BASEL II (PILLAR III) DISCLOSURES

TABLE DF 1 – SCOPE OF APPLICATION

Qualitative disclosures :

a) Dhanlaxmi Bank has no subsidiaries.

b) Not applicable since the Bank does not have any subsidiaries

Quantitative Disclosures:

c & d) Since the Bank does not have any subsidiaries, there are no quantitative disclosures.

TABLE DF 2 – CAPITAL STRUCTURE

Qualitative disclosures :

a) Summary

Tier I capital of the Bank includes

- Equity Share Capital
- Reserves and Surpluses comprising of
    - Statutory Reserves;
    - Capital Reserves;
    - Share Premium and
    - Balance in Profit and Loss Account

Tier II Capital includes

- Revaluation Reserve,
- Special Reserves,
- Standard Asset Provisions and
- Tier II Bonds.

During the year, the Bank has issued 2,10,00,000 Equity Shares of ₹ 10 each, allotted to applicants at the Issue Price of ₹ 181.30 per Equity Share (including ₹ 171.30 towards share premium) aggregating to ₹ 380.73 crores. Further the Bank had issued Upper Tier II bonds amounting to ₹ 27.50 crores.

Quantitative disclosures :

₹ in Lakhs

Items		March 31, 2011	March 31, 2010
(a)	The amount of Tier I capital, with separate disclosure of :		
	Paid-up share capital	8,514	6,412
	Reserves	73,679	35,491
	Innovative Instruments	-	-
	Other capital instruments	-	-
	Sub-total	82,193	41,903
	Less amounts deducted from Tier I capital, including goodwill and investments.	1,433	487
	Total Tier I capital	**80,760**	**41,416**
(b)	The total amount of Tier 2 capital (net of deductions from Tier 2 capital)	20,554	19,706
(c)	Debt capital instruments eligible for inclusion in Upper Tier 2 capital		
	• Total amount outstanding	2,750	-

Items		March 31, 2011	March 31, 2010
	• Of which amount raised during the current year	2,750	-
	• Amount eligible to be reckoned as capital funds	2,750	-
(d)	Subordinated debt eligible for inclusion in Lower Tier 2 capital		
	Total amount outstanding	17,700	19,700
	Of which amount raised during the current year.	-	15,000
	Amount eligible to be reckoned as capital funds.	13,080	16,620
(e)	Other deductions from capital, if any		
(f)	Total eligible capital- Tier I + Tier 2 (a+b-e)	101,314	61,122

TABLE DF 3 – CAPITAL ADEQUACY

Qualitative disclosures :

The Bank has put in place a robust Risk Management Architecture with due focus not only on Capital optimization, but also on profit maximization. The Bank has put in place the "Internal Capital Adequacy Assessment Process" policy. Capital requirement for current business levels and framework for assessing capital requirement for future business levels has been made. Capital need and capital optimization are monitored periodically by the Committee of top executives. The top executives deliberate on various options available for capital augmentation in tune with business growth. The Bank has worked out Capital Risk Weighted Assets Ratio (CRAR) based on both Basel I and Basel II guidelines. The Bank maintains CRAR of more than 9% and Tier I CRAR of more than 6%. Besides, the Bank complies with the prudential floor for maintenance of capital as per the revised framework.

Quantitative disclosures:

₹ in Lakhs

Items		March 31, 2011	March 31, 2010
(a)	Capital requirements for credit risk		
	• Portfolios subject to standardized approach	72,099	39,439
	• Securitization exposures		--
(b)	Capital requirements for market risk Standardized duration approach		
	• Interest rate risk	2,275	506
	• Foreign exchange risk (including gold)	68	68
	• Equity position risk	16	11
(c)	Capital requirements for operational risk		
	• Basic Indicator Approach	2,816	2,322
(d)	Total and Tier I CRAR for the Bank		
	• Total CRAR (%)	11.80	12.99
	• Tier I CRAR(%)	9.41	8.80
(e)	Total and Tier I CRAR for the consolidated Group		
	• Total CRAR(%)	NA	NA
	• Tier I CRAR (%))	NA	NA
(f)	Total and Tier I CRAR for the significant subsidiary which are not under consolidated group		
	• Total CRAR(%)	NA	NA
	• Tier I CRAR (%)	NA	NA

TABLE DF 4 – CREDIT RISK : GENERAL DISCLOSURES

Qualitative disclosures :

(a) General : -

Definitions of past due and impaired (for accounting purposes)

The bank has adopted the definition of the past due and impaired (for accounting purposes) as defined by the Regulator for income recognition and asset classification norms which is furnished below :-

1. **Non-performing assets**

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

   a) interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

b) the account remains `out of order' as indicated at paragraph 2 below, in respect of an Overdraft/ Cash Credit (OD/CC),

c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

d) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

e) the installment of principal or interest thereon remains overdue for one crop season for long duration crops,

An account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. 'Out of Order' status

An account is treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts are treated as 'out of order'.

3. 'Overdue'

Any amount due to the bank under any credit facility is `overdue' if it is not paid on the due date fixed by the bank.

Strategies and processes for Credit Risk Management

Credit Risk Management Committee (CRMC) headed by MD and CEO is the top level functional committee for credit risk. The committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of approval of policies on standards for presentation of credit proposal, fine-tuning required in various rating models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk.

The Bank's strategies to manage the credit risks in its lending operations are as under :

a) The Bank has a comprehensive board approved Credit Risk Management Policy which is reviewed and revised annually. In addition to the above various strategies with regard to Credit risk management is covered under Banks Credit Policy, Credit Monitoring Policy and Recovery Policy which are periodically reviewed by the Board.

b) Defined segment exposures delineated into Retail, Trade and Advances Group and Corporate;

c) Industry wise segment caps on aggregate lending by Bank.

d) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds in line with RBI guidelines.

e) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels.

f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts.

g) A clear and well defined delegation of authority within the Bank in regard to decision making linking exposure, rating and transaction risks.

h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of director of the Bank.

i) Credit Risk Management Cell is validating the rating assigned to all individual credit exposures of ₹ 25 Lakhs and above.

j) Bank has an ever improving procedures and structures with respect to Credit Approval Process, Credit Rating, Prudential Limits, Documentation, Credit Monitoring and Review Mechanism.

k) 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 Management Information System, is in place.

l) The Bank has a Credit Mid Office Group which takes care of the security creation and account management

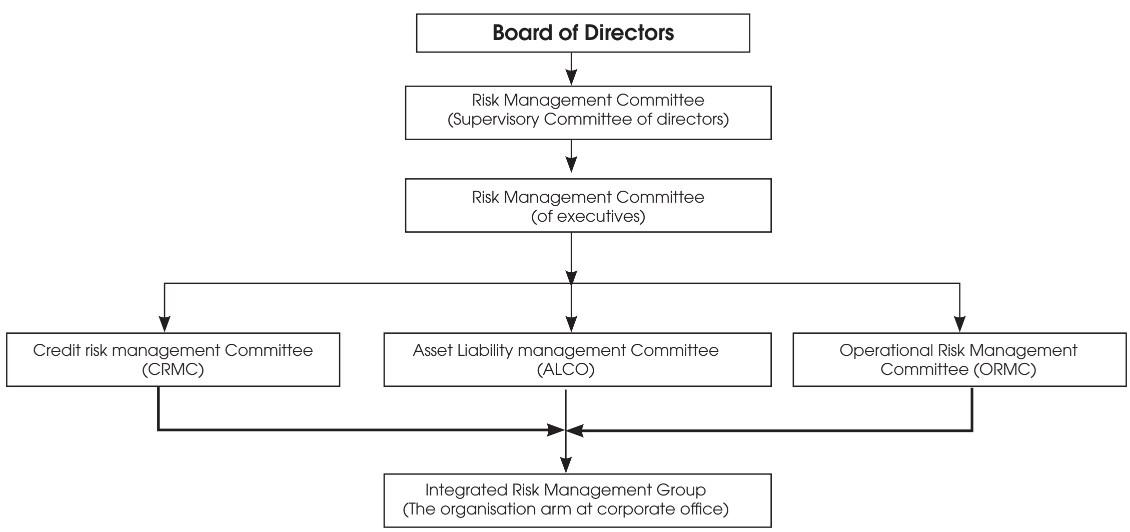
m) Credit Monitoring and Recovery Group takes care of the monitoring of the loan assets.

n) Bank has started quarterly industry study which would provide necessary information to increase/ hold/ decrease exposure under various industries.

Structure and organization of the Risk Management function in the Bank

The Bank has a Credit Risk Management Committee (CRMC) in place with representation from IRMG, Credit Sanction, Credit Mid-Office Group, Policy and Research, Treasury and the Business groups, i.e., Whole sale Banking Group, Trade and Advances Group and Retail Assets Group. The Committee is headed by the Managing Director and CEO of the Bank and also includes the Executive Director. CRMC monitors credit risk on a bank wide basis and discuss on adherence to prudential limits, policies on rating standards and benchmarks etc.

GOVERNMENT STRUCTURE OF RISK MANAGEMENT IN THE BANK



Scope and nature of risk reporting and/or measurement systems

The Bank has developed a comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Major initiatives of IRMG are -

- Risk rating system is drawn up in a structured manner incorporating the parameters from the five main risk areas 1) Financial risk, 2) Industry/Market risk, 3) Business risk, 4) Management Risk, and 5) Facility risk
- Risk rating system is made applicable for loan accounts with total limits of ₹ 2 Lakhs and above. In case of Retail Assets pool/segment, rating methodology is also applied.
- Different rating models are used for different types of exposures, for eg; Traders, Small Medium Entity, Non-Bank Financial Company, Corporate, small loans etc.
- Integrated Risk Management Group validates the ratings of all exposures of ₹ 25 Lakhs and above.
- An independent analysis is carried out of the various risks attached to the credit proposals including industry analysis.

- Carries out rating migration analysis of the credit portfolio on an annual basis.
- Evaluates the asset quality by tracking the delinquencies and migration of borrower from one rating scale to another in various industry, business segment etc.

  Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The Bank has in place the following hierarchical functionaries with powers delegated for credit sanction and administration:

  - Branch Heads/Branch operational Managers (Jointly)
  - Regional Credit Head
  - Zonal Credit Head (ZCH)
  - Credit Head (CH)
  - Corporate Credit Committee (CCC)
  - Management Committee of Directors (MC/ Board)

Head Integrated Risk Management Group is a member of the CCC. The bank has implemented a fully automated software solution to get system support for calculation of Risk Weighted Assets for CRAR computation 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

The Bank has put in place a Board approved policy on Credit Risk Mitigation Techniques and Collateral Management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. Apart from the Basel defined collateral, the Bank ensures securities by way of inventories, book debts, plant and machineries, land and buildings and other moveable/ immovable assets/ properties. The Bank also accepts personal/corporate guarantee as an additional comfort for credit risk mitigation. The securities are subjected to proper valuation as prescribed in the credit policy of the Bank.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals. The bank has a separate vertical – Credit Mid Office Group (CMOG) for Credit administration and monitoring. The CMOG was formed to streamline and strengthen the post loan sanction activities in the bank.

The Bank has an exclusive set up for credit monitoring functions in order to have greater thrust on post sanction monitoring of loans and strengthen administering the various tools available under the Bank's policies on loan review mechanism. For effective loan review, the Bank has the following in place : -

- On site monitoring tools like Inspection of assets/ books/ stock of the borrower, stock audit, operations in the account, payment of statutory dues etc.
- Recording of loan sanctioned by each sanctioning authority by the next higher authority.
- Off site monitoring tools like financial follow up reports, verification of various statutory returns, audit reports etc.

Quantitative disclosures :

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

₹ in Lakhs

Overall credit exposure		March 31, 2011	March 31, 2010	TOTAL March 31, 2011	TOTAL March 31, 2010
Fund Based	Loans and advances	915,450	508,384	974,981	535,900
	Others (Fixed Assets and other Assets)	59,531	27,516		
Non-Fund Based	Letter of Credit, Bank Guarantee etc	39,428	16,647	45,991	18,295
	Forward Contracts	5,567	630		
	Others	996	1,018		
Investments (Banking Book only)	-	244,828	170,444	244,828	170,444
Total of Credit Risk exposure	**-**	**-**	**-**	**1,265,800**	**724,639**

(b) Geographic distribution of exposures :

₹ in Lakhs

Exposures	March 31, 2011			March 31, 2010		
	Fund based	Non Fund Based	TOTAL	Fund Based	Non-fund based	TOTAL
Domestic operations	1,219,809	45,991	1,265,800	706,343	18,295	724,638
Overseas operations	Bank has no overseas operations					

(c) Industry type distribution of exposures :

₹ in Lakhs

Sr. No.	Industry	Total Lending Exposures					
		Fund Based Outstanding				NFB Outstanding	
			March 31, 2011		March 31, 2010	March 31, 2011	March 31, 2010
1	Mining and Quarrying		218		270	-	-
2	Food Processing		1,252		2,659	-	-
3	Sugar		229		216	-	-
4	Edible oils and Vanaspati		307		107	-	-
5	Textiles		17,971		13,876	166	61
6	Paper and paper products		13,802		13,228		
7	Chemicals and chemical products		15,436		13,644	1,249	1,044
7.1	Of which, fertilizer	9,600		4,400			
7.2	Of which, Drugs and Pharmaceuticals	1,397		7,608			
7.3	Others	4,439		1,636			
8	Rubber and rubber products		10,104		5,591	-	-
9	Cement and Cement products		10,227		14,000	-	-
10	Metal and Metal products		2,267		2,500	-	-
11	All Engineering		18,230		16,635	92	77
12	Automobiles		8,631		2,000	-	-
13	Gems and Jewellery		22,445		10,813	1,390	650

Sr. No.	Industry	Total Lending Exposures					
		Fund Based Outstanding				NFB Outstanding	
			March 31, 2011		March 31, 2010	March 31, 2011	March 31, 2010
14	Construction				2,078	-	-
15	Infrastructure		124,036		113,863	1,527	1,426
15.1	Of which, Power	54,092		36,217		-	-
15.2	Of which, Telecommunications	15,500		15,500		-	-
15.3	Of which, Roads and ports	6,206		7,125		-	-
15.4	Of which, Other infrastructure	48,238		55,021		-	-
16	NBFC		51,867		83,072	-	-
17	Trading		128,089		85,590	-	-
18	Other Industries		24,935		26,531	-	-
	Total		**450,046**		**406,673**	**4,424**	**3,258**
19	Residuary other advances (to balance with Total advances)		462,116		98,976	34,933	13,389
	Grand Total		**912,162**		**505,649**	**39,357**	**16,647**

(d) Residual maturity breakdown of assets :

₹ in Lakhs

Maturity Pattern Assets	Advances March 31, 2011	Advances March 31, 2010	Investments March 31, 2011	Investments March 31 2010	Foreign Currency March 31, 2011	Foreign Currency March 31, 2010
Day 1	7,710	9,537	-	-	6,423	24
2 to 7 Days	10,314	6,057	-	-	4,706	9,909
8 to 14 days	11,796	6,302	-	2,497	270	-
15 to 28 days	20,366	9,538	23,226	7,139	1,310	-
29 days up to 3 months	74,108	35,625	19,631	4,118	30,021	2,202
Over 3 months and up to 6 months	85,509	35,909	25,153	7,329	26,765	467
Over 6 months and up to 1 year	190,132	58,042	11,762	1,820	73,003	120
Over 1 year and up to 3 years	270,814	157,877	7,865	412	-	-
Over 3 years and up to 5 years	139,364	111,816	19,404	21,132	-	-
Over 5 years	96,402	69,924	257,850	159,144	-	-
Total	**906,515**	**500,627**	**364,891**	**203,591**	**142,498**	**12,722**

(e) Non-performing assets :

₹ in Lakhs

No.	Items	Amount March 31, 2011	Amount March 31, 2010
1	**Gross NPAs**	**6,709**	**7,750**
1.1	Substandard	1,878	3,557
1.2	Doubtful 1	1,378	1,014
1.3	Doubtful 2	735	810
1.4	Doubtful 3	1,136	1,033
1.5	Loss	1,582	1,336
2	**Net NPAs**	**2,747**	**4,194**

No.	Items	Amount	
		March 31, 2011	March 31, 2010
3	**NPA Ratios**		
3.1	Gross NPAs to Gross Advances (%)	0.74	1.54
3.2	Net NPA s to Net Advances (%)	0.30	0.84
4	**Movement of NPAs (gross)**		
4.1	Opening balance	7,750	6,443
4.2	Additions	4,113	5,216
4.3	Reductions	5,154	3,909
4.4	Closing balance	6,709	7,750
5	Movement of provisions for NPAs		
5.1	Opening balance	3,469	3,555
5.2	Provisions made during the year	1,591	1,285
5.3	Write-off	0	308
5.4	Write back of excess provisions	1,150	1,063
5.5	Closing balance	3,910	3,469
6	**Amount of non-performing investments**	**744**	**744**
7	**Amount of provisions held for non –performing investments**	744	744
8			
8.1	Opening balance	744	803
8.2	Provisions made during the period	-	-
8.3	Write-off/ Write back of excess provisions	-	59
8.4	Closing balance	744	744

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	Bank has approved all the four external credit rating agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts, ie, CRISIL, CARE, FITCH, ICRA and international credit rating agencies, i.e, standard and poor, Moody's , FITCH, etc.	
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 External Credit Assessment Institutions 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 by the agencies is used for both fund based and non-fund based exposures.
		(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 *pari-passu* 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 banks' outstandings (rated and unrated) in major risk buckets- under standardized approach after factoring risk mitigants (i.e. collaterals) :

₹ in Lakhs

Particulars		March 31, 2011			March 31, 2010		
		Fund based	Non-fund based	Total	Fund based	Non-fund based	Total
Below 100% risk weight		671,536	17,408	688,944	407,245	4,089	411,334
100% risk weight		519,220	36,582	555,802	275,937	14,207	290,144
More than 100% risk weight		122,568	3,559	126,127	23,161	-	23,161
Total Exposure		**1,313,324**	**57,549**	**1,370,873**	**706,343**	**18,296**	**724,639**
Deducted (Risk mitigants)	Below 100% Risk Weight	70,737	-	70,737	25,231	-	25,231
	100% Risk Weight	17,973	-	17,973	426	-	426
	More than 100% Risk Weight	80,039	-	80,039	9,325	-	9,325
Net Exposure		**1,144,575**	**57,549**	**1,202,124**	**671,361**	**18,296**	**689,657**

TABLE DF 6 – CREDIT RISK MITIGATION - STANDARDIZED APPROACH

Qualitative disclosure :

(a) General

Policies and processes for collateral valuation and management :

The Bank has put in place a Board approved policy on Credit Risk Mitigation techniques and collateral management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes.

A description of the main types of collateral taken by the Bank

Collateral used by the Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely : -

- Cash and fixed deposits of the counterparty with the Bank
- Gold : value arrived at after notionally converting these to 99.99% purity

- Securities issued by Central and State Governments
- Kisan Vikas Patra and National Savings Certificates
- Life Insurance Policies restricted to their surrender value
- Debt securities rated by an approved Rating Agency
- Unrated debt securities issued by banks, listed in Stock Exchange
- Units of Mutual Funds

Bank has no practice of on balance sheet netting for credit risk mitigation.

The main types of guarantor counterparty and their creditworthiness are as follows :

Bank accepts guarantees of individuals or corporates of adequate net worth, 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.

Main types of guarantor counterparty as per RBI guidelines are : -

- Sovereigns (Central/State Governments)
- Sovereign entities like Export Credit Guarantee Corporation, Credit Guarantee Fund Trust For Small Industries
- Bank and primary dealers with a lower risk weight than the counterparty
- Other entities rated AA (-) and above. The guarantees have to be issued by entities with a lower risk weight than the counterparty.

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

Financial Risk Mitigants	Outstanding Covered by Risk Mitigants (In Lakhs)		Risk Concentration %	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Gold	137,489	52,628	81.48	54.35
Cash & Bank Deposits	30,852	43,762	18.28	45.20
KVP/IVP/NSC	345	378	0.20	0.39
LIC Policy	64	57	0.04	0.06
Total	**168,750**	**96,825**	**100.00**	**100.00**

Majority of the financial collaterals held by the Bank are by way of Gold, own deposits, Life Insurance Policies and other approved securities. Bank does not envisage market liquidity risk in respect of financial collaterals.

Concentration on account of collateral is also relevant in the case of land and building. However, as land and building is not recognized as eligible collateral under Basel II standardized approach, its value is not reduced from the amount of exposure in the process of computation of capital charge. It is used only in the case of housing loan to individuals and non-performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.

Quantitative disclosures :

For the disclosed credit risk portfolio under the Standardised Approach, the total exposure is covered by :

(i) Eligible Financial Collateral : ₹ 168,750 Lakhs

(ii) Other eligible collateral (after hair cuts) : ₹ Nil

DF TABLE 7- SECURITISATION – STANDARDIZED APPROACH:

Qualitative disclosures :

- Bank has not securitized any of its standard assets till date.

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

Qualitative disclosures :

(a) General : -

Strategies and processes

The overall objective of market risk management is to maximize shareholder value by improving the bank's competitive advantage and reducing loss from all types of market risk loss events. For effective management of market risk, bank has put in place a well established framework with the Integrated Treasury Policy and Asset Liability Management (ALM) policy. The Asset Liability Management Committee (ALCO) is responsible for establishing market risk management and Asset liability management in the Bank. ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks. ALCO ensures adherence to the limits set by RBI as well as the Board. Bank has an independent mid-office for market risk management functions like monitoring of adherence to set limits, independent valuation and reporting of activities. mid- office reports to Head of Integrated Risk Management Group.

Scope and nature of risk reporting/measurement systems

The Bank has put in place regulatory/internal limits for various products and business activities relating to trading book. Various exposure limits for market risk management such as overnight limit, Value at Risk limit, Daylight limit, Aggregate Gap limit, Investment limits etc. are in place. The reporting system ensures time lines, reasonable accuracy with automation, highlight portfolio risk concentrations and include written analysis. The reporting formats and frequency are periodically reviewed to ensure that they suffice for risk monitoring, measuring and mitigation requirements of the Bank. Bank also subjects Non-SLR investments to credit rating.

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

Board approved policies viz., Integrated Treasury Policy and Asset Liability Management Policy provides the framework for risk assessment, identification, measurement and mitigation, risk limits and triggers, risk monitoring and reporting.

Liquidity risk of the Bank is assessed through structural liquidity statement which is prepared on a daily basis. The Bank also reviews various liquidity ratios on a quarterly basis in order to control the liquidity position. Interest rate risk is analyzed from earnings perspective using Traditional Gap Analysis on a fortnightly basis and economic value perspective using Duration Gap Analysis on a quarterly basis. Stress tests are conducted at quarterly intervals to assess the impact of various contingencies on the bank's earnings and the capital position.

The Bank uses Standardized Duration approach for computation of market risk capital charge on the investment portfolio held under Held for Trading and Available for Sale, Gold and foreign exchange open positions. The market risk capital charge is calculated on a daily basis and reported to ALCO.

The portfolio covered by Standardized Duration approach for computation of market risk capital charge are investment portfolio held under HFT and AFS, Gold and foreign exchange open positions.

Quantitative disclosures :

₹ in Lakhs

Particulars	Amount of capital requirement March 31, 2011	Amount of capital requirement March 31, 2010
Interest rate risk	2,275	506
Equity position risk	16	11
Foreign exchange risk	68	68

TABLE DF 09 – OPERATIONAL RISK :

Qualitative disclosures :

(a) General

Strategies and processes: -The Bank's strategy is to ensure that the operational risks which are inherent in process, people and system and the residual risks are well managed by the implementation of effective risk management techniques. Keeping this in view, the Bank has been following risk management measures which address the risks before and after implementation of a process, product and system. All new products, processes and systems which are cleared by the Product & Process Approval Committee (PPAC) are risk vetted by the Operational Risk Management (ORM) cell, before implementation. The ORM cell is conducting Risk and Control Self Assessment (RCSA) at Thrust Branches and other core functions to highlight the potential risks that can happen during the course of operations and to assess whether the controls are adequate to manage/ mitigate these risks. Risk Based Internal Audit (RBIA) is in place in all the Branches.

The framework for Operational Risk Management is well-defined in the ORM Policy which is reviewed and revised annually. The ORM Committee at the executive level, which meets at regular intervals oversees bank-wide implementation of Board approved policies and process in this regard. The Bank has put in place important policies like Information System Security, Know Your Customer and Anti Money Laundering, Fraud Risk Management, Business Continuity and Disaster Recovery Management.

Scope and nature of risk reporting/measurement systems : -

The Bank has adopted Operational Loss Data Reporting Format from the Loss Data Methodology Document for collection of loss data, which will enable the Bank to eventually ease the transition to Advanced Measurement Approach for Capital Calculation. The risk reporting consists of operational risk loss incidents/ events occurred in branches/ offices relating to people, process, technology and external events. The bank has implemented a software solution which is a modular Operational risk management solution and satisfies end-to-end operational risk management requirements (quantitative and qualitative).

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

Internal control mechanism is in place to control and minimize the operational risks. If any controls are found to be ineffective during the course of Risk and Control Self Assessment (RCSA), corrective measures are adopted in due course. A monitoring system is also in place for tracking the corrective actions plan periodically. Bank is using insurance for mitigating operational risk. The various Board approved policies viz., Operational Risk Management Policy, Outsourcing Policy, Compliance Policy, Internal Inspection and Audit Policy, Internet Banking Security Policy; Information Systems Security Policy and Business continuity Plans addresses issues pertaining to operational risk management.

Operational risk capital assessment :

The Bank has adopted Basic Indicator Approach for calculating capital charge for operational risk, as stipulated by the RBI. The qualitative and quantitative requirements prescribed by the regulator are being adopted by the Bank to move on to the advanced approaches in due course.

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

Qualitative disclosures :

Strategies and processes

The Bank has put in place a comprehensive market risk management framework to address market risks. The Asset Liability Management Policy prescribes the measurement of the interest rate risk under two perspectives – Earnings perspective and Economic Value Perspective.

Under Earnings perspective, bank uses the traditional gap analysis method to calculate the Earnings at Risk (EAR), which is the quantity by which net income might change in the event of an adverse change in interest rate. EAR is calculated on a fortnightly basis.

Under Economic value perspective, bank uses Duration Gap Analysis to assess the impact of interest rate risk in the banking book. The Duration gap analysis monitors the impact of changes in the interest rates on the Market Value of Equity (MVE). It is calculated on a quarterly basis.

The framework for managing interest rate risk in the banking book under Pillar II of Basel II is put in place through Internal Capital Adequacy Assessment Process Policy document.

Scope and nature of risk reporting/ measurement systems

Interest rate risk in the banking book is measured and Modified Duration of Equity is evaluated on a quarterly basis. The likely drop in Market Value of Equity for a 200 bps change in interest rates is computed. Earnings at Risk (EAR) based on traditional gap Analysis are calculated on a fortnightly basis and adherence to tolerance limits set in this regard is monitored and reported to ALCO. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.

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

Bank has operationalised mitigating/hedging measures prescribed by Integrated Treasury Policy, ALM Policy and Stress Testing Policy. 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 and with the proper pricing of advances and deposits.

Brief description of the approach used for computation of interest rate risk and nature of Interest Rate Risk in the Banking Book (IRRBB)

The interest rate risk in banking book is computed through Duration Gap Analysis. The various assumptions used are as follows : -

- Items such as capital, reserves and surplus, bills payable, inter-office adjustment, provisions are treated as non-rate sensitive.
- Similarly items such as cash, current account, fixed assets are considered to be non-rate sensitive.
- The midpoint of each time bucket is considered as the proxy for the maturity of all assets and liabilities in that time bucket.
- The Bank uses market yields and coupons for various instruments and they are mapped to the same set of products for respective maturities.
- The frequency of coupon payment is assumed to be annual.
- The basis for interest calculation for each time bucket is assumed to be 'actual/actual'
- The Bank has also carried out studies to adopt Economic Value Approach for its additional capital calculation under Pillar II. Under this approach, the Bank's interest rate risk is indicated by comparing the weighted average duration of assets with the weighted average duration of liabilities to arrive at the duration of the gap (equity). As with gap analysis, the sign and magnitude of DGAP provides the impact of interest rate changes on the Economic Value of Equity (EVE).
- Modified Durations of each category of assets and liabilities are computed for all the time buckets using the maturity date, coupon, yield, frequency and basis for interest calculation.

Quantitative disclosures :

The impact on earnings and economic value of equity for notional interest rate shocks as on March 31, 2011.

Earnings at Risk

₹ in Lakhs

Change in interest rate	Change in EaR
± 25 bps	199
± 50 bps	398
± 75 bps	597
± 100 bps	796

The Bank is computing market value of equity based on Duration Gap Analysis.

For a 200 bps rate shock, the drop in equity value as on March 31, 2011	18.27%

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 March 31, 2011 as per Basel I norms are ₹ 84,357 Lakhs and as per Basel II norms is ₹ 77,274 Lakhs.

Capital (Tier I and Tier II) maintained by the Bank as on March 31, 2011 is ₹ 101,314 Lakhs, which is above the prudential floor limit.