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

Disclosures in this report pertain to Punjab National Bank (Solo). The Capital to Risk-weighted Assets Ratio (CRAR) of the bank and its three subsidiaries on stand-alone basis are shown separately in para 3.7.

1. Scope of application

1.1 Punjab National Bank is the top bank in the group to which the revised capital adequacy framework applies. The bank has following three subsidiaries:

Sr. No.	Name of the subsidiary	Country of incorporation	Proportion of ownership percentage
i)	PNB Gilts Ltd.	India	74.07
ii)	PNB Housing Finance Ltd.	India	100
iii)	Punjab National Bank (International) Ltd.	United Kingdom	100

The subsidiaries are fully consolidated as per Accounting Standard 21 of Institute of Chartered Accountants of India (ICAI).

1.2 Bank is having 20% or more stake in following entities.

	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Everest Bank Ltd.	Nepal	20%
ii)	UTI Asset Management Co. Pvt. Ltd.	India	25 %
iii)	UTI Trustee Co. Pvt. Ltd	India	25 %
iv)	Asset Care Enterprises Ltd.	India	26%
v)	Principal PNB Asset Management Co. Pvt. Ltd	India	30 %
vi)	Principal Trustee Co. Pvt. Ltd.	India	30%
vii)	PNB Principal Financial Planners Pvt. Ltd.	India	30%
viii)	PNB Principal Insurance Broking Pvt. Ltd.	India	30%
ix)	Principal PNB Life Insurance Company Ltd.	India	30%
x)	Haryana Gramin Bank	India	35%
xi)	Himachal Gramin Bank	India	35%
xii)	Madhya Bihar Gramin Bank	India	35%
xiii)	Punjab Gramin Bank	India	35%
xiv)	Rajasthan Gramin Bank	India	35%
xv)	Sarva UP Gramin Bank	India	35%

The above 15 entities are consolidated as per Accounting Standard 23 of ICAI.

1.3 The 18 entities as given in para 1.1 and 1.2 are consolidated as per respective Accounting Standards of ICAI and no entity is pro rata consolidated and there is no entity that is neither consolidated nor deducted.

1.4 There is no capital deficiency in any of the subsidiaries.

1.5 The bank presently is not involved in insurance activity. However, bank has invested in the share capital to the extent of 30% in the following two companies (incorporated in India)

i) PNB Principal Insurance Broking Pvt. Ltd.
ii) Principal PNB Life Insurance Company Ltd.

1.6 PNB Principal Insurance Broking Pvt. Ltd is a company engaged in "Direct Broker" activity as per License granted by Insurance Regulatory & Development Authority (IRDA). The paid up capital of the company is Rs.5 crores and bank's stake is Rs.1.50 crores.

1.7 Principal PNB Life Insurance Company Ltd. is incorporated with an authorized capital of Rs.110 crore to commence life insurance business. The paid-up capital of the company is Rs.2 crore and bank's stake is Rs.0.60 crore. The application filed by the company with IRDA on RI format (Requisition of Licence) has been kept in abeyance for want of certain information.

1.8 Bank has decided to off load the investment made in the share capital of the aforesaid two companies.

2. Capital Structure

2.1 Bank's Tier I capital comprises of Equity Shares, Reserves and Innovative Perpetual Bonds.

2**.2** Bank has issued Innovative Perpetual Bonds (Tier 1 capital) and also other bonds eligible for inclusion in Tier 2 capital. Some of the important terms of the bonds are as under:

a. Perpetual Unsecured Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Tier I bonds)

Series	Date of Allotment	Bond Amount (Rs in Crs)	Coupon Rate*	Tenor	Call option*	Put Option
I	20.07.2007	500	10.40% annual for first 10 Years. Step up Coupon Rate of 10.90% annual for all subsequent years if call option is not exercised at the end of 10th year from the date of allotment	Perpetual	At par at the end of 10th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
II	11.12.2007	300	9.75% annual for first 10 years. Step up Coupon Rate of 10.25% annual for all subsequent years if call option is not exercised at the end of 10th year from the date of allotment.	Perpetual	At par at the end of 10th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
III	18.01.2008	300	9.45% annual for first 10 years. Step up Coupon Rate of 9.95% annual for all subsequent years if call option is not exercised at the end of 10th year from the date of allotment	Perpetual	At par at the end of 10th year from date of allotment and thereafter on each coupon date (with prior RBI permission)	None
Total		1100				

* subject to RBI guidelines

b. Unsecured Redeemable Non-Convertible Subordinated Bonds in the nature of Promissory Notes (Upper Tier 2 bonds).

Series	Date of Allotment	Bond Amount (Rs. in crores)	Coupon Rate*	Tenor	Call Option*	Put Option	Redemption/ Maturity*
I	08.12.2006	500	Interest at the rate of 8.80% p.a. payable annually. If the call option is not exercised at the end of 10th year from date of allotment then the bonds shall carry the interest of 9.30% payable annually for the last five years i.e. 11th to 15th year	15 years	At par at the end of 10th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10th year.
II	12.12.2007	500	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at the end of 10th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11th to 15th year	15 years	At par at the end of 10th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10th year.
III	05.03.2008	510	Interest at the rate of 9.35% p.a. payable annually. If the call option is not exercised at the end of 10th year from date of allotment then the bonds shall carry the interest of 9.85% payable annually for the last five years i.e. 11th to 15th year	15 years	At par at the end of 10th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10th year.
IV	27.03.2008	600	Interest at the rate of 9.45% p.a. payable annually. If the call option is not exercised at the end of 10th year from date of allotment then the bonds shall carry the interest of 9.95% payable annually for the last five years i.e. 11th to 15th year	15 years	At par at the end of 10th year from the date of allotment (with prior RBI permission)	None	At par at the end of the 15th year from the date of allotment, if the call option is not exercised at the end of 10th year.
Total		2110					

***subject to RBI guidelines**

c. Unsecured Redeemable Non Convertible Subordinated Bonds in the nature of Promissory Notes (Tier 2 bonds):

Sr. No.	Series	Date of Allotment	Bond Amount (Rs in Crs)	Coupon Rate (% p.a. payable annually)	Tenor (in months)	Date of Maturity
i)	VI	01.08.2001	300.00	10.00	80	01.4.2008
ii)	VIII (i)	18.07.2002	95.00	8.30	81	18.4.2009
iii)	VIII (ii)	18.07.2002	295.00	8.80	117	18.4.2012
iv)	IX	04.09.2003	265.00	5.80	116	04.5.2013
v)	X	08.03.2004	500.00	5.90	111	08.6.2013
vi)	XI	16.06.2006	884.80	8.45	118	16.4.2016
vii)	XII	16.08.2006	115.00	9.15	116	16.4.2016
viii)	XIII	08.09.2006	500.00	8.95	115	08.4.2016
Total			2954.80			

2.3 The Tier 1 capital of the bank comprises:

(Rs in Crores)

i)	Paid up share capital	315.30
ii)	Reserves (excluding revaluation reserves)	10467.35
iii)	Innovative Perpetual Bonds	1100.00
iv)	Other Capital Instruments	--
Deductions		
v)	Equity Investment in subsidiaries (50%)	158.51
vi)	Intangible Assets (Deferred Tax Assets + Computer Software)	264.30
Tier I Capital (i + ii + iii + iv –v –vi)		11459.84

2.4 The amount of Tier 2 capital (net of deductions) is Rs.5737.50 crores

2.4.1 The debt capital instruments eligible for inclusion in Upper Tier 2 capital are:

(Rs in Crores)

Total amount outstanding	2110.00
Of which amount raised during the current year	1610.00
Amount eligible to be reckoned as capital funds	2110.00

2.4.2 The subordinated debts eligible for inclusion in Lower Tier 2 capital is:

(Rs in Crores)

Total amount outstanding	2954.80
Of which amount raised during the current year	0.00
Amount eligible to be reckoned as capital funds	2519.80

2.5 There are no other deductions from capital.

2.6 The total eligible capital comprises:

(Rs in Crores)

Tier – I Capital	11459.84
Tier – II Capital	5737.50
Total Capital	17197.34

3. Capital Adequacy

3.1 Credit Risk Management

3.1.1 Bank has developed online comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counter-party and for taking credit decisions in a consistent manner. The risk rating system is drawn up in a structured manner, incorporating different factors such as borrower's specific characteristics, industry specific characteristics etc. Bank is also undertaking periodic validation exercise of its rating models and also conducting migration and default rate analysis to test robustness of its rating models. In case of portfolio up to Rs. 50 lakh, the ratings are assigned on pooled basis based on default rates.

For monitoring the health/conduct of borrowal accounts on regular intervals, bank has put in place a tool called Preventive Monitoring System (PMS) for detection of early warning signals with a view to prevent/minimize the loan losses.

Bank is also developing framework for estimating LGD (Loss Given Default) and EAD (Exposure At Default) and also the framework for identifying concentration risk. A data warehouse is being established for effective data management and use of application tools for quantification of risks.

3.1.2 The Risk Management Committee (RMC) of the Board oversees the functioning of the high level Credit Risk Management Committee (CRMC), for implementing policies and other strategies approved by RMC/Board in matters of credit risk management.

As an integral part of Risk Management System, the bank has put in place a well-defined Loan Review Mechanism (LRM), for evaluating the quality of loan book and to bring about qualitative improvements in credit administration by formation of a separate and independent Division known as Credit Audit & Review Division.

3.1.3 All borrowal accounts beyond Rs.50 lakh, barring certain advances falling under exempted categories are subject to credit risk rating. The portfolio below the threshold level viz. up to Rs. 50 lacs is segmented based on homogeneity, rating to these homogenous pools is assigned accordingly.

The ratings are vetted/confirmed by an independent authority. These processes are done independent of credit appraisal function.

All loan proposals falling under the powers of GM & above at HO & Circle Heads and DGMs posted at Circles headed by GM are routed through a Credit Committee consisting of representatives from risk management department, credit operations department etc. before taking a final decision by sanctioning authority. These proposals are deliberated in the Credit Committee from business, risk management and policy perspectives.

The rating category wise portfolio of loan assets is reviewed on quarterly basis to analyze mix of quality of assets etc.

3.1.4 In order to provide a robust risk management structure, the policy aims to provide a basic framework for implementation of sound credit risk management system in the bank. It deals with various areas of credit risk, goals to be achieved, current practices and future strategies.

Though the bank has implemented the Standardized Approach of credit risk, as prescribed by Reserve Bank of India in its guidelines, yet the bank shall continue its journey towards adopting Internal Rating Based Approaches. As such, the credit policy deals with short term implementation as well as long term approach to credit risk management. The policy of the bank embodies in itself the areas of risk identification, risk measurement, risk grading techniques, reporting and risk control systems /mitigation techniques, documentation practice and the system for management of problem loans.

3.2 Market Risk & Liquidity Risk

The objective of investment policy is to assess and minimize risks associated with treasury operations by extensive use of various risk management tools. Broadly, it encompasses Policy prescriptions for managing systemic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

3.2.1 For market risk arising out of various products in treasury and its business activities, the bank sets regulatory / internal limits and ensures the adherence thereof. Migration of ratings is tracked regularly. Limits for exposures to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss Limits, Overnight limit, Daylight limit, Aggregate Gap limit, Individual gap limit, Value at Risk (VaR) limit for Forex, Inter-Bank dealing and investment limits etc.

3.2.2 For the Market Risk Management of the bank, it has a Middle Office with separate Desks for Treasury & ALM The functions of Middle Office are being reported to Risk Management Committee (RMC) and to the Board through Risk Management Division of the bank.

3.2.3 The Board, RMC, & ALCO are responsible for establishing the market risk management of the bank, procedures thereof, implementing risk management guidelines issued by regulator, best risk management practices followed globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to.

3.2.4 The policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants are discussed in ALCO and based on views taken by / mandates of ALCO, hedge deals are undertaken.

3.2.5 Liquidity risk of the bank is assessed through gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limits fixed thereon. Advance techniques such as Stress testing, simulation, sensitivity analysis etc. are conducted on regular intervals to draw the contingency funding plan under different liquidity scenarios.

3.3 Operational Risk

Bank has put in place necessary mechanism to capture required information and an elaborate Operational Risk Management Framework with a well-defined ORM Policy. The bank has a separate Operational Risk Management Department under overall supervision of Operational Risk Management Committee (ORMC) headed by CMD. All the operational risk aspects like analysis of historical loss data (including near miss events, attempted frauds & robberies, external loss events), are placed to the ORMC on quarterly basis.

Bank is also in the process of developing suitable platform for moving on to advanced approaches viz. the Standardised Approach (TSA) and Advanced Measurement Approach (AMA)

3.4 The capital requirements for credit risk are:

- for portfolios subject to standardised approach @ 9% Rs. 9913.06 crores

-for securitization exposures: NIL

3.5 The capital requirements for market risk (under standardised duration approach) are:

Risk Category	(Rs in Crores)
i) Interest Rate Risk	438.41
ii) Foreign Exchange Risk (including Gold)	9.00
iii) Equity Risk	166.38
iv) Total capital charge for market risks under Standardised duration approach (i + ii + iii)	613.79

3.6 The capital requirement for operational risk under Basic indicator approach is Rs.974.62 crores as on 31.03.2008.

3.7 The capital ratios of the bank and subsidiaries are:
Punjab National Bank

CRAR%	13.46%
CRAR – Tier I capital (%)	8.97%
CRAR – Tier II capital (%)	4.49%

Subsidiaries:

Name of subsidiary	CRAR – Tier I capital (%)	CRAR – Tier II capital (%)	CRAR%
PNB Gilts Ltd	32.34%	NIL	32.34%
PNB Housing Finance Ltd	10.32%	6.96%	17.28%
Punjab National Bank (International) Ltd.	56.02%	NIL	56.02%

4. Credit risk: general disclosures

4.1 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. Further, an impaired asset is a loan or an advance where**:**

(i) interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.

(ii) the account remains out of order in respect of an overdraft/cash credit:

- if the outstanding balance remains continuously in excess of the 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

(iii) in case of bills purchased & discounted, if the bill remains overdue for a period of more than 90 days

(iv) the instalment or principal or interest thereon remains overdue for two crop seasons for short duration and the instalment of principal or interest thereon remains overdue for crop season for long duration crops.

4.2 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.

4.3 The total gross credit risk exposures are:

(Rs in Crores)

Category	Amount
Fund Based	120931.96
Non Fund Based	30616.01

4.4 The geographic distribution of exposures is:

(Rs in Crores)

	Overseas	Domestic
Fund Based	282.79	120649.17
Non-fund based	27.30	30588.71

4.5. (a) Industry type distribution of exposures (Fund Based) is as under:

S.NO.	CODE	INDUSTRY		AMOUNT (Rs. in crore)
1	1	COAL		13.73
2	2	MINING		582.78
3	3	IRON AND STEEL		7855.75
4	4	OTHER METAL & METAL PRODUCTS		958.36
5	5	ALL ENGINEERING		3408.42
	51	Of which (005) Electronics	992.43	0.00
6	6	ELECTRICITY		4826.29
7	7	COTTON TEXTILES		2277.27
8	8	JUTE TEXTILTES		62.25
9	9	OTHER TEXTILES		3270.66
10	10	SUGAR		2448.38
11	11	TEA		6.08
12	12	FOOD PROCESSING		1570.64
13	13	VEGETABLE OILS AND VANASPATI		682.33
14	14	TOBACCO & TOBACCO PRODUCTS		15.02

15	15	PAPER & PAPER PRODUCTS		1145.80
16	16	RUBBER & RUBBER PRODUCTS		149.15
17	17	CHEMICALS, DYES, PAINTS, ETC.		2780.11
	171	Of which Fertilisers	640.81	0.00
	172	Of which Petro-chemicals	386.33	0.00
	173	Of which Drugs & Pharmaceuticals	1079.69	0.00
18	18	CEMENT		1253.73
19	19	LEATHER & LEATHER PRODUCTS		452.99
20	20	GEMS AND JEWELLERY		597.93
21	21	CONSTRUCTION		2546.98
22	22	PETROLEUM		2065.02
23	23	AUTOMOBILES INCLUDING TRUCKS		358.60
24	24	COMPUTER SOFTWARE		50.07
25	25	INFRASTRUCTURE		6711.39
	251	Of which Power	295.95	0.00
	252	Of which Telecommunications	1248.93	0.00
	253	Of which Roads & Ports	2058.79	0.00
26	26	NBFCs		5878.87
27	27	TRADING		1262.67
28	28	OTHER INDUSTRIES		7590.16
		TOTAL		60821.43
29	29	Residuary Other Advances		60110.53
		GRAND TOTAL		120931.96
				0.00
		Industry exposure is more than 5% of gross fund based exposure		0.00
1	3	IRON AND STEEL		7855.75

(b) - Industry type distribution of exposures (Non Fund Based) is as under:

S.NO.	CODE	INDUSTRY		AMOUNT (Rs. in crore)
1	1	COAL		27.66
2	2	MINING		325.00
3	3	IRON AND STEEL		5675.19
4	4	OTHER METAL & METAL PRODUCTS		144.76
5	5	ALL ENGINEERING		2677.79
	51	Of which (005) Electronics	286.53	0.00
6	6	ELECTRICITY		3.93
7	7	COTTON TEXTILES		169.26
8	8	JUTE TEXTILTES		11.55
9	9	OTHER TEXTILES		447.39
10	10	SUGAR		258.83
11	11	TEA		2.32
12	12	FOOD PROCESSING		149.50
13	13	VEGETABLE OILS AND VANASPATI		524.01
14	14	TOBACCO & TOBACCO PRODUCTS		5.48
15	15	PAPER & PAPER PRODUCTS		59.16
16	16	RUBBER & RUBBER PRODUCTS		56.28
17	17	CHEMICALS, DYES, PAINTS, ETC.		895.48
	171	Of which Fertilisers	187.70	0.00
	172	Of which Petro-chemicals	176.24	0.00
	173	Of which Drugs & Pharmaceuticals	236.22	0.00
18	18	CEMENT		126.89
19	19	LEATHER & LEATHER PRODUCTS		31.51
20	20	GEMS AND JEWELLERY		14.37
21	21	CONSTRUCTION		649.08
22	22	PETROLEUM		1149.86
23	23	AUTOMOBILES INCLUDING TRUCKS		203.70
24	24	COMPUTER SOFTWARE		17.60

25	25	INFRASTRTCTURE		3939.94
	251	Of which Power	1107.12	0.00
	252	Of which Telecommunications	281.80	0.00
	253	Of which Roads & Ports	1213.90	0.00
26	26	NBFCs		24.41
27	27	TRADING		1931.81
28	28	OTHER INDUSTRIES		1942.90
		TOTAL		21465.66
29	29	Residuary Other Advances		9150.35
		GRAND TOTAL		30616.01
		Industry where non fund based outstanding is more than 5% of gross non fund based outstanding		0.00
1	3	IRON AND STEEL		5675.19
2	5	ALL ENGINEERING		2677.79

4. 6 The residual contractual maturity break down of assets is:

(Rs in Crores)

Maturity Pattern	Advances*	Investments (gross)	Foreign Currency Assets*
Next day	1156.11	0.00	242.80
2 - 7 days	2771.30	252.36	85.15
8 -14 days	4405.91	110.69	100.58
15- 28 days	3198.21	783.81	216.96
29days - 3months	6761.40	1227.04	814.73
>3months-6months	5899.85	1648.69	1242.07
>6months-1yr	11310.24	2720.24	230.13
>1yr-3yrs	54597.30	8686.87	350.17
>3yrs-5yrs	13889.11	8819.48	360.51
>5yrs	15512.14	30662.73	336.96
Total	119501.57	54911.91	3980.06

*****Figures are shown on net basis

4.7 The gross NPAs are:

Category	(Rs. in Crores)
Sub Standard	1377.37
Doubtful – 1	709.63
Doubtful – 2	372.85
Doubtful – 3	390.92
Loss	468.53
Total NPAs (Gross)	3319.30

4.8. The amount of net NPAs is Rs.753.78 crores.

4.9 The NPA ratios are as under:

- Gross NPAs to Gross Advances: 2.74%
- Net NPAs to Net Advances: 0.64%

4.10 The movement of gross NPAs is as under:

(Rs. in Crores)

i) Opening Balance at the beginning of the year	3390.72
ii) Addition during the year	1953.19
iii) Reduction during the year	2024.61
iv) Closing Balance as at the end of the year (i + ii - iii)	3319.30

4.11 The movement of provision for NPAs is as under:

(Rs in Crores)

i) Opening Balance at the beginning of the year	2280.14
ii) Provisions made during the year	1026.36
iii) Write-off made during the year	620.85
iv) Write –back of excess provisions made during the year	473.10
v) Closing Balance as at the end of the year (i + ii - iii-iv)	2212.55

4.12 The amount of non-performing investment is Rs 113.02crores.

4.13 The amount of provisions held for non-performing investment is Rs 113.02 crores.

4.14 The movement of provisions for depreciation on investments is as under:

(Rs in Crores)

i) Opening balance at the beginning of the year	1324.96
ii) Provisions made during the year	46.06
iii) Write-off made during the year	0.00
iv) Write-back of excess provisions made during the year	450.82
v) Closing balance as at the end of the year (i + ii –iii-iv)	920.20

5. Credit Risk: disclosure for portfolios subject to the standardised approach

5.1 Bank has approved the following 4 domestic credit rating agencies identified by RBI

- CRISIL
- CARE
- FITCH India
- ICRA

Bank has also approved the following 3 international credit rating agencies identified by RBI

- Standard & Poor
- Moody's
- FITCH

5.2 Large corporate borrowers and Public Sector Enterprises are being encouraged to solicit ratings from approved external rating agencies and wherever such ratings are available, bank has used the same in calculation of risk weighted assets.

5.3 The ratings available in public domain are mapped according to risk profile and specific risk characteristics of each rating grade of respective agencies as envisaged in RBI guidelines.

5.4 The exposure amounts after risk mitigation (subject to the standardised approach) in different risk buckets are as under:

(Rs in Crores)

i) Below 100% risk weight exposure outstanding	78576.94
ii) 100% risk weight exposure outstanding	70392.29
iii) More than 100% risk weight exposure outstanding	12583.01
iv) Deducted	5006.33

6 Credit Risk Mitigation: disclosures for standardised approaches

6.1. A comprehensive policy on valuation of property, plant & machinery, has been approved by the Board.

6.2 The collaterals commonly used by the Bank as the risk mitigants comprise of the financial collaterals (i.e. bank deposits, govt./postal securities, life policies, gold jewellery, units of mutual funds etc.), various categories of movable and immovable assets/landed properties etc.

6.3 The personal/corporate guarantees are taken for the credit facilities, considering the constitution of the organization, its financial condition, security available, where capacity for cash generation is not satisfactory even though the relevant advances are secured, delay in the creation of a charge on assets, interlocking of funds between the company and other concerns owned or managed by a group, in the case of subsidiaries whose own financial condition is not considered satisfactory etc. Where personal guarantee is considered necessary, the guarantee is preferably that of the principal members of the group holding shares in the borrowing company and have reasonable proportion to the estimated worth of the person.

6.4 Large exposures to individual counter party or a group are managed by stipulating prudential limits linked to the rating of the borrower. Exposure limits to various industry sectors are defined using a model that specifically throws out the exposure limits for the sectors.

6.5 The total exposure for disclosed credit risk portfolio (under the standardized approach) is covered by Rs. 5006.33 crores after the application of haircuts (eligible financial collateral).

7. Securitisation: disclosure for standardized approach

Bank does not have any securitisation exposure.

8. Market Risk in Trading Book

8.1 Bank has adopted the Standardised Duration Approach as prescribed by RBI for computation of capital charge for market risk and is already fully compliant with such RBI guidelines. Bank is now preparing itself for the Advanced Approach based on a Value at Risk (VaR) model, which is under implementation.

8.2 The capital requirements for market risk are as under:

Risk Category	(Rs. in crores)
i) Interest Rate Risk	438.41
ii) Equity Position Risk	166.38
iii) Foreign Exchange Risk (including Gold)	9.00
iv**)**Total capital charge for market risks under Standardised duration approach (i+ii+iii)	613.79

9. Operational Risk

As per RBI directives, the bank has to maintain capital for operational risk under Basic Indicator approach (BIA) w.e.f. 31.03.2008. The capital charge as per BIA is Rs.974.62 crores as on 31.03.2008.

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

10.1 Interest rate risk is managed through gap analysis and duration gap analysis. Prudential limits have been fixed for impact on net Interest Income (NII), Net Interest margin (NIM), Minimum ROA and Maximum Duration gap for the Bank.

The approaches for measuring the interest rate risk are:

Earning Approach – (Interest rate sensitivity Statement- Net Gaps)

Table 1: Interest rate sensitivity - net gaps (Rs Cr)

Maturity Period	Gap (RSA-RSL)	Other Products * (Int. rate)	Net Gap (1-2)	Total Assets	Net Gaps as % to Total Assets
	1	2	3	4	5
1-28 days	431.90	2535.00	-2103.10	14930.43	-14%
29 days – 3 months	65820.74	0.00	65820.74	80226.58	82%
>3 to 6 months	-54360.84	25.00	-54385.84	6225.13	-874%
>6 to 12 months	-27266.45	0.00	-27266.45	10157.59	-268%
>1 to 3 yrs.	6688.42	-1395.00	8083.42	26163.30	31%
>3 to 5 yrs.	5046.97	-1165.00	6211.97	13057.05	48%
Over 5 yrs.	22937.63	0.00	22937.63	32270.81	71%

* Other products include: FRAs, Swaps, Futures, Options & other derivatives

<u>Impact of 0.5 % change upward/downward in interest rate on NII</u>

Remaining Period	Expected Loss on NII with change in rate of interest upward both for assets and liabilities at 0.5 %	Expected Gain on NII with change in rate of interest downward both for assets and liabilities at 0.5 %
Up to 1 year period	Rs 60.56 Cr	Rs 60.56 Cr

Economic Value Approach:

The economic value i.e. impact on the capital fund due to change in interest rate by 200 bps on the economic value is assessed on regular intervals through duration gap method. As a prudential measure a limit has been fixed for net duration gap of the assets and liabilities and the same is monitored at regular intervals.