Disclosures under Pillar 3 of BASEL-II Guidelines as on March 31, 2010

TABLE DF – 1: SCOPE OF APPLICATION

Qualitative Disclosures:

Name of the Bank is Development Credit Bank Ltd. The Bank does not have any subsidiary.

Quantitative Disclosures:

The Bank does not have interest in any insurance entities.

TABLE DF – 2 : CAPITAL STRUCTURE

Qualitative Disclosures:

Equity Capital:
The Bank has authorised share capital of Rs. 300 Cr. comprising 300,000,000 equity share of Rs. 10/- each. As on March 31, 2010, the Bank has issued, subscribed and paid-up capital of Rs. 199.99 Cr., constituting 199,985,189 shares of Rs. 10/- each.

During FY 2009-10 the Bank issued 23,725,835 shares to Qualified Institutional Investors @ Rs. 34.14 per share. Net of issue costs, this resulted in an increase of Rs. 23.73 Cr. in Share Capital and Rs. 54.61 Cr. in Share Premium Account.

Lower Tier II Capital:

Subordinated Debt
As on March 31, 2010, the Bank had an outstanding subordinated debt (Unsecured Redeemable Non-convertible Bonds) aggregating Rs. 147 Cr. the details of which are stated below

(Rs. in Cr.)

Issue Series	Deemed Date of Allotment	Coupon Rate (% p.a.)	Tenure (in months)	Equivalent Amount as on 31.03.2010
II (Option I)	30-09-2003	7.00	68	-
II (Option II)	30-09-2003	7.30	92	26.00
III (Option I)	31-03-2004	7.00	75	46.00
III (Option II)	31-03-2004	7.15	99	10.00
IV	31-08-2009	11.25	68	65.00
TOTAL				147.00

Quantitative Disclosures

(Rs. in Cr.)

Tier I Capital	
Paid up Share Capital	199.99
Reserves	337.09
Gross Tier I Capital	**537.08**
Deductions	-
Amounts deducted from Tier I capital	8.83
Net Tier I Capital	**528.25**
Tier II Capital	

Lower Tier II Bonds	-
Sub-ordinated debts	74.20
General Provisions/IRA and Revaluation Reserves	54.89
Gross Tier II Capital	**129.09**
Total eligible capital	**657.34**
Debt Capital instruments eligible for inclusion in Upper Tier II Capital	-
Total amount outstanding	-
Of which amount raised during the current year	-
Amount eligible to be reckoned as Capital funds	-
Subordinated debt eligible for inclusion in Lower Tier II Capital	-
Total amount outstanding	147.00
Of which amount raised during the current year	-
Amount eligible to be reckoned as Capital funds	74.20
Tier I Capital Funds	**528.25**
Tier II Capital Funds	**129.09**
Total Eligible Capital Funds	**657.34**

TABLE DF – 3 : CAPITAL ADEQUACY

Qualitative Disclosures

Reserve Bank of India has issued final guidelines on April 27, 2007 for implementation of the New Capital Adequacy (Basel II) Framework. In line with the RBI guidelines, the Bank has successfully migrated to the revised framework from March 31, 2009. The Bank has continued the Parallel run of Basel II framework continuously tracking the exposures and studied the impact on Bank's Capital to Risk weighted Assets Ratio (CRAR) on a quarterly basis. In accordance with the RBI's requirement, the Bank has continued to adopt Standardised Approach (SA) for Credit Risk and Basic Indicator Approach (BIA) for Operational Risk to compute capital as on March 31, 2010. Besides this, the Bank continues to apply the Standardised Duration Approach (SDA) for computing capital requirement for Market Risk. Reserve Bank of India has prescribed Banks to maintain a minimum CRAR of 9% with regard to credit risk, market risk and operational risk on an ongoing basis. The total Capital to Risk weighted Assets Ratio (CRAR) as per Basel II guidelines works to 14.85% as on March 31, 2010 (as against 9%). The Tier I CRAR stands at 11.93% as against RBI's prescription of 6.00%. The Bank has followed the RBI guidelines in force, to arrive at the eligible capital, risk weighted assets and CRAR.

Quantitative disclosures

(Rs. in Cr.)

Risk Type	Rs. In Cr.
A) Capital requirements for Credit Risk	**384.02**
▪ Portfolio subject to standardised approach	384.02
▪ Securitization Exposures	Nil
B) Capital requirements for Market Risk	**4.77**
▪ Standardised duration approach	Nil
▪ Interest Rate Risk	1.09
▪ Foreign Exchange Risk (Including gold)	3.15
▪ Equity Risk	0.53
C) Capital requirements for Operational Risk	**9.67**
▪ Basic indicator approach	9.67
Total Capital requirements at 9%	**398.46**

Total Capital Funds	**657.34**
CRAR	**14.85%**
Tier-I CRAR	**11.93%**

TABLE DF – 4: Credit Risk: General disclosure

Qualitative disclosure

Bank's credit risk management policy focuses on identification, measurement, monitoring and mitigation of credit risk, irrespective of its manner of manifestation. The Bank adopts an integrated approach to credit risk management, which encompasses:

- Establishment and articulation of corporate priorities
- Institution and inculcation of an appropriate credit culture
- Determination of specific credit risk strategy and profile
- Implementation of appropriate credit risk controls
- Monitoring the effectiveness of credit risk controls

Corporate Priorities:
The key corporate priority is to achieve growth with quality. To achieve this, the Bank has adopted a middle path, with balance maintained between growth ambition and risk containment, and accordingly neither to be driven solely by aggressive gain in market share as its primary objective, nor to adopt too conservative or restrictive a risk stance with avoidance of risk as its main objective. The Bank only enters those lines of business that it understands and finds acceptable within its risk appetite, and desist from areas where risks are disproportionately higher to returns.

Credit Culture:
The Bank encourages building up of a value and performance driven culture at all levels within the organization, discipline to operate within laid down policy guidelines at all times, even at the expense of perceived or real short-term gains. The credit culture is top-down driven and top management invariably 'walk the talk'.

Credit Strategy and Risk Profile :
The Bank adopts a credit risk strategy and risk appetite, which is in line with its risk taking ability to ensure conservation of and growth of Shareholder Funds, with a proper balance between risk and reward. Financial resources are allocated to best optimize the risk reward ratio.

There is a clearly articulated definition of acceptable credit risk, based upon:

- Identification of target markets/segments
- Establishing of characteristics of desirable customers within the target market
- Assessing whether adequate resources are available to support the business
- Ensuring that all economic and regulatory requirements are complied with
- Ensuring that the portfolio is consistent with the Bank's strategy and objectives especially in relation to risk concentration, maturity profile and liquidity management

The Bank adopts a qualitative credit assessment based upon empirically proven scoring models for homogenous groups of borrowers and specific identified sectors.

Credit Risk Controls:
Credit risk controls focus on identification, measuring, monitoring and managing the assumed risks and include:

- A documented loan policy
- Approval process with delegated authorities
- Asset quality and risk rating system and its verification
- Effective loan administration to ensure past-due management and bad loan detection

- A loan review mechanism
- Portfolio management tools to manage portfolio risks

Management of credit risk is at three levels:

- Strategic or Portfolio level, so as to ensure that no single event can have a significant adverse impact
- Established credit policy to have a minimum standard for assuming risk
- Reliance on the competence of trained staff to identify and make sound credit decisions

There is a clear separation in functional responsibilities between:

- Origination and sales
- Credit assessment and approvals and
- Post- sanction loan administration

The Bank relies upon formal and conventional risk assessment, viz.:

- The capacity and willingness of borrowers to repay
- Dependence primarily on cash flows for repayment with security taken to provide a secondary source of repayment
- Quality of data and analysis thereof forms the basis of assessment and not external reputation or unsubstantiated beliefs
- Rational assessment of probability of default and assessment of 'Worst Case Scenario'
- Transparency and communication of all relevant facts (negative as well as positive) necessary for making an informed credit decision
- Documentation of all assessment, rationale and decisions

Know Your Customers 'KYC' forms the bedrock of initiating and sustaining any relationship.

The Bank's selection of personnel and systems of rewarding performance is aligned to meet the Bank's stated key priorities.

There is a commitment to training and up gradation of staff skills.

Strong 'ownership' of exposures is encouraged, through rewards as well as strong accountability.

The Bank encourages use of contemporary and appropriate technology to measure, monitor and manage risks and to remain abreast of technological advancements in the industry.

Overdue defined:
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.

Quantitative Disclosures

Total gross credit risk exposures:

(Rs. in Cr.)

Type	
Fund based	4,233.92
Non fund based	5,176.46
Total	**9,410.38**

Geographical distribution of exposures:

(Rs in Cr.)

Type	Domestic	Overseas
Fund based	4,233.92	-
Non fund based	5,176.46	-

Total	**9,410.38**	**-**

Industry type distribution of exposures:

(Rs in Cr.)

Industry	Fund Based	Non Fund Based
Agriculture & Forestry	580.92	305.56
Automobiles	8.45	19.11
All Engineering	42.18	163.73
Cement	2.71	2.55
Chemicals, Dyes etc	50.94	86.47
Coal	-	2.31
Cotton Textiles	32.74	13.84
Computer Software	-	50.22
Construction	193.50	40.61
Drugs & Pharma	66.18	18.53
Electricity	26.66	12.95
Electronics	21.34	16.96
Fertilisers	30.89	15.85
Food Processing	84.80	36.95
Iron & Steel	41.20	46.61
Jewellery	41.19	18.11
Leather and Leather Products	11.21	2.56
Manufacturing-Others	46.85	35.06
Mining	10.33	0.14
Other metal and metal products	22.35	140.25
Paper & Paper products	2.43	4.76
Power	96.60	83.10
Roads & Ports	25.77	142.26
Rubber	3.27	0.73
Sugar	-	0.00
Tea	13.22	0.00
Textiles-others	32.76	40.27
Telecommunications	57.03	28.66
Vegitable oils	36.12	81.46
NBFCs	239.39	5.52
Wholesale & Retail Trade	375.80	308.78
Banking	-	3,166.13
Others	990.45	278.38
Residual Assets	1,046.64	0.00
Total	**4,233.92**	**5,176.46**

Residual contractual maturity breakdown of assets:

(Rs in Cr.)

Assets	Next Day	2- 7 Days	8-14 Days	15-28 Days	29 Days-3 mths	3 to 6 mths	6 mths to 1 Year	1 to 3 Years	3 to 5 Years	Above 5 Years	Total
Cash	48.41	-	-	-	-	-	-	-	-	-	48.41
Balance with RBI	6.46	12.01	14.23	3.24	12.95	12.37	31.38	148.62	1.13	0.57	242.96
Balance with Other banks	35.37	-	-	0.05	-	5.18	0.15	0.22	.02	-	40.98
Investments	-	2.62	-	30.04	173.63	33.26	106.82	296.76	316.65	1,058.15	2,017.93
Advances (excl. NPA provisions)	57.28	180.56	167.45	99.20	428.17	306.94	387.54	1,345.91	182.79	303.86	3,459.71
Fixed Assets	-	-	-	-	-	-	-	-	-	135.76	135.76
Other Assets (net)	4.10	0.71	0.06	0.25	1.22	3.18	9.04	150.87	2.45	19.04	190.92
Total	151.61	195.90	181.73	132.78	615.98	360.93	534.93	1,942.39	503.03	1,517.37	6,136.67

Advances and Provisions:

(Rs. In Cr.)

Particulars	As on March 31, 2010
Amount of NPAs(Gross)	
a. Substandard	132.11
b. Doubtful 1	66.26
c. Doubtful 2	9.31
d. Doubtful 3	0.00
e. Loss	111.51
NPA Ratios	
a. Gross NPAs to gross advances (%)	8.69%
b. Net NPAs to Net Advances (%)	3.11%
Movement of NPAs(Gross)	
a. Opening balance	290.00
b. Additions during the year	193.17
c. Reductions during the year	163.99
d. Closing balance	319.18
Movement of Net NPAs	
a. Opening balance	127.01
b. Additions during the year	60.65
c. Reductions during the year	79.94
d. Closing balance	107.62
Movement of provisions for NPAs(excluding provision on	

standard assets)	
a. Opening balance	163.00
b. Provision made during the year	132.62
c. Write-off/ write-back of excess provisions	84.11
d. Closing balance	211.51
Movement of provision on depreciation on investments	
a. Opening balance	0.01
b. Add: Provision made during the year	1.62
c. Less: Write-off/ write-back of excess provision during the year (including depreciation utilized on the sale of securities)	1.59
d. Closing balance	0.04

TABLE – DF – 5 : Credit Risk : Disclosures for portfolio Subject to the Standardised Approach

Qualitative Disclosures

The Bank has used the ratings of the following domestic external credit rating agencies for the purpose of risk weighting their claims on the domestic entities for capital adequacy purpose:

1. CRISIL
2. FITCH
3. CARE
4. ICRA

International Credit rating agencies: Standard and Poors, Moody's, FITCH

The Bank has used the solicited ratings assigned by all the above approved credit rating agencies to risk weight all the eligible exposures (both on Balance sheet and off Balance sheet) to domestic entities for both short term and long term claims.

A description of the process used to transfer public issue ratings onto comparable assets in the banking book

- Bank has used short term ratings for assets with maturity of upto one year and long-term ratings for assets maturing beyond one year as accorded by the approved external credit rating agencies.
- The chosen rating for the exposure has been used for both Risk Management purposes and Risk Weighting purpose.
- Bank has not cherry picked ratings. If Bank has chosen one CRA (Credit Rating Agencies) for a given "type of claim" then it has not used the rating of another CRA for the same type of claim. Bank has not used one rating of a CRA for one exposure and another CRA's rating for another exposure on the same counterparty unless only one rating is available for a given exposure.
- Notwithstanding the repayable on demand condition, Cash Credit exposures has been subjected to Long-term rating.
- If an issuer has a long term external credit rating that warrants RW of 150%, all unrated exposures on the same issuer whether long or short is assigned the same 150 % RW unless mitigated by recognized Credit Risk Mitigation (CRM) techniques.
- Bank has used only solicited rating from the recognized CRAs (i.e. where the issuer has requested the CRA for the rating and has accepted the rating given by CRA). In case the issuer has multiple ratings from CRAs chosen by the Bank, Bank has chosen (if there are two ratings) one with the higher RW. If there are three or more ratings with different RW the second lowest RW has been chosen.
- Where the issuer has a rating by a CRA for a specific investment instrument with RW lower than unrated exposure, but the Bank's exposure is not in that instrument but

some other debt, the RW for the rated exposure has been applied to Bank's unrated exposure provided it ranks pari-passu or senior to the specific rated exposure and the maturity of Bank's claim is not later then the rated exposure.

- If either the issuer or a single issue has been rated with a RW equal or higher than unrated claim on the same issuer which is unrated but ranks pari passu or junior to the rated exposure has been assigned the same RW as the rated exposure.
- No recognition of CRM technique has been taken into account in respect of a rated exposure if that has already been factored into the rated by the CRA.

Quantitative Disclosures

Risk weight wise distribution of gross credit exposure

(Rs. in Cr.)

Below 100% risk weight	4,695.97
100% risk weight	4,476.64
More than 100% risk weight	237.77
Total	**9,410.38**

TABLE DF – 6 : Credit Risk Mitigation : Disclosures for Standardised Approach

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk mitigation including:

- Policies and processes for collateral valuation and management
- A description of the main types of collateral taken by the Bank
- The main types of guarantor counterparty and their credit worthiness
- Information about (market or credit) risk concentration within the mitigation taken

Bank has Credit Risk Mitigation(CRM) Techniques and Collateral Management (CM) policy in place approved by the board. The Bank uses a number of techniques to mitigate the credit risk. Exposures may be collateralized in whole or in part by cash or securities or deposits or guarantees from the counterparty or a third party etc.

The general principles applicable for use of credit risk mitigation techniques are as under:

1. No transaction in which Credit Risk Mitigation (CRM) techniques are used has been assigned higher capital requirement than as otherwise identical transaction where such techniques are not used.
2. The Bank has taken care to see that effects of CRM are not double counted. To ensure this no additional supervisory recognition of CRM for regulatory capital purposes are made available on claims for which an issue-specific rating is used that already reflects that CRM.
3. Principal-only ratings will not be allowed within the CRM framework. The rating should cover principal and interest.

Bank has therefore put in place robust procedures and processes to control these risks, including strategy, consideration of the underlying credit; valuation; policies and procedures systems; control of roll-off risks; and management of concentration risk arising from the use of CRM techniques and its interaction with the Bank's overall credit risk profile.

Eligible Financial Collateral:
The following eligible collateral instruments are used for recognition in the comprehensive approach:

(i) Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts, issued by the lending bank) or deposits with the bank itself

(ii) Gold: Gold would include both bullion and jewellery. However, the value of the collateralized jewellery should be arrived at after notionally converting these to 99.99 purity

(iii) Securities issued by Central and State Governments

(iv) Kisan Vikas Patra and National Savings Certificates provided no lock-in period is operational and if they can be encashed within the holding period

(v) Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.

(vi) Debt securities rated by a chosen Credit Rating Agency in respect of which the banks should be sufficiently confident about the market liquidity where these are either:

a) Attracting 100 per cent or lesser risk weight i.e., rated at least BBB (-) when issued by public sector entities and other entities (including banks and Primary Dealers); or

b) Attracting 100 per cent or lesser risk weight i.e., rated at least PR3/ P3/F3/A3 for short-term debt instruments.

(vii) Debt securities not rated by a chosen Credit Rating Agency in respect of which the banks should be sufficiently confident about the market liquidity where these are:

a) Issued by a bank

b) Listed on a recognised exchange

c) Classified as senior debt

d) All rated issues of the same seniority by the issuing bank are rated at least BBB (-) or PR3/P3/F3/A3 by a chosen Credit Rating Agency

e) The bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB(-) or PR3/P3/F3/A3 (as applicable)

f) Banks should be sufficiently confident about the market liquidity of the security

(viii) Units of mutual funds regulated by the securities regulator of the jurisdiction of the bank's operation mutual funds where:

a) A price for the units is publicly quoted daily i.e., where the daily NAV is available in public domain

b) Mutual fund is limited to investing in the instruments listed in this paragraph

Quantitative Disclosures

(Rs. in Cr.)

Particular	Amount
Exposure before applying eligible financial collateral	2,298.95
Exposure after applying eligible financial collateral	2,193.63

TABLE DF – 7: Securitization Exposures: Disclosure for Standardised Approach

Qualitative Disclosures

The Bank had undertaken some securitization deals, under which Bank had transferred some commercial loans through securitization which had been paid off and is nil as on March 31, 2009. Bank has acquired some home loan portfolio under securitization.

Quantitative Disclosures

Break-up of total outstanding exposures securitized by exposure type: Sold Portfolio as on

March 31, 2010

(Rs. in Cr.)

Exposure type	Amount
	NIL

Break-up of total outstanding exposures securitized by exposure type: Bought Portfolio as on March 31, 2010

(Rs. in Cr.)

Exposure type	Amount
Home Loans	92.93

TABLE DF – 8: Market Risk in Trading Book

Qualitative Disclosures

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, foreign exchange rates, market prices and volatilities. The Bank assumes market risk in its lending and deposit taking businesses and in its investment activities, including position taking and trading. The market risk is managed in accordance with the investment policies, which are approved by the Board. These policies ensure that operations in securities, foreign exchange and derivatives are conducted in accordance with sound and acceptable business practices and are as per the extant regulatory guidelines, laws governing transactions in financial securities and the financial environment.

The objectives of market risk management are as follows:

(i) Proper management of liquidity
(ii) Management of interest rate risk and exchange risk of the investment portfolio
(iii) Proper classification and valuation of investment portfolio
(iv) Adequate and proper reporting of investments and derivative products
(v) Compliance with regulatory requirements

Structure and organization of the market risk management function:
The Board, through Risk Management Committee, approves the policies with regard to identification, measurement and control of market risks (Interest Rate Risk and Foreign Exchange Risk) and Liquidity Risk. Market Risk department is an independent function and reports to Chief Credit and Risk Officer. The Market Risk Department exercises independent control over the process of market risk management and recommends changes in processes and methodologies for measuring Market Risk.

To comply with the regulatory guidelines and to have independent control groups there is clear functional separation of:

(i) Trading (Front office)
(ii) Monitoring & control (Middle office) and
(iii) Settlements (Back office)

The strategy/guidelines for controlling market risk include:

(i) Direct involvement of experienced line management
(ii) Stringent controls and limits
(iii) Strict segregation of front, middle and back office duties
(iv) Comprehensive periodical reporting of positions
(v) Regular independent reviews of all controls and limits
(vi) Rigorous testing and auditing of all pricing, trading and risk management

The scope and nature of risk reporting and measurement systems :
Reporting - The Bank periodically reports on the various investments and their related risk measures to the senior management and the committees of the Board. The Bank also

periodically reports to its regulator in compliance with regulatory requirements.

Measurement - The Bank has devised various risk metrics for measuring market risk. These are reported to Asset Liability Management Committee by Market Risk Management Department. Some of the risk metrics adopted by the Bank for monitoring its risks are Value-at-Risk, Earnings at Risk, Modified Duration, Stop Loss limits amongst others.

Quantitative Disclosures:

(Rs. in Cr.)

Capital requirements for Market Risk as on March 31, 2010	**4.77**
▪ Interest Rate Risk	1.09
▪ Foreign Exchange Risk (Including gold)	3.15
▪ Equity Risk	0.53

TABLE DF – 9: Operational Risk

Qualitative Disclosures

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank has put in place a Board approved Operational Risk Management Policy to guide in management of Operational Risk. The Bank has identified Key Operational Risk Indicators (KORIs) across various units, which are measured, monitored regularly and reported to Operational Risk Management Committee (ORCO) monthly. The Bank has a robust system of reporting Operational Risk events across various units through identified Operational Risk Officers, who are given adequate training to identify and report such events as and when they occur. The Bank has very effective system of recording and reporting operational losses booked. The Bank also collects qualitative data on self assessment of operational risk faced by various units through Risk Control Self Assessment (RCSA) exercise.

The Bank manages Operational Risk by way of adopting best practices in processes as well as products. All the new and existing process are subjected to rigorous review by Process Development Committee (PDC) and Process Approval Committee (PAC), which comprise of senior management team with vast diversified experience in Banking. Utmost importance is given on communication and understanding of processes at transactional level and compliance to same are monitored through effective Internal Audit. New products and services are also invariably subjected to Risk Review.

The Bank understands the criticality of business continuity in case of any undesirable event and has put in place an exhaustive Business Continuity Plan (BCP) for important functions in place which is subject to periodic drills. The Bank has robust Information Technology with Disaster Recovery site (DR) for critical functions and backups, further there is a strict adherence to Information Security Policy across the Bank. As per the mandate from RBI, the Bank is following the Basic Indicator Approach (BIA) for assessment of Operational Risk Capital. The Bank has taken quantitative and qualitative steps to move towards advanced approaches as prescribed by RBI.

(Rs. in Cr.)

Capital requirements for Operational Risk as on March 31, 2010	**9.67**

TABLE DF – 10 : Interest Rate Risk in the Banking Book

Qualitative Disclosures

Interest rate risk is the potential change in Net Interest Income or Economic Value of Equity (Balance Sheet impact), caused by unexpected changes in market interest rates. Since NII or NIM of Bank is dependent on the movements of interest rates, any mismatches or gaps in the cash-flows on re-pricing dates exposes Bank's NII or NIM to interest rate risk. Interest rate risk results from an unavoidable position or gap arising from Bank's normal day to day business by holding assets & liabilities in different maturities and different re-pricing dates.

Risk management framework & monitoring:
The Board of the Bank, through Risk Management Committee (RMC), has overall responsibility for management of risks and it set limits and policies for management of liquidity risk, market risk including foreign exchange, interest rate, equity and commodity prices. The Asset Liability Management Committee (ALCO), a strategic decision making body constituted by Board, headed by Managing Director and comprising of senior executives of the Bank is responsible for deciding the mix & maturity profile of the assets & liabilities, recommendation of risk policies, setting up of prudential limits to manage the risks and ensuring compliance with the limits set by the Board. The ALM policy of the Bank includes the prudential limits on interest rate risk, liquidity risk & foreign exchange risk. Amendments to ALM policy can be made based on the recommendations of the business unit, with the approval of the authority mentioned in the Policy. The amendments are then presented to the RMC for information.

Market Risk Management Department is responsible for monitoring the limits laid down in the ALM Policy through various reports. These reports are prepared at regular intervals and exceptions/deviations are reported to the ALCO/RMC, as may be required by the ALM policy.

Risk measurement and reporting framework:
As a part of its regular activities, ALCO manages the impact of the interest rate risk in banking book, through various limits, reports & tools such as Interest rate sensitive gaps, Earnings at risk analysis, duration gap analysis, stress testing, etc. detailed as follows:

Interest rate sensitivity gap:
The interest rate gap risk, at any given date, is the risk arising from the mismatches in the assets & liabilities over the different time intervals. These mismatches or gaps are arrived at after matching rate sensitive assets & rate sensitive liabilities in the particular time bucket taking into account all assets and liabilities (including off Balance Sheet exposure). The rate sensitive assets & liabilities are grouped in the buckets as per the residual maturity or re-pricing date, whichever is earlier and is reported on monthly basis. The direction of the gap indicates whether net interest income is positively or negatively impacted by a change in interest rates and the magnitude of the gap approximates the change in net interest income for any given interest rate shift. Limits are fixed on individual gaps.

Earnings at Risk Analysis (EAR) :
The gaps in the report indicates whether the Bank is in a position to benefit from rising interest rates by having a positive gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative gap (RSL > RSA). The Bank monitors the Earnings at Risk on NII for 1% change in interest rates on the open periodic gaps.

Stress testing:
The Bank measures the impact on net interest margin (NIM)/EaR after taking into account various possible movement in interest rates across tenor and their impact on the earnings is calculated for each of these scenarios. These reports are prepared on a monthly basis for measurement of interest rate risk.

Duration gap analysis:
Movement in the interest rates also have a long-term impact on the market value of equity of the Bank, as the economic value of the Bank's assets, liabilities and off-Balance Sheet positions get affected. Duration is a measure of interest rate sensitivity of assets, liabilities and also equity. It may be defined as the percentage change in the market value of an asset or liability (or equity) for a given change in interest rates. Thus duration gap analysis measures by how much the market value of equity of a firm would change for the possible

change in the interest rates.

Quantitative Disclosures

The following tables show the impact on NII & economic value of equity for a given change in the interest rates. The impact is calculated assuming parallel shifts in the yield curve across all time buckets.

Impact on NII

(Rs. in Cr.)

Currency	Changes in interest rates (in bps)			
	(100)	**(50)**	**50**	**100**
INR	(6.10)	(3.05)	3.05	6.10
USD	0.71	0.35	(0.35)	(0.71)
JPY	(0.01)	(0.01)	0.01	0.01
GBP	0.01	0.01	(0.01)	(0.01)
EUR	0.15	0.07	(0.07)	(0.15)
Total	**(5.24)**	**(2.63)**	**2.63**	**5.24**

Impact on economic value of equity

(Rs. in Cr.)

	Changes in interest rates (in bps)			
Currency	**(100)**	**(50)**	**50**	**100**
INR	70.55	35.27	(35.27)	(70.55)
* No major exposure in foreign currencies				