy in expected cash flow or not.
- Gain control on the source of repayment in the event of default
- Provide early warning of a borrower`s deteriorating repayment ability; and
- Optimize risk weighted assets and to address residual risks adequately.

Collateral Management process and practices of the Bank cover the entire activities comprising security and protection of collateral value, validity of collaterals and guarantees, and valuation/periodical inspection.

Valuation

Both the Fixed and the current assets obtained to secure the loans granted by the Bank are subjected to valuation by outside valuers empanelled by the Bank. Monetary limits of the accounts, asset classification of the borrower, which is to be subjected to valuation, periodicity of valuation, are prescribed in the Bank's policy guidelines.

Description of the main types of collateral taken by the bank

The main types of collateral commonly used by the Bank as risk mitigants comprises of inventories, Book debts, Plant and machineries, Land & Building, Gold Jewellery, Financial collaterals(ie, Bank Deposits, government securities issued directly / by postal departments, Life insurance policies, etc) different categories of moveable & immoveable assets/ properties etc.

Main types of Guarantor counterparty and their credit worthiness

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, and are unconditional and irrevocable. The Bank also accepts guarantee given by State/ Central Government as a security comfort. Such guarantees remain continually effective until the facility covered is fully repaid or settled or released.

Credit Risk Mitigation recognized by the bank for the purpose of reducing capital requirement under new capital adequacy framework (Basel II norms)

The bank has recognized cash, bank's own deposits, gold & gold Jewellery, KVP, NSC and Life Insurance Policies with declared surrender value as credit risk mitigations for the purpose of reducing capital requirement under the new capital adequacy framework (Basel II norms)

Information about risk concentrations of collaterals concentration within the mitigation taken:

Financial Risk Mitigants	Outstanding Covered by Risk Mitigants (Rs. in Crore)	Risk Concentration %
Gold	482.74	60.43
Cash & Bank Deposits	310.17	38.83
KVP/IVP/NSC	5.01	0.63
LIC Policy	0.90	0.11
Total	798.82	100.00

Quantitative Disclosures:

For the disclosed Credit Risk portfolio under the Standardised Approach, the total exposure that is covered by :

- (i) Eligible Financial Collateral : Rs. 798.82 crores
(ii) Other eligible Collateral (after Hair Cuts) : Rs. Nil

DF TABLE 7- SECURITISATION – STANDARDIZED APPROACH:

Qualitative Disclosures:

- ❖ The banks may consider only sale of Non performing assets, either written off or otherwise. Bank will not purchase assets under securitization
- ❖ Bank will not assume any credit, operational or legal risk post sale. The effect of sale of the financial asset will be that the asset is taken off from the books of the Bank and after the sale there is no known liability devolving on the bank.
- ❖ Sale will not be backed by any commitment or credit support in the nature of credit enhancement or liquidity support.
- ❖ Sale will not be made contingent upon realization by the purchaser and the Bank will not be responsible for the shortfall.

Quantitative disclosure

d) Details of portfolio of assets sold to M/s Pridhvi Asset Reconstruction and Securitisation Company Ltd which has been fully written off in the books of account are as under.

Rs. in crore		
No. of accounts	Type	Balance written off
11	NBFC	15.31
1	Textile	2.07
1	Cement	3.00
1	IT	3.08
1	Steel	10.96
3	Other industries	3.11
4	Personal group consumer durable loans	2.59
2	Trade accounts	0.75
24	Total	40.87

e) The Bank has no exposure under securitisation as the bank did not involve in purchase activity under Securitisation Act.

f) There is no exposure under securitisation.

DF TABLE 8 - MARKET RISK IN TRADING BOOK- STANDARDIZED MODIFIED DURATION APPROACH:

Qualitative Disclosures:

Strategies and processes:

The overall objective of market risk management is to create shareholder value by improving the bank's competitive advantage and reducing loss from all types of market risk loss events.

- While overall leadership and control of the risk management framework is provided by Risk Management department, the business units are empowered to set strategy for taking risks and manage the risks.
- All issues or limit violations of a pre-determined severity (materiality, frequency, nature) are escalated to the risk management department where actions to address them are determined by the appropriate authorities. The business units are responsible for implementing the decision taken.

The process aims to

- Establish a pro-active market risk management culture to cover market risk activities.
- Comply with all relevant legislation and regulatory requirements relating to market risk.
- Develop consistent qualities in evolving policies & procedures relating to identification, measurement, management, monitoring, controlling and reviewing of market risk.
- Establish limit structure and triggers for various kinds of market risk factors
- Establish efficient monitoring mechanism by setting up a strong reporting system
- Adopt independent and regular evaluation of the market risk measures.

The structure and organization of the relevant risk management function:

Market risk management structure of the bank is as under

- Board of directors
- Risk management committee of the Board
- Asset liability management committee(ALCO)
- Investment committee
- Mid Office Treasury

The scope and nature of risk reporting and / or measurement systems:

- Bank has put in place various exposure limits for market risk management such as overnight limit, intraday limit, Aggregate gap limit, Stop loss limit, VAR limit, Capital market exposure limit, issuer wise exposure limit etc.
- A risk reporting system is in place for monitoring the risk limits across different levels of the bank from trading desk to the board level.
- The reports are flexible and enhance decision-making process
- Dealing room activities are centralized, and system is in place to monitor the intra day exposure on real time basis.
- The reporting formats & the frequency are periodically reviewed to ensure that they suffice for risk monitoring, measuring and mitigation requirement of the Bank.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

In order to deal with the market risk issues, the Bank has in place an Asset Liability Management policy and an Investment /Treasury Policy. These policies detail the various tools and guidelines for market risk identification, market risk measurement and risk mitigation. Bank has constituted Asset Liability Management Committee to oversee the *Risk Management and ALM* functions in the Bank and monitor the progress in its implementation.

Quantitative Disclosures:

(Rs in Lakhs)

Particulars	Amount of capital requirement
-------------	-------------------------------

Interest rate risk	438.56
Equity position risk	12.86
Foreign exchange risk	67.50

TABLE DF 09-OPERATIONAL RISK:

Qualitative disclosures:

Strategies and processes:

The Operational risk management process of the bank is driven by a strong organizational culture and sound operating procedures, involving corporate values, attitudes, competencies, internal control culture, effective internal reporting and contingency planning. Policies are put in place for effective management of Operational risk in the bank.

The structure and organization of the relevant risk management function:

The operational risk management structure in the bank is as under:

- Managing Director
- Executive Director
- Head – Integrated Risk Management
- Head – Planning
- Head – Information Technology
- Head – Treasury
- Head – Credit

The scope and nature of risk reporting and/or measurement system.

The risk reporting consists of operational risk loss incidents/events occurred in branches/offices relating to people, process, technology and external events. The bank is in the process of implementing a software solution namely OpRisk SCORE to get system support for collection of loss data. The data collected from different sources will be used for preparation of risk matrix consisting of 7 loss event types and 8 business lines recognized by Reserve Bank of India.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

Bank has put in place the following policies pertaining to Operational risk Management.

- Operational risk management Policy: The policy covers the terms of operational risk, risk management structure, identification, assessment, measurement and monitoring of operational risk.
- Outsourcing policy: The policy covers all types of outsourcing arrangements including financial services entered into by the Bank with a service provider located in India or elsewhere. The policy also covers the activities, which are part of core function of the management and are not permitted to be outsourced.
- Business Continuity policy: Based on RBI guidelines, Business continuity Policy is put in place, which is being reviewed annually.
- Compliance policy: The bank has in place a Comprehensive Compliance policy. As per the Policy adopted by the Bank, suitable organizational structure has been laid down defining the roles and responsibilities for compliance officers at Branches, Zonal Offices and Central Office.

Operational Risk capital assessment:

The Bank has adopted Basic Indicator Approach for calculating capital charge for Operational Risk, as stipulated by the Reserve Bank of India.

TABLE DF 10- Interest rate risk in the Banking Book (IRRBB):

Qualitative Disclosures:

With the deregulation of interest rates, liberalization of exchange rate system, development of secondary markets for bonds and deepening and widening of financial system, Banks are exposed to interest rates risk, liquidity risk, exchange rate risk etc., Asset Liability Management outlays a comprehensive and dynamic framework for measuring monitoring and managing various risks. Primary objective of ALM is maximizing the Net Interest Income within the overall risk bearing capacity of the Bank.

Various stress tests are conducted using various stress scenarios both on the liquidity and interest rate structure to estimate the impact. It evaluates the Earnings at Risk by means of parallel shift in the interest rates across assets and liabilities.

The stress tests are carried out by assuming stress conditions wherein embedded options are exercised like premature closure of deposits much above the revelations of the behavioral studies to test the stress levels.

The ALCO decides on the fixation of interest rates on both assets and liabilities after considering the macro economic outlook- both global and domestic, as also the macro aspects like cost-benefit, financial inclusion and host of other factors.

Strategies and processes:

The strategy adopted by ALCO for mitigating the risk is by clearly articulating the acceptable levels of exposure to specific risk types (interest rate, liquidity etc). The process for mitigating the risk is initiated by altering the mix of asset and liability composition, change in interest rates etc.

The structure and organization of the relevant risk management function:

The Asset Liability Committee (ALCO) consisting of the Bank's senior management including the MD & Chief Executive Officer and Executive Director will be responsible for ensuring / adhering to the limits set by the Board. ALCO will play an important role in deciding the business strategy of the Bank in line with the Bank's budget, Corporate Goals and risk tolerance levels decided by the Board having regard to the Capital Adequacy and Regulatory prescriptions.

The scope and nature of risk reporting and /or measurement systems:

The liquidity and interest rate sensitivity statements reveal the liquidity position and the interest rate risk of the bank. With the approval of the Board, tolerance level is stipulated, within which the Bank is to operate. Any breach in the limits is reported to the Board which in turn directs remedial measures to be initiated.

Policies for hedging and /or mitigating risk and strategies and process for monitoring the continuing effectiveness of hedges/mitigants:

Mitigating measures are initiated in the ALCO on how to contain the liquidity risk and interest rate risk. The fortnightly statements presented to the ALCO reveals the liquidity and interest rate structure based on residual maturity. The gap position under various time buckets denotes the liquidity risk and interest

rate risk. The ALCO on studying the gap position in detail evolves the strategies to reduce the mismatches in order to reduce the liquidity and interest rate risks.

Quantitative Disclosures

The impact on earnings and economic value of equity for notional interest rate shocks as on 31.03.2008.

Earnings at Risk

(Rs in Cr)	
Change in interest rate	Change in EaR
± 25 bps	± 4.25
± 50 bps	± 8.50
± 75 bps	± 12.75
± 100 bps	± 17.00

The Bank has not started the computation of market value of equity based on Duration Gap Analysis.

Prudential floor limit for minimum capital requirements:

The guidelines for implementation of the New capital adequacy framework issued by RBI, stipulates higher of the following amounts as minimum capital required to be maintained by the bank.

- (a) Minimum capital as per Basel II norms for Credit, Market and Operational risks.
- (b) Minimum capital as per Basel I norms for Credit and market risks

The minimum capital required to be maintained by the Bank as on 31.03.2009 as per Basel I norms is Rs.279.61 crores and as per Basel II norms is Rs.258.06 crores.

Capital (Tier I and Tier II) maintained by the Bank as on 31.03.2009 is Rs. 448.17 crores, which is above the prudential floor limit.