Basel-II --- Pillar-3 disclosures as on 31.03.2010

Table DF-1: Scope of application

1. Qualitative disclosure

1.1 Name of the bank in the group to which the Framework applies.	The Jammu and Kashmir Bank Ltd.

1.2 An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group.

- The revised capital adequacy norms (in conformity with Basel-II--- Pillar 3 requirements) apply to J&K Bank Ltd at Solo level.
- The bank has one fully owned subsidiary i.e. JKB Financial Services Ltd.
- The bank has also sponsored one regional rural bank namely, J&K Grameen Bank (erstwhile Jammu Rural Bank & Kamraz Rural bank).
- Consolidated financial statements of the group (parent and fully owned subsidiary) have been prepared on the basis of audited financial statements of J&K Bank Ltd and its fully owned subsidiary , combined on line by line basis adding together like items of assets, liabilities, income and expenses after eliminating intra group transactions.

	Name	Activity	Holding (%)
1.3 That are fully consolidated	JKB Financial Services Ltd	Marketing of Bank's Financial Products	100%
1.4 That are pro-rata consolidated	Nil	NA	NA
1.5 That are given a deduction treatment	J&K Grameen Bank	Rural Banking	35%
1.6 That are neither consolidated nor deducted (e.g. where the investment is risk weighted).	MetLife India	Insurance	12.41%

2. Quantitative Disclosures
2.1 The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.
Entire investment of Rs 5.00 Crores in JKB Financial Services and Rs 22.10 crores in J&K Grameen Bank (erstwhile Jammu Rural bank (JRB) & Kamraz Rural Bank (KRB) is deducted from Capital of the bank for capital adequacy calculation.
2.2 The aggregate amount (e.g. current book value) of the bank's total interests in the insurance entities, which are risk weighted as well as their name, their country of incorporation or Residence, the proportion of ownership interest and if different, the proportion or voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using deduction.

a)	Name	MetLife India Co. ltd Brigade Seshamahal 5,Vani Vilas Road, Basavangudi, Bangalore-560004
b)	Amount of Investment	Rs 220.27 Crores
c)	Country of Incorporation/ Residence	India
d)	Proportion of ownership interest	12.41%
e)	Proportion of Voting Power	12.41%
f)	Quantitative impact on regulatory capital of using this method versus using deduction.	CRAR under risk weighted method is 15.91% as against 15.14% under deduction method.

Table DF - 2 : Capital Structure

1. Qualitative disclosure	
1.1 Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instrument eligible for inclusion of tier 1 or in the upper tier 2.	The Bank has raised a subordinate debt of Rs. 600 Crores during the year which forms part of lower Tier 2 Capital of the Bank.

2. Quantitative Disclosures	
2.1 The amount of tier 1 capital, with separate disclosure of:	Amount in Rs Crores
• Paid up capital	• 48. 49
• Statutory and other disclosed free reserves	• 2898.84
• Capital Reserves	• 63.13
• Other capital instruments	• -------
• Amount deducted from tier 1 capital, including goodwill and investment.	• 24.46
Total Tier I Eligible Capital (net of deductions)	• 2986.00
2.2 The total amount of tier 2 capital (net of deductions from tier 2 capital) :	• 725.19
2.3 Debt capital instruments eligible for inclusion in upper tier 2 capital	
• Total Amount outstanding	• Nil
• Of which amount raised during the current year	• Nil
• Amount eligible to be reckoned as capital funds	• Nil
2.4 Subordinated debt eligible for inclusion in lower tier 2 capital	
• Total amount outstanding	600.00
• Of which the amount raised during the current year	600.00
• Amount eligible to be reckoned as capital funds	600.00
2.5 Other deductions from capital if any is	Nil
2.6 Total eligible capital	3711.19

Table DF - 3 : Capital adequacy;

1. Qualitative disclosure

1.1 A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.

i) The bank is computing capital charge in accordance with methodology prescribed under RBI guidelines on capital adequacy. Sensitivity analysis is conducted annually or more frequently as required, on the movement of capital adequacy ratio (CAR) in the medium horizon of 3 years, considering the projected growth in business and the impact of Basel II framework etc.

ii) CRAR of the bank has been worked out, based on BASEL-I and BASEL-II guidelines and it is well above the regulatory minimum level of 9%.

iii) Policy on Internal Capital Adequacy Assessment Process has been put in place and the assessment of the capital commensurate to the risk profile is reviewed periodically.

2. Quantitative Disclosures

Amount in Rs.crores

2.1 Capital requirements for credit risk	• 1765.11
• Portfolio subjected to standardized approach (@9%CRAR)	• 1765.11
• Portfolios subjected to the IRB approaches	• Nil
• Securitization exposures	• Nil
2.2 Capital requirement for market risk (under Standardized duration approach**)**	• 149.05
• Interest rate risk	• 83.22
• Foreign exchange risk (including gold)	• 2.25
• Equity risk	• 63.58
2.3 Capital requirement for operational risk	•
• Basic indicator approach:	• 187.87

2.4 Capital Adequacy ratio (CRAR) for consolidated group and significant subsidiaries (as per Basel-II norms)		
Name of the Entity	**Total CRAR**	**Tier I CRAR**
Consolidated bank (Group as a whole)	**15.91%**	**12.79%**
J&K bank Ltd (on solo basis)	**15.89%**	**12.79%**

Risk Exposure and Assessment

Objectives and Policies

Organisational Structure---- Risk Management

Bank has a risk management structure in place to control and mitigate the risks. Within the overall structure, various responsibility centres from top to bottom have been defined to devise and implement Risk Management policies and processes. The structure ensures coordinated process for measuring and managing all types of risks on an enterprise-wide basis to achieve organizational goals. The structure assures adherence to globally best practices in line with regulatory stipulations. The structure is designed in tune with the general guidelines of the Regulator.

In order to have a concerted focus on the Risk Management functions of the bank, the bank has an Integrated Risk Management Committee of Board at the apex level with the overall responsibility of ensuring that adequate structures, policies and procedures are in place for risk management and that they are properly implemented. The IRMC effectively coordinates the operations of various Risk Management committees at the Executive level and adopts an integrated approach in managing the risks.

There are three Executive level committees,viz, Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) also known as Market Risk Management Committee (MRMC) and Operational Risk Management Committee (ORMC) which are responsible for implementation of policies and monitoring of level of risks in their respective domains. The Committees are headed by CEO and Top Executives from respective functional areas who are also members of the respective Committees. The Committees meet regularly to take stock of various facets of risk management function and place their reports to Board level Integrated Risk Management Committee (IRMC). For effective risk management, a separate Integrated Risk Management Department is functioning at CHQ under three separate management groups of Credit risk, Market risk and Operational risk. The department provides support functions to the risk management committees through analysis of risks and reporting of risk positions and making recommendations as to the level and degree of risks to be assumed, to the above committees and the board.

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Table DF - 4: Credit Risk

1. General disclosures --- Credit risk

Credit Risk is the possibility of loss that a bank may be subjected to, on account of changes or deterioration in the credit profile / credit quality of the borrowers and counterparties. The counterparties may include an individual, corporate, bank, financial institution or a sovereign. In a bank's portfolio, losses stem from outright default due to inability or un-willingness of a borrower or counterparty to honor commitments in relation to lending, trading, settlement and other financial transactions.

The Bank's strategies to manage the credit risks are as under:

a) Defined segment exposures classified into retail, small / medium enterprises and Corporates.

b) Industry wise segment ceilings on aggregate lending by the Bank.

c) Individual borrower wise ceilings on lending as well as borrower group wise lending ceilings linked to the Bank's capital funds.

d) Allowing credit exposures as per the credit rating of borrowers upto defined thresholds of risk levels. The approach also includes diversification of credit rating wise borrowers but within acceptable risk parameters.

e) The Bank's entire current business is within India and hence there is no geographic ceiling on lending in India; there is also no ceiling on lending within a State in India.

f) A clear and well defined delegation of authority within the Bank in regard to decision making, linking risk and exposure amount to level of approval.

g) Regular review of all credit sanctioning powers delegated to various sanctioning levels so as to continuously strengthen the credit processes, and monitoring oversight.

h) Approval processes with respect to credit proposals are preceded by study of risks and preliminary due diligence particularly while sourcing fresh credit accounts.

The Bank has put in place a credit risk management structure to identify measure, monitor, control and mitigate credit risk right from the loan origination to its disbursement. With an endeavor to standardize our appraisal mechanism, the bank has put in place risk rating framework and deployed a risk scorer application on bank wide basis. The application has rating models which score a borrower on significant quantitative (Financial data) and qualitative (Non-Financial data) parameters to assess its likelihood of loss (Probability of Default). Bank has devised Risk-Rating Models for different lending segments.

Presently all borrowers with an aggregate commercial exposure of Rs. 15.00 lacs and above (fund or non- fund) are rated through the Risk Scorer Application. In addition to commercial exposure of Rs. 15.00 lacs minimum threshold, all exposures in the form of Personal and Housing loans are also rated. Rating process and rating output are used by the Bank in sanction, pricing and monitoring of its exposures. Credit Audit is being invariably conducted by Credit Audit Department for credit exposures of Rs1 crore and above.

Bank has put in place board approved comprehensive credit risk policy for credit risk management in the bank. Bank has also operationalised Credit Risk Mitigation and Collateral Management Policy detailing various tools for credit risk mitigation. Investment Policy of the Bank addresses credit risks related to investment activities of the Bank and it prescribes prudential limits, methods of risk measurement, and hedges required in mitigation of risks arising in investment portfolio. Credit Risk Management Committee at senior Executive level and Integrated Risk Management Committee at the Board level monitor, discuss, evaluate and review risk mitigation levels and effectiveness of mitigation measures. Risk rating process by itself is an integral part of processes of selection of clients and sanction of credit facilities and investment exposures. Exercise of delegation for sanction of fresh loans and taking investment exposures and renewal /review of existing exposure is permitted only for borrowers above a pre-specified rating grade.

2. Qualitative Disclosures

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

2.1.1 Definition of NPA and impaired account (for accounting purposes)

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

a. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan
b. The account remains ‘out of order’ as indicated in paragraph 1.1.2 below, in respect of an Overdraft / Cash Credit (OD/CC)
c. The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted
d. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops
e. The installment of principal or interest thereon remains overdue for one crop season for long duration crops.
f. In respect of securities, where interest/principal is in arrears, the bank does not reckon income on the securities and makes appropriate provisions for the depreciation in the value of the investment. A non-performing investment is similar to a NPA in classification as defined above.

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

2.1.2 'Out of Order' status

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

2.1.3 Overdue

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

2.2 Discussion of the bank's credit risk management policy.

The bank has a Credit and Risk Management policy in place, which is aimed at supporting the business strategies, achieving target earnings with satisfaction of its customer needs and maintaining a sound credit portfolio. It also seeks to achieve prudent credit growth –both qualitative and quantitative- and adhere to the prudential norms with balanced sectoral and diversified growth of credit. The bank has put in place prudential limits for controlling credit concentration across Industries, sectors and segments. The bank has a well-defined credit appraisal & approval authority, legal support, reporting cum monitoring and follow-up system. Loan review mechanism/ credit audit system for loan exposures of Rs 1 crore and above is in place.

2.3 For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the

1) standardized
2) foundation IRB,
3) Advanced IRB approaches and of managements plans and timing for migrating exposures to full implementation of the applicable approach.

The bank is following standardized approach as prescribed by RBI for computing capital for credit risk.

J&K Bank

3. Quantitative Disclosures	Amount in Rs Crores
3.1 Total gross credit risk exposures – Fund based and Non-fund based separately, broken down by major types of credit exposures.	**a) On Balance Sheet--- 38549.70** **b) Off Balance sheet--- 11499.25** **Total ----------- 50048.95**
3.2 Geographic distribution of exposures:	
• Overseas	•
• Domestic	• **50048.95**
3.3 Industrial type distribution of exposure, Fund based and Non-fund based separately.	Major industry type exposure is given separately as per Annexure- A.
3.4 Residual contractual maturity breakdown of assets,	Residual contractual maturity is given separately as per Annexure- B.
3.5 Amount of NPAs (Gross)	**462.30**
• Substandard	• 96.84
• Doubtful	• 309.53
• Loss	• 55.93
3.6 Net NPAs	• **64.33**
3.7 NPA Ratios	
• **Gross NPAs to gross advances**	• 1.97%
• **Net NPAs to net advances**	• 0.28%
3.8 Movement of NPAs (Gross)	
• Opening balance	• **559.27**
• Additions	• 188.78
• Reductions • Closing balance	• 285.75 • **462.30**

3.9 Movement of provisions for NPAs	
• Opening balance	• 270.48
• Provisions made during the period	• 150.00
• Write-off	• 26.16
• Write back of excessive provisions	• ------
• Closing balance	• 394.32
4.0 Amount of non-performing investment	• 20.00
4.1 Amount of provisions held for non-performing investment	• 20.00
4.2 Movement of provision for depreciation on investments.	
• Opening balance	• **77.80**
• Provisions made during the period	• 4.21
• Write-off	• **------**
• Write back of excessive provision	• 45.75
• Closing balance	• **36.26**

Table DF - 5: (A) Credit risk:

Disclosure for portfolio subject to the standardized approach

<table>
<tr><td colspan="2">1. Qualitative disclosure</td></tr>
<tr><td colspan="2">1.1 For portfolio under the standardized approach:</td></tr>
<tr><td>• Names of credit rating agencies used, plus reasons for any changes.</td><td>• The banks exposure being mainly domestic, the rating agencies like CARE, CRISIL, ICRA, FITCH India, have been identified for rating of exposure as per guidelines of RBI. Designated rating agencies may be used irrespective of types of corporate exposures.</td></tr>
<tr><td>• Type of exposure for which each agency is used.</td><td>• For exposures with a contractual maturity of less than or equal to one year (except cash credit, overdraft and other revolving credits), short-term ratings given by approved rating agencies are used. For cash credit, overdraft and other revolving credits (irrespective of the period) and for term loan exposures of over one year, long term Ratings are used.</td></tr>
<tr><td>• A description of the process used to transfer public issues rating onto comparable assets in the banking book</td><td>• Public issues ratings is used for comparable assets of borrower in the banking book as follows: -

i) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is not rated by any chosen credit rating agency, will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari passu or junior to the rated exposure in all respects.

ii) In case where the borrower-constituent/counter party has issued a debt (which is not a borrowing from the Bank), the rating given to that debt is applied to the Bank’s unrated exposures, if the Bank’s exposures ranks pari-pasu or senior to the specific rated debt in all respects and the maturity of unrated Banks exposure is not later than the maturity of rated debt.</td></tr>
</table>

2. **Quantitative Disclosures**	Amount in Rs Crores
2.1 For exposure amount after risk mitigation subjected to the standardized approach, amount of bank's outstanding (rated and un-rated) in the following three major risk buckets as well as those that are deducted:	
• Below 100% risk weight	• 36405
• 100% risk weight	• 10335
• More than 100% risk weight	• 2714

Table DF - 6: Credit risk mitigation: disclosure for standardized approach

1. **Qualitative disclosure**
1.1 The general qualitative disclosure requirements with respect to credit risk mitigation
A Credit Mitigation and Collateral Management Policy, addressing the Bank's approach towards the credit risk mitigant used for capital calculation is in place.
1.2 Policies and processes for, and an indication of the extent to which the bank makes use of on and off balance sheet netting.
Bank has put in place Board approved policy on Credit Risk Mitigation and Collateral Management, covering credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. The Bank has a separate valuation policy that forms the basis for valuation of collaterals.
1.3 Policies and processes for collateral valuation and management
The policy adopts the comprehensive Approach, which allows full offset of collateral (after appropriate haircuts) against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The following issues are addressed in the policy: a) Classification of credit risk mitigants b) Acceptable credit risk mitigants c) Documentation and legal process requirements for credit risk mitigants. d) Valuation of collateral e) Custody of collateral f) Insurance g) Monitoring of credit risk mitigants

1.4 The description of the main type of collaterals taken by the bank	
Cash or cash equivalent, Bank deposits, NSCs, KVIP's, LIC policy, gold, Central/ state government Securities etc.	
1.5 The main type of guarantor counterparties and their Creditworthiness.	
Bank considers guarantees, which are direct, explicit, irrevocable and unconditional for credit risk mitigation. Use of such guarantees for capital computation is strictly as per RBI guidelines on the subject. Main types of guarantor counter party are a. Sovereigns (Central / State Governments) b. Sovereign entities like ECGC, CGTSI c. Banks and Primary Dealers with a lower risk weight than the counter party d. Other entities rate AA (-) or better. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have lower risk weight than the obligor. The rating of the guarantor should be an entity rating which has factored in all the liabilities and commitments (including guarantees) of the entity.	
1.6 Information about (market or credit) risk concentration within the mitigation taken	
Majority of financial collaterals held by the Bank are by way of own deposits, government securities, Life Insurance Policies and other approved securities like NSC, KVP etc. Bank does not envisage market liquidity risk in respect of financial collaterals. Overall, financial collaterals do not have any issue in realization. Concentration on account of collateral is also relevant in the case of land & building. Except in the case of housing loan to individuals, land and building is considered only as additional security. As land and building is not recognized as eligible collateral under Basel II Standardized Approach, its value is not reduced from the amount of exposure in the process of computation of capital charge, and is used only in the case of housing loan to individuals and non performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.	
2. <u>Quantitative Disclosures</u>	Amount in Rs Crores
2.1 For disclosure credit risk portfolio under the standardized approach, the total exposure that is covered by:	• Exposure covered by Deposits/Cash **1811.27**
2.2 Eligible financial collaterals; after the application of haircuts.	Exposure covered by Other Eligible Collaterals
Total	**1811.27**

DF—7 Asset Securitization

Securitization: disclosure for standardized approach

1. Qualitative disclosure a) The general qualitative disclosure requirement with respect to securitization, including a disclosure of: • The bank's objectives in relation to securitization activity, including the extent to which these activities transfer credit risk of the underlying securitized exposures away from the bank to other entities. • The role played by the bank in the securitization process and an indication to the extent of the bank's involvement in each of them; and • The regulatory capital approach that the bank follows for its securitization activities. b) Summary of the bank's accounting policies for Securitization activities, including: • Recognition of gain on sales and • Key assumption for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; c) Names of ECAIs used for Securitization and the type of Securitization exposure for which each agenc is used.	Bank is not undertaking any securitization activity at present

2. **<u>Quantitative Disclosures</u>** d) The total outstanding exposure securitized by the bank and subject to the Securitization framework by exposure type. e) For exposure securitized by the bank and subjected to the Securitization framework. • Amount of impaired/past due asset securitized; and • Losses recognized by the bank during the current period broken down by the exposure type. f) Aggregate amount of Securitization exposure retained or purchased broken down by exposure type. • Aggregate amount of Securitization exposure retained or purchased broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from tier1 capital, credit enhancing I/Os deducted from total capital, and other exposure deducted from total capital should be disclosed separately by type of underlying exposure type. • Summary of securitization activity presenting a comparative position for two years, as a part of the notes on account to the balance sheet: • Total number of book value of loan asset securitization – by the type of underlying assets; • Sale consideration received for the securitized assets and gain/loss on the sale on account of securitization; and • Form and quantum (outstanding value) of services provided by way of credit enhancement, liquidity support, post securitization asset servicing, etc.	**------ NA--------**

Table DF - 8: Market risk in trading book

1. General Disclosures---Market Risk

An appropriate system has been implemented to capture all material sources of market risk. Various prudential limits have been put in place for taking exposures across all segments of market and the bank has been able to contain market risk in Investment portfolio effectively. The bank is undertaking Traditional Gap analysis and Duration Gap analysis for measuring potential liquidity risk and interest rate risk. This serves as a decision support tool for improving our asset liability management and thereby earnings. The bank also undertakes stress testing exercise on a regular basis to supplement the market risk management policies and strategies.

Bank has also put in place regulatory/internal limits for various products and business activities relating to trading book. Limits for exposures to counterparties and industries are monitored and risks are controlled through Stop Loss Limits, Overnight Limit, Daylight Limit, Aggregate Gap Limit, Individual Gap Limit, Inter-Bank dealing and investment limits etc. Bank has an independent Mid-Office for market risk management functions like onsite monitoring of adherence to set limits, independent valuation and reporting of activities. Asset Liability Management Committee (ALCO) is primarily responsible for establishing market risk management and asset liability management in the Bank, procedures thereof, implementing risk management guidelines issued by the regulator, best risk management practices followed globally and monitoring adherence to the internal parameters, procedures, practices/policies and risk management prudential limits.

2. Qualitative disclosure

2.1 The general qualitative disclosure requirement for market risk including the portfolio covered by securitized approach. **2.2** General disclosures for market risk including portfolios covered by the IMA. .A description of the soundness of the banks methodologies in assessing the capital adequacy, stress testing, and back-testing/validating the accuracy and consistency of the internal models and modeling processes.	• The HFT and AFS portfolios are covered by the 'Standardized Duration' approach for calculation of Market Risk. • Market Risk Management group set under the overall supervision of Market Risk Management Committee of the Board is responsible for identification, assessment, monitoring and reporting of Market risk. Board approved Trading Policy and Investment policy with defined Market Risk Management parameters for each asset class is in place. Risk monitoring is an ongoing process with the position reported to the top management and the ALCO at the stipulated intervals. • Risk measurement and reporting is based on parameters such as Modified Duration, maximum permissible exposures, net open position limit, and Gap limits in line with global best practices. • Market risk is calculated on trading portfolio under standardized duration method, as per directives of RBI, which is complemented by stress testing periodically.
3. Quantitative Disclosures	
3.1 The capital requirement for market risk as per Standardised Duration Approach:	• 149.05
• Interest rate risk.	• 83.22
• Equity position risk.	• 63.58
• Foreign exchange risk.	• 2.25
• Commodity risk.	• **nil**

3.2 For portfolios under the IMA, • The high, mean, and low VaR values over the reporting period and period-end. • A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in back-test results.	Bank is following the standardized duration method as per RBI directives.

Table DF – 9--- Operational Risk

1. **General Disclosures**

Bank has put in place detailed framework for Operational Risk Management with a well-defined ORM Policy. Operational Risk Management Committee (ORMC) at the executive level oversees bank wide implementation of Board approved policies and processes in this regard. Various tools, controls and mitigation measures implemented for management of operational risk are being reviewed and updated on a regular basis, to suit the changes in risk profile. Bank has also put in place a comprehensive bank wide Business Continuity Plan to ensure continuity of critical operations of the Bank covering all identified disasters.

Bank has started collection of internal operational loss data. Well-designed formats for reporting identified loss events and loss data in the most granular form have been put in place. Bank is using insurance for mitigating operational risk. The bank has a robust internal control and audit mechanism and reporting system for managing and mitigating operational risk.

2. **Qualitative disclosure**

2.1 In addition to general qualitative disclosure requirement, the approach (es) for operational risk capital assessment for which the bank qualifies.	The purpose of operational risk management is to identify, measure, asses and mitigate the probable losses owing to failure in internal systems and control or due to external unforeseen factors. The Bank has a separate operational risk management desk, which continuously evaluates on possible loopholes of systems and processes and accordingly appraises risk management committee about any adverse future impacts. An operational risk policy is in place which contains guidelines on identification, assessment and mitigation of various operational risks besides guidelines on internal functioning. The business continuity plan has also been put in place to ensure continuity of business in the event of any disruption. Bank has in place a robust control mechanism and MIS for mitigation and control of operational risks.

3. **Quantitative Disclosures** Amount in Rs Crores	
Capital charge for operational risk	Capital charge for operational risk is computed as per the Basic Indicator Approach prescribed by RBI. Under this approach, capital allocation is: • **187.87**

Table DF - 10 : Interest rate risk in the banking book (IRRBB)

1. **Qualitative disclosure**

1.1 The general qualitative disclosure requirements, including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

- The impact of fluctuation in interest rate on liabilities and assets has a direct impact on earnings and hence on the market value of Equity. Bank's ALCO is assigned the job of periodically monitoring and controlling the risks and returns, funding and deployment, setting Banks lending and deposit rates and directing the investment activities of the Bank. Risk Management Committee of Board reviews various decisions of ALCO for managing Market Risk.

  Bank utilizes the following two methods for calculation of Interest rate risk in banking Book:

- Earnings Perspective--- The bank utilizes traditional gap analysis for calculating the impact on its earnings (Net Interest Income) due to adverse movements in interest rates with the assumed change in yield on 200 basis points over one year.

- Economic Value Perspective---- The bank utilizes Duration Gap Analysis for calculating the long term impact on market value of equity due to adverse movements in interest rates with the assumed change in yield on 200 basis points.
  Measurement and computation of interest rate risk in Banking Book by the above two methods is done on a quarterly basis.

2. <u>**Quantitative Disclosures**</u>	
2.1 The increase (decline) in earning and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency (where the turnover is more than 5 percent turnover).	<u>Changes on account of Interest rate volatility</u> • Changes in net interest income (with 2% change in interest rates for both assets and liabilities) • (9.21) Crores • Change in market value of equity (with 1% change in interest rates for both assets and liabilities). • 13.44%