

**Disclosure under Basel II (Pillar 3) in terms of Revised Capital Adequacy Framework**

**1. SCOPE OF APPLICATION**

1.1. Disclosures in this report pertain to Oriental Bank of Commerce, a Public Sector Bank having no subsidiary.

1.2. Oriental Bank of Commerce signed a Memorandum of Understanding with Canara Bank and HSBC Insurance (Asia Pacific) Holdings Ltd. in March 2007 for setting up Joint Venture in Life Insurance. The Joint Venture Company got registered with Registrar of Companies as Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd in September 2007. The Company has started its operations in June 2008.

Oriental Bank of Commerce holds 23% stake in this company.

1.2.1. Capitalization Details:

Total Authorized Capital of the company is Rs. 750 Crore out of which paid up capital is Rs.400 Crore (40 Crore shares of Rs.10 each) plus Rs. 125.00 crore is the amount of premium paid by HSBC Insurance (Asia-Pacific) Holdings Ltd.

**2. CAPITAL STRUCTURE**

**2.1. Summary information on main terms and conditions / features of capital instruments**

RBI's capital adequacy norms classify capital funds into Tier-1 and Tier-2 capital. Tier-1 capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments (Tier-1 bonds) eligible for inclusion in Tier-1 capital that comply with requirement specified by RBI. Elements of Tier-2 capital include revaluation reserve, general provision and loss reserve, upper Tier-2 instruments (upper Tier-2 bonds) and subordinate debt instruments (lower

Tier-2 bonds) eligible for inclusion in Tier-2 capital. Bank has issued debt instruments that form a part of Tier-1 and Tier-2 capital. The terms and conditions applicable for these instruments comply with the stipulated regulatory requirements.

Tier-1 bonds are non-cumulative and perpetual in nature with a call option (with RBI approval) after 10 years. Tier-1 bonds also have a step-up clause on interest payment ranging up to 100 bps after 10 years. Upper Tier-2 bonds are cumulative and have an original minimum maturity of 15 years with call option (with RBI approval) after 10 years. Upper Tier-2 debt instruments have one time step-up clause on interest payment up to 100 bps after 10 years. The lower Tier-2 bonds are cumulative and have an original minimum maturity of 5 years.

The total amount raised by the Bank through Tier I Bonds shall not exceed the total Tier I capital of the Bank as on March 31 of the previous financial year. Upper Tier II instruments along with other components of Tier II capital, shall not exceed 100% of Tier I capital at any time. Subordinated debt instruments (Lower Tier II) will be limited to 50% of Tier I capital of the Bank.

## 2.2. Tier-1 capital as on March, 31 2009

(Rupees in crore)

<b>Tier-1 capital elements</b>	<b>Amount</b>
Paid-up share capital/common stock	250.54
Reserves	6115.81
Innovative Tier-1 capital instruments	250.00
Other Capital Instruments	0.00
Gross Tier-1 capital	6616.35
Deductions:	0
Accumulated Losses	0
Deferred tax Assets	0
<b>Net Tier I Capital</b>	<b>6616.35</b>

### 2.3. Tier- II Capital as on March 31 2009

Rupees in crore

<b>Tier- II capital elements</b>	<b>Amount</b>
Provision for Standard Assets	305.80
Revaluation Reserves	427.99
Upper Tier II Bonds	1000.00
Subordinate Bonds	1000.00
Special reserve	86.00
Deductions	0.00
<b>Net Tier II Capital</b>	<b>2819.79</b>

### 2.4. Debt capital instruments eligible for inclusion in Tier-1 and Tier-2 capital

Rupees in crore

	Upper tier II	Lower Tier II
Total Amt. Outstanding	1000	1000
Amt. Raised during current financial year	500	-
Amount eligible to be considered as capital funds	1000	1000

### 2.5. Total eligible capital as on 31.03.2009

Rupees in crore

	<b>Amount</b>
Eligible Tier-1 capital	6616.35
Eligible Tier-2 capital	2819.79
<b>Total eligible capital</b>	<b>9436.14</b>

## 3. CAPITAL ADEQUACY

### 3.1. Capital assessment

The Bank is subjected to the capital adequacy guidelines stipulated by RBI, which are based on the framework of the Basel Committee on Banking Supervision. As per the capital adequacy guidelines, the Bank is required to maintain a minimum ratio of total capital to risk weighted assets (CRAR) of 9.0%

on an ongoing basis. Assessment of the Bank's CRAR is carried out on quarterly basis.

The Bank has also assessed and has planned its capital requirements upto next three financial years.

**CAPITAL PROJECTIONS- BASEL II**

Rs. in Crore

	2009-10	2010-11	2011-12
Additional Capital Required to be maintained for CRAR of 12%	320	1066	1391

**3.2. Capital requirements for various risk areas (March 31, 2009)**

Rupees in Crore

<b>Risk area</b>	<b>Amount</b>
<b>Credit risk</b>	
Capital required	
• Portfolio subject to standardized approach	5813.21
• Securitisation exposure	Nil
<b>Market risk</b>	
Capital required	368.79
For interest rate risk	229.32
For foreign exchange (including gold) risk	2.70
For equity position risk	136.77
<b>Operational risk</b>	
Capital required	362.03
<b>Total capital requirement at 9%</b>	<b>6544.03</b>
<b>Total capital funds of the Bank</b>	<b>9436.14</b>
<b>Total risk weighted assets</b>	<b>72711.48</b>
<b>Capital adequacy ratio</b>	<b>12.98%</b>

**Capital adequacy ratio as on 31.03.2009**

<b>Capital Ratios</b>	
<b>Tier –I Capital ratio</b>	<b>9.10%</b>
<b>Tier –II Capital ratio</b>	<b>3.88%</b>
<b>Total Capital ratio</b>	<b>12.98%</b>

## **4. Credit Risk**

### **4.1. Credit risk management policy and processes**

Management of credit risk in the Bank is governed by a Board-approved Credit Risk Management Policy and Recovery Policy. The Credit Risk Management Policy and Recovery Policy of the Bank have been prepared. The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments. The broad objectives are to meet the following goals:

- Adhere to the guidelines / policies enunciated by RBI and other regulatory authorities.
- Be the preferred bank for corporate, government, small and medium enterprises, rural/micro banking, agriculture and retail customers.
- Maintain cordial business relationship with all customers by servicing their needs promptly and efficiently.
- Build a diversified good quality asset portfolio through risk based lending and active churning of the portfolio.
- Optimise risk return profile with adequate exit options.

The policy covers corporate, small and medium enterprise, retail, rural/agriculture and investment related exposures. There is a structured and standardized credit approval process including a comprehensive credit appraisal procedure. In order to assess the credit risk associated with any financing proposal, the Bank assesses a variety of risks relating to the borrower and the relevant industry. The Bank evaluates borrower risk by considering:

- The financial position of the borrower by analyzing the financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy.
- The borrower's relative market position and operating efficiency
- The quality of management by analysing their track record and conduct of account.

**The Bank evaluates industry risk by considering:**

- Certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, cyclicality and government policies relating to the industry.
- The competitiveness of the industry and
- Certain industry financials, including return on capital employed, operating margins and earnings stability.

**Credit Approval Authorities:**

The Board of Directors has delegated the authority to the Management Committee of the Board, Chairman & Managing Director, Executive Directors, General Managers at Head Office. Also at Regional Office level, various Field Functionaries i.e. Regional Head, Second man at the Region and the Branch Incumbents have also been delegated discretionary powers for sanction of various types of credit facilities to various segments of borrowers. The delegation of structure has been designed to ensure that the transactions with higher exposure and level of risk are put up to the corresponding higher forum/committee for approval.

Following guidelines of Credit Risk Management Policy duly approved by the Board of Directors are being adopted for the purpose of screening of the proposals qualitatively so as to ensure healthy credit portfolio of the Bank

1. Credit Risk Management Department is set up at Head Office and Credit Risk Management Cell at all the Regional Offices of the Bank. The function of Risk Management Department is independent of processing/appraisal/sanction of the proposal.
2. Credit Approval Grids for different functionaries at Head Office and Regional offices of the Bank are set up in accordance with the Credit Risk management Policy of the Bank. The senior executives of the Bank are members of the Credit Approval Grid.
3. The presence of the members from Risk Management Department and Credit Department is mandatory for quorum of the meeting of the Grid.
4. Rating of all the accounts availing credit facility of Rs 5.00 crore and above, Small & Medium Enterprises (SME), Retail credit including Housing Loan is

done on the basis of internally adopted credit rating models developed through our risk management consultants.

5. The Proposal is placed before the Credit Approval Grid by the credit department for qualitatively screening and recommendations along with the views of the members of the Grid to the sanctioning authority.

The objective of this framework is to ensure healthy credit portfolio of the Bank by following the set principles of Risk Management. The analysis of the composition of the credit portfolio (Rating wise/Industry wise) is placed to the Supervisory Committee of Directors on Risk Management (SCDRM) on half yearly basis along with the migration of rating of borrowers.

Bank complies with the norms on exposure stipulated by RBI for both single borrower as well as borrower group at the consolidated level. Limits have been set up by the Risk Management Department as a percentage of the Bank's consolidated capital funds and are regularly monitored. The Bank has also stipulated internally various exposure limits (including substantial exposure) to industries, sensitive sectors and for the borrowers based on their constitution.

#### **Definition and classification of non-performing assets (NPA)**

The Bank classifies its advances (loans and debentures in the nature of an advance) into performing and non-performing loans (NPL) in accordance with the extant RBI guidelines.

An NPA is defined as a loan or an advance where:

- I. Interest and/ or installment of principal remains overdue for more than 90 days in respect of a term loan. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank;
- II. The account remains 'out of order' in respect of an overdraft/ cash credit (OD/CC) facility continuously for 90 days. An account is treated as 'out of order' if:
  - The outstanding balance remains continuously in excess of the sanctioned limit/drawing power

- 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 the balance sheet or, credits in the account are not enough to cover the interest debited during the accounting period
  - Drawings have been permitted in the account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than three months old even though the unit may be working or the borrower's financial position is satisfactory
  - The regular/ad-hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction.
- III. A bill purchased/discounted by the Bank remains overdue for a period of more than 90 days.
- IV. Interest and/or instalment of principal in respect of an agricultural loan remain overdue for two crop seasons for short duration crops and one crop season for long duration crops.

Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for 12 months. A loss asset is one where loss has been identified by the Bank or its internal or external auditors or during RBI inspection but the amount has not been written off fully.

#### 4.2. Risk Weighted Assets based on credit risk exposure (March 31, 2009)

Rupees in crore

Category	Credit exposure
Fund-based facilities	55167.56
Non-fund based facilities	9423.76
<b>Total</b>	<b>64591.32</b>

Credit exposure includes exposure towards term loans, working capital facilities (i.e. funded facilities like cash credit, demand loan, temporary limits and non-funded facilities like letter of credit, co-acceptances, financial guarantee, performance guarantee etc.). The above excludes investments, which are covered under Market Risk.

#### 4.3. Geographic distribution of credit exposures (March 31, 2009)

(Rupees in crore)

	Fund-based	Non-fund based
<b>Domestic</b>	69064.72	15447.20
<b>Overseas</b>	Nil	Nil
<b>Total</b>	69064.72	15447.20

#### 4.4. Industry-wise distribution of exposures (Mar 31<sup>st</sup> 2009)

As on 31-03-2009		In Crore	
S.No.		Fund based	Non-fund based
	Coal	35.05	9.56
	Mining	30.91	
	Iron & Steel	3561.13	792.58
	Other metal and metal Products	710.30	375.01
	All Engineering	1354.97	710.15
	Electricity	45.70	0.00
	Textile	3221.33	106.55
	sugar	602.59	17.66
	Tea	3.59	0.14
	food Processing	1619.14	52.31
	Vegetables oil and Vanaspati	183.11	173.34
	Tobacco and Tobacco products	0.93	33.74
	Paper and paper products	828.15	113.38
	Rubber and rubber products	443.12	63.53
	Chemicals, Dyes, paints etc	666.69	106.00
	Cement	584.20	139.41

	Leather and Leather Products	76.96	0.44
	Gems and jewellery	374.92	704.21
	Constructions	103.13	94.78
	Petroleum	989.80	56.27
	Automobiles including Trucks	552.77	22.59
	Computer Software	16.91	0.00
	Infrastructure	13728.35	1648.19
	NBFCs	3202.74	0.00
	Trading	3157.05	0.00
	Other Industries	3163.34	563.61
	Residuary other Advances	29807.84	9663.75
	<b>Grand Total</b>	<b>69064.72</b>	<b>15447.20</b>

#### 4.5. Residual contractual maturity break-down of assets

The maturity pattern of assets as on 31<sup>st</sup> March 2009 is detailed in the table below.

Rupees in crore

<b>Maturity Buckets</b>	<b>Advances*</b>	<b>Investments (Gross)</b>	<b>Foreign currency assets*</b>
Next day	6369.42	5.00	1255.34
2 – 7 days	1051.11	509.74	18.53
8 -14 days	1129.94	227.37	0
15-28 day	3490.68	478.47	7.72
29 days-3 months	6323.89	506.63	210.20
>3 months – 6months	6988.04	405.33	123.22
>6months-1 Yr	8733.32	214.71	8.91
>1 Yr-3Yrs	14192.38	4359.37	0.00
>3Yr-5Yrs	8097.22	5148.49	2.20
>5Yrs	12688.72	16433.84	207.90
<b>Total</b>	<b>69064.72</b>	<b>28488.95</b>	<b>1834.02</b>

\* Gross Advances

#### 4.6. Amount of non-performing loans (NPL) (Mar 31, 2009)

Rupees in crore

<b>NPA Classification</b>	<b>Gross NPA</b>	<b>Net NPA</b>
Sub- standard	310.53	273.08
Doubtful	670.53	241.35
Doubtful-1	267.43	135.72
Doubtful-2	215.64	105.63
Doubtful-3	187.46	0.00
Loss	77.06	0.00
Total	1058.12	442.43*
NPA ratios	1.53%	0.65%

\* After floating provisions of Rs 72 crore

1. Gross NPL ratio is computed as a ratio of Gross NPLs to Gross Advances.

2. Net NPL ratio is computed as a ratio of Net NPLs to Net Advances.

#### 4.7. Movement of NPA

	Gross	Net
Opening Balance April 2008	1280.10	538.40
Addition during the year	495.70	495.70
Deduction during the year	717.68	591.67
Closing balance as on March 2009	1058.12	442.43

#### 4.8. Movement of provisions for NPA

	Amount
Opening Balance as on April 2008	720.67
Provision made during the year	0.00
Write-Off during the year	126.02
Write back of excess provision	0.00
Closing balance as on March 2009	594.65

**4.9. Amount of non-performing investments (NPI) in securities, other than Government and other approved securities**

	Amount
Gross NPI as on 31.03.2009	88.93
Total provision held	88.93
Net NPI	Nil

**4.10. Movement of provision for depreciation on investment**

	Amount
Opening balance as on April 2008	58.59
Provision made	169.44
Write Off/ Write back of excess provision	58.59
Closing balance as on March 2009	169.44

**5. CREDIT RISK: PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH**

**5.1. External ratings**

The Basel II guidelines require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely CRISIL, CARE, ICRA & Fitch (India) for domestic counterparties and Standard & Poors, Moody's and Fitch for foreign counterparties. There is no change in banks policy for utilisation of RBI approved ECAIs. The rating is used for both fund based and Non-fund based exposure.

All the above identified Rating Agencies' ratings are used for various types of exposures as follows:

- (i) For Exposure with a contract maturity of less than or equal to one year (except Cash Credit, Overdraft and other Revolving Credits) , Short -Term Rating given by ECAIs 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 International Rating Agencies 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.

The Bank also uses an internal rating mechanism for rating its clients with the assistance of specialised agency acting as Bank's consultants to ensure that the model is in line with market participants. However, the Bank uses external ratings for the purposes of computing the risk weights as per the new capital adequacy framework.

## 5.2. Credit exposures by risk weights

The table below discloses the amount of the Bank's outstanding for credit exposures in three major risk buckets

Rupees in Crore

<b>Exposure Category</b>	<b>Amount outstanding</b>	<b>Risk Weighted Assets</b>
Less than 100% risk weight	75043.96	65935.60
100% risk weight	49027.23	37960.56
More than 100% risk weight	8276.05	10589.17
Deducted	0.00	0.00

1. Includes credit exposures and excludes investment & derivative exposures covered in market risk.
2. Includes all entities considered for Basel II capital adequacy computation.

## 6. CREDIT RISK MITIGATION

### **Credit risk mitigation and collateralised management policy**

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. The Bank would have the rights of secured creditor in respect of the assets/ contracts offered as security for the obligations of the borrower/ obligor.

**Collateral valuation and management:** As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel II guidelines. In line with Basel II guidelines, the Bank adjusts the value of any collateral received to adjust for possible future fluctuations in the value of the collateral in line with the requirements specified by RBI guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

For retail products, the security to be taken is defined in the product policy for the respective products. Housing loans and other retail loans are secured by the security of the property/ asset being financed. The valuation of the properties is carried out by an approved valuation agency. The Bank also offers products, which are primarily based on collateral such as shares, specified securities, warehoused commodities and gold jewellery. These products are offered in line with the approved product notes, which also deal with types of collateral, valuation and margining.

The Bank extends unsecured facilities to high rated clients and for certain products such as derivatives, personal loans etc. The limits structure with respect to unsecured facilities has been approved by the Board of Directors.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as per the credit approval authorisation approved by the Board of Directors. For facilities provided as per approved product policies (retail products, loan against shares etc.), collateral is taken in line with the policy.

### **Types of eligible financial collateral**

The Bank recognizes only specified types of financial collateral to be eligible for providing capital relief in line with Basel II guidelines towards credit risk mitigation. This includes cash (deposited with the Bank), gold (including

bullion and jewellery, subject to collateralized jewellery being benchmarked to 99.99% purity), securities issued by Central and State Governments, Indira Vikas Patra, Kisan Vikas Patra, National Savings Certificates, life insurance policies with a declared surrender value issued by an insurance company which is regulated by the insurance sector regulator, certain debt securities rated by a recognized credit rating agency, mutual fund units where daily Net Asset Value (NAV) is available in public domain and the mutual fund is limited to investing in the instruments listed above and guarantees from certain specified entities. In addition to the financial collateral bank also accepts guarantee from different counterparties to mitigate the risk like guarantee from Government, Corporate and Individuals.

Bank also accepts non-financial collateral i.e. Stock, book debts, mortgage of residential property & commercial property and plant and machinery.

**Information about (market or credit) risk concentrations within the mitigation taken**

Eligible Financial Collateral	Amount Rs. Cr.	Risk Concentration %
Bank Deposits, LICs, NSCs, KVPs & Govt Securities	3068.64	100%

**Credit concentration risk**

Credit concentration risk arises mainly on account of concentration of exposures under various categories viz. industry, products, geography, underlying collateral nature, single/group borrower exposures etc. Within corporate portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the RBI has prescribed regulatory limits on banks' maximum exposure to single borrowers and group borrowers. In order to restrict the concentration risk arising out of longer tenure exposure within the prudential limits set by RBI, the Board of Directors of the Bank has

approved prescribed sub limits for the maximum exposure the Bank can have to a borrower group. Within the various limits are stipulated in the credit policy to address concentration risk. Limits have been stipulated on single borrower, group, industry, longer tenure exposure to a group.

#### General

1. Credit approving authority, prudential exposure limits, industry exposure limits, credit risk rating system, risk based pricing and loan review mechanisms are the instruments used by the bank for credit risk management. Credit Risk is measured through dispersion of risk through segmental exposure limits to various industries and sectors, prudential exposure and substantial exposure ceilings and risk mitigation by obtaining collateral and guarantees.
2. The CBS coverage of 100% provides comfort in central monitoring of credit risk.

The capital requirements for credit risk under standardised approach @ 9% is Rs.5813.21 crore.

### **7. Securitisation: Disclosure for standardized Approach**

Bank does not have any Securitisation Exposure.

## **8. MARKET RISK IN TRADING BOOK**

### **8.1. Market risk management policy**

#### **Risk management policies**

In trading book Bank holds HFT and AFS portfolio of Investment. The rest of Assets i.e. Investment under HTM and Advances are treated as banking book.

#### **Strategies and processes**

Under Market Risk Management Liquidity risk, Interest rate risk , Foreign exchange risk and equity risk are monitored. Bank is not currently trading in commodities.

#### **Liquidity Risk**

Gap analysis is followed for monitoring liquidity risk on fortnightly basis. Prudential limit based on RBI guidelines for the short- term buckets are monitored. Besides prudential limits are in place for market borrowing – Daily and average call borrowing – Inter Bank Liabilities, Purchased funds etc. High

value bulk deposits are monitored on daily basis by the investment committee. Short- term dynamic liquidity statement is prepared on a fortnightly basis to assess the liquidity position, which takes into account the business growth. A contingency funding plan is in place to meet the emergencies. The plan is tested on a quarterly basis. Stress Testing is also done on a quarterly basis to assess possible loss to Bank if there is any liquidity crisis and if funds are to be raised from the market to meet the contingencies.

### **Interest Rate Risk**

Gap analysis is used to assess the impact on the Net Interest Income of the bank for the next 12 months and till the next financial year. The Bank also uses duration gap analysis.

Prudential limits have been fixed for duration of liabilities. Bank's investments portfolio is monitored on basis of duration analysis.

VaR methodology is followed for dated securities under SLR and Non SLR (domestic). Prudential limits for VaR have been fixed and daily monitoring is being done and reported to Top Management. Stress Testing is done to assess the impact on Economic Value of Equity by infusing a shock of change in market rate by 200 basis points.

### **Foreign Exchange Risk**

The Bank has fixed maximum daylight and overnight exposure for foreign exchange exposure in various currencies. Also, stop loss limit, take profit limit and single deal limits are in place for monitoring the forex operations of the dealers.

### **Equity Price Risk.**

The bank's domestic investment policy has fixed stop loss limits for equity dealers. Daily reporting to Top Management on the transactions and profit is done.

**Structure and Organisation of Market Risk Management function:**

Risk Management is a Board driven function supported by three levels-

- (i) Risk Management Committee of the Board for overseeing and issuing directions, wherever necessary / approving Risk Management Policies etc.,
- (ii) Asset Liability Management Committee (ALCO) who consider policy issues and
- (iii) Risk Management Cell providing support at the ground level.

**Scope and nature of risk reporting and / or measurement systems:**

In respect of domestic business the guidelines stipulated by RBI for managing Market Risk is followed such as – Preparation of Interest Rate Sensitivity statement on a weekly basis – Duration analysis of investments in the Trading book on a daily basis – VaR calculation of trading book investments on a daily basis excepting the equity portfolio – conducting stress test for liquidity risk / market risk on a quarterly basis. – Duration analysis of domestic balance sheet and impact on the Economic Value of Equity on a quarterly basis. Interest Rate sensitivity is reviewed at regular intervals by ALCO at the corporate level Various prudential measures have been put in respect of market borrowing and lending in conformity with RBI guidelines for monitoring liquidity risk. Structural Liquidity statement is prepared on weekly basis and Short Term Dynamic Liquidity statement on a fortnightly basis and reported to ALCO. The results of the Quarterly study on Stress Testing and Impact on Economic Value of Equity is reported to ALCO. Trading book position – Duration and VaR is reported daily to Top Management.

**Policies for hedging and / or mitigating risk.**

Detailed policies are operational for Investment management, Asset Liability Management and Market Risk Management, which deal in detail the various strategies and processes for monitoring Market Risk.

## 8.2. Quantitative disclosures

The capital requirements for:	Amount in Rs cr.
• interest rate risk:	229.32
• equity position risk: and	136.77
• foreign exchange risk:	2.70
Total Capital for market risk	368.79

## 9. Operational risk

- a. The Bank is following Basic Indicator Approach and providing for requisite capital under parallel run as per RBI guidelines.
- b. The Operational Risk Management Committee meets at regular intervals wherein the incidents exposing the Bank to Operational risk are deliberated at length and suitable steps are initiated to check recurrence of such events.
- c. The Bank is also deliberating on Risk Profiling Templates required in terms of RBI guidelines in the Operational Risk Management Committee.
- d. Besides adopting Basic Indicator Approach, Bank has collected data pertaining to loss events for past four years and data is being mapped into eight business lines as per RBI guidelines. Further, the exercise with regard to recording income under various business lines for calculation of capital required for Operational Risk has been initiated through CBS system.
- e. The Bank is already collaborating with IBA in a venture “Credit and Operational Risk Loss Data Exchange (CORDEX)” as one of the promoters for collecting loss data and framing models for measuring operational risk and formulating models for computing capital charge.

### 9.1. Qualitative disclosures

The Bank assesses and identifies operational risks inherent in all the material products, processes and systems under different Lines of Business on ongoing basis. All new products, activities and systems are being routed through Credit

Risk Management Committee (CRMC) / Operational Risk Management Committee (ORMC).

Fraud and related reporting is done to Audit Committee of Board. Operational Risk is quantified through **Basic Indicator Approach**. Bank adopts best practices in operational risk management, like segregation of duties, trainings, clear laid down procedures etc.

## **9.2. Quantitative Disclosure:**

Capital requirement for operational risk under **Basic Indicator Approach** is Rs.**362.03** Crore.

## **10. Interest rate risk in the banking book (IRRBB)**

### **10.1. Qualitative Disclosures**

The general qualitative disclosure requirement, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement :

Interest Rate Risk in banking book is calculated on quarterly basis. Banking book includes all advances and investments held in Held to Maturity (HTM) portfolio. The strategies & processes /structure & organization / scope and nature of risk reporting/ policies etc are the same as reported under point – 8.1

The methodology and key assumptions made in the IRRBB measurement are as follows

- Based on method suggested by RBI
- Based on Weekly information from networked branches on the residual maturity of the advances and the deposits covering 100% of bank's business, Interest Rate Sensitivity statement is prepared with various time buckets, having regard to the rate sensitivity as well as residual maturity of different assets and liabilities.
- The duration for each asset and liability is arrived at taking the midpoint of each time bucket as the maturity date and the average yield as coupon and

taking the market rate for discounting purpose. For investments, the actual duration is taken, as data is available with full particulars.

- Using the above, Modified duration of liabilities and assets for each bucket is calculated and the impact on their value for a change in interest rate by 1% is reckoned by adding up, the net position is arrived at to determine as to whether there will be a positive increase in the value or otherwise.

## 10.2. Quantitative Disclosures

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,

### INTEREST RATE IN BANKING BOOK

		<b>Total (Rs in Cr)</b>
1. Earnings At Risk (NII)	At 0.50% for 1 year	<b>94.22</b>
2. Economic Value of Equity at Risk	200 basis point shock	<b>1050.44</b>
	Drop in equity value in %age terms	<b>16.50%</b>