

## **Basel II (Pillar 3) - Disclosures (Consolidated) March 2010**

### **Table DF-1**

#### **Scope of application**

#### **Qualitative Disclosures**

(a) The name of the top bank in the group to which the Framework applies.

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(b) An outline of differences in the basis of consolidation for accounting and Regulatory purposes, with a brief description of the entities within the group

(i) that are fully consolidated; (ii) that are pro-rata consolidated; (iii) that are given a deduction treatment; and (iv) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

The Consolidated financial statements have been prepared by following going concern concept, generally on a historical cost basis and conform to the statutory provisions and practices prevailing in India in respect of Indian Offices/Branches and in respective foreign Countries in respect of Foreign Offices/Branches, except as otherwise stated.

The Consolidated financial statements include the accounts of Bank of India and its subsidiaries. The consolidated financial statements have been prepared after eliminating intra-group transactions; unrealized profit/loss and making necessary adjustments wherever required conforming to uniform accounting policies. The financial statements of the subsidiaries are drawn up to the same reporting date as that of parent i. e. 31<sup>st</sup> March 2010.

The accounting and reporting policies of Bank of India used in preparation of these financial statements reflect the banking industry practices and conform to the generally accepted principles in India and the guidelines issued by the Reserve Bank of India and Accounting Standard 21, "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

Accounting for Investments in associate companies is done under Equity method in accordance with Accounting Standard 23, "Accounting for Investment in Associates in Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

#### **i) Entities that are fully consolidated**

The particulars of the subsidiaries whose financial statements are consolidated with the standalone financial statement of the bank (the parent) are as under:

	Names of Subsidiaries	Country of Incorporation	Proportion of Ownership as on 31.03.2010
<b>Domestic Subsidiaries:</b>			
a)	BOI Shareholding Ltd. (Non-Banking)	India	51%
b)	Star Dai-Ichi Life Insurance Co. Ltd (Insurance)	India	51%
<b>Overseas Subsidiaries:</b>			
a)	PT Bank Swadesi (Banking)	Indonesia	76%
b)	BOI Tanzania Ltd. (Banking)	Tanzania	100%

Bank is having 20% or more stakes in following entities.

Sr. No.	Name of the Entity	Country of incorporation	Proportion of ownership percentage
i)	Securities Trading Corporation of India Ltd	India	29.96
ii)	Indo-Zambia Bank Ltd	Zambia	20
iii)	Aryavat Gramin Bank	India	35
iv)	Baitarani Gramya Bank	India	35
v)	Jharkhand Gramin Bank	India	35
vi)	Narmada Malwa Gramin Bank	India	35
vii)	Wainganga Krishna Gramin Bank	India	35

ii) Pro-rata consolidated:

Security Trading Corporation of India Ltd  
Indo-Zambia Bank Ltd.

iii) Entities given a deduction treatment:

Star Union Dai-Ichi Life Insurance Co. Ltd.  
5 Regional Rural Banks sponsored by the Bank

iv) Entities neither consolidated nor deducted: NIL

### **Quantitative Disclosures**

(b) 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.	<b>NIL</b>
(d) The aggregate amounts (e.g. current book value) of the bank's total interests in 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 of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.	<b>NIL</b>

### **Table DF-2:**

#### **Capital structure**

#### **Qualitative Disclosures**

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Upper Tier 2.

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1. Bank's Tier 1 capital comprises of Equity Shares, reserves and Innovative Perpetual Bonds.

Bank has issued Innovative Bonds (Tier I) and also other bonds eligible for inclusion in Tier 2 capital. Details of the bonds are as under:

**a) Innovative Perpetual Debt Instruments (IPDI)**

Particulars		Date of Issue	Perpetual & Call Option	Coupon Rate	Rs. in crore
a) Jersey Branch – MTN	USD 85 Mn	30.03.2007	30.03.2017	6.994%	381.14
b) Series I	In India	27.07.2007	27.07.2017	10.55%	400.00
c) Series II	In India	27.09.2007	27.09.2017	10.45%	100.00
d) Series III	In India	11.10.2007	11.10.2017	10.40%	155.00
e) Series IV	In India	10.02.2009	10.02.2019	8.90%	400.00
f) Series V	In India	09.12.2009	09.12.2019	9.00%	325.00
<b>TOTAL</b>					<b>1761.14</b>

**b) Upper Tier II Bonds**

Particulars		Date of Issue	Date of Maturity	Coupon Rate	Rs. in crore
a) Upper Tier II Bonds - Series I	In India	31.07.2006	31.07.2021	9.35%	732.00
b) London Branch-MTN	USD 240 Mn	22.09.2006	22.09.2021	6.625%	1077.30
c) Upper Tier II Bonds – Series II	In India	16.10.2008	16.10.2023	11.15%	500.00
d) Upper Tier II Bonds – Series III	In India	28.07.2009	28.07.2024	8.45%	500.00
e) Upper Tier II Bonds – Series IV	In India	28.08.2009	28.08.2024	8.50%	500.00
f) Upper Tier II Bonds – Series V	In India	20.01.2010	20.01.2025	8.54%	1000.00
<b>TOTAL</b>					<b>4309.30</b>

**c) Lower Tier II Bonds i.e. Subordinated bonds**

Particulars		Date of Issue	Date of Maturity	Coupon Rate	Rs. in crore
a) Series IV	In India	01.11.2002	01.05.2010	7.25%	450.00
b) Series V	In India	23.01.2004	30.04.2014	5.88%	350.00
c) Series VI	In India	31.03.2004	30.04.2014	5.90%	200.00
d) Series VII	In India	23.02.2005	23.05.2014	7.10%	300.00
e) Series VIII	In India	16.09.2005	16.04.2015	7.50%	750.00
f) Series IX	In India	20.03.2006	20.06.2016	8.00%	200.00
<b>TOTAL</b>					<b>2250.00</b>

2. The main features of IPDI are as follows:

- i) These instruments have characteristics of equity (perpetual and non-cumulative) and that of a debt (interest payable being tax deducted)
- ii) IPDI issued are included up to 15% of total Tier I capital of previous year after deduction of goodwill and intangible assets but before deduction of investments.
- iii) These instruments have been issued at a fixed rate.
- iv) The instruments have been issued with a call option and a step up option after 10 years with a step up of 100 basis points.

3. The main features of Upper Tier II bonds are as follows:

- i) These instruments have many similarities to innovative Tier I instruments. However these instruments have been issued at a maturity of 15 years.
- ii) These instruments are issued at a fixed rate.
- iii) The instruments have been issued with a call option and a step up option after 10 years with a step up of 100 basis points.

**B. PT Bank Swadesi Tbk (Subsidiary)**

Tier I capital consists of Paid-up Share Capital, Premium, Regulatory Reserves and Retained Earnings.

**C: Bank of India (Tanzania) Ltd ( Subsidiary)**

Tier 1 capital comprises of paid up share capital and reserves and there are no items eligible for inclusion in Tier 2 capital.

**Quantitative Disclosures**

1. The Tier 1 capital of the consolidated bank comprises:

		(Rs in Crores)
i)	Paid-up share capital	525.91
ii)	Reserves (excluding revaluation reserves)	11974.75
iii)	Innovative Perpetual Bonds	1721.14
iv)	Other capital instruments	-----
Deductions		
v)	Amounts deducted from Tier I capital including goodwill and Investments	270.58
Tier I Capital (i+ii+iii+iv-v)		13951.22

2. The amount of Tier 2 capital (net of deductions) is Rs. 7217.64 crores

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

		(Rs in Crores)
Total amount outstanding		4309.30
Of which amount raised during the year		2000.00
Amount eligible to be reckoned as capital funds		4309.30

4. The subordinated debts eligible for inclusion in Lower Tier 2 capital are:

		(Rs in Crores)
Total amount outstanding		2250.00
Of which amount raised during the year		0.00
Amount eligible to be reckoned as capital funds		1630.00

5. There are no other deductions from capital

6. The total eligible capital comprises:

		(Rs in Crores)
Tier I Capital		13951.22
Tier II Capital		7217.64
Total Capital		21168.86

**Table DF-3**  
**Capital Adequacy**  
**Qualitative disclosures**

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

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The Bank carries out regular assessment of its Capital requirements from time to time to maintain a comfortable Capital to Risk Weighted Assets Ratio (CRAR). The capital plan is reviewed on an annual basis to take care of the future growth in business, capital requirements, policy guidelines, macro economic scenarios, risk appetite etc. The Bank also has well developed Internal Capital Adequacy Assessment Process (ICAAP) to comprehensively address all risks.

Taking into account internal accruals and factoring the timely issues of Tier I and Tier II instruments, the availability of capital is not likely to be a constraint for supporting projected growth of assets and meeting the requirements of Basel II, as the Bank has sufficient headroom available for raising its Capital.

**B. PT Bank Swadesi Tbk (Subsidiary)**

The capital of the bank at Rs.151.26 crores comfortably supports the current asset base Depending on the future expansion of credit, additional capital may be infused.

**C. Bank of India (Tanzania) Ltd (Subsidiary)**

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BOT), for supervision purposes. The required information is filed with the BOT on a quarterly basis.

The bank's regulatory capital as managed by its management is divided into two tiers:

Tier 1 capital: - Share capital, retained earnings and reserves created by appropriation of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 Capital.

Tier 2 capital: - Qualifying subordinate loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are ensured by means of a hierarchy of five risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

**Quantitative disclosures**

(b) Capital requirements for credit risk at 9% of RWA: <input type="checkbox"/> Portfolios subject to standardised approach: <input type="checkbox"/> Securitisation exposures:	Rs. 14652.81 Crores NIL
(c) Capital requirements for market risk: <input type="checkbox"/> Standardised duration approach; - Interest rate risk: - Foreign exchange risk (including gold): - Equity risk:	Rs. 896.88 Crores Rs. 14.67 Crores Rs. 414.43 Crores

d) Capital requirements for operational risk: <input type="checkbox"/> Basic indicator approach:	Rs. 1079.12 Crores
(e) Total and Tier 1 capital ratio: <input type="checkbox"/> For the top consolidated group; and <input type="checkbox"/> For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied). For BOI Solo	13.00% and 8.57% 12.94% and 8.48%

**TableDF-4****Credit risk: general disclosures for all banks****Qualitative Disclosures**

a) The general qualitative disclosure requirement with respect to credit risk, including:

- Definitions of past due and impaired (for accounting purposes);

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The Bank follows Reserve Bank of India regulations, which are summed up below.

**Non-performing Assets**

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A non-performing asset (NPA) is a loan or an advance where;

- i) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii) the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC),
- iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- (iv) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- (v) the installment of principal or interest thereon remains overdue for one crop season for long duration crops.
- (vi) the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1,2006.
- (vi) Bank should classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.
- (vii) A loan for infrastructure/non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue) unless it is restructured and becomes eligible for classification as "Standard Asset"
- (viii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as "Standard Asset"
- (ix) A loan for an non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as "Standard Asset"

**'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**'.

'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.

Non-performing investments

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 (NPI), similar to a non-performing advance (NPA), is one where:

- (i) Interest/ installment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- (ii) The applies mutatis-mutandis to preference shares where the fixed dividend is not paid.
- (iii) In the case of equity shares, in the event the investment in the shares of any company is valued at Re.1 per company on account of the non-availability of the latest balance sheet in accordance with the Reserve Bank of India instructions, those equity shares are also reckoned as NPI.
- (iv) If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer is treated as NPI and vice versa.
- (v) The investments in debentures / bonds, which are deemed to be in the nature of advance are subjected to NPI norms as applicable to investments.

**B. PT Bank Swadesi Tbk (Subsidiary)**

The Credit Quality is assessed based on the factors such as business prospects, performance of the debtor and repayment capacity. It is undertaken depending upon the materiality and significance of each assessment factor and components and the relevance of the assessment factors and components to the characteristics of the debtor concerned. Accordingly, the assets are classified into current, special mention, sub-standard, doubtful and loss category.

“Assets” are classified into Earning Assets and Non-earning Assets. Earning Assets are provision of funds by a bank to earn revenues. “Non Earning Assets” are assets of the Bank other than Earning Assets with potential for Loss.

An asset becomes non-performing when it ceases to generate revenue for the bank. A non performing asset is a loan or an advance where the arrears in principal and / or interest exceed 90 days.

Past due: Any amount due to the bank under any credit facility is “past due” if it is not paid on the due date fixed by the bank.

On 1<sup>st</sup> January 2010, PT Bank Swadesi Tbk started implementation of the New Accounting Policy i.e. PSAK 50 & 55 which is similar to the International Accounting Standards IAS 32 & 39 according to which the financial asset must be presented at the fair value. During the implementation of PSAK 50 & 55, Bank Indonesia issued the guidelines that if the Bank does not maintain historical loss data, during the transition period i.e. until the year 2011, it can compute the financial asset impaired as described above.

**C. Bank of India (Tanzania) Ltd (Subsidiary)**

Definitions of past due and impaired (for accounting purposes);

Overdrafts and other credit facilities without specific due dates shall be considered past due if

- a. Exceeds the customer's borrowing limit.
- b. Customers borrowing limit is expired.

- c. Deposits are insufficient to cover the interest calculated and due for the period
- d. Bill has been dishonored
- e. Bill or account is not paid on due date

Loans which are payable in installments are considered as past due in their entirety. If any of the Instalments have become due and unpaid for thirty days or more outstanding Loans and advances reviewed by quantitative approach should be classified as follows:

No of Days Past Due	Classification	Provisioning
91-180	Substandard	10%
181-270	Doubtful	50%
271 and More	Loss	100%

### **Discussion of the Bank's Credit Risk Management Policy**

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1. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions or from reduction in portfolio value arising from actual or perceived deterioration in credit quality.
2. Against this backdrop a robust risk management framework is necessary for the long-term financial health of a bank. Credit Risk Management encompasses identification, measurement, monitoring and control of the credit risk exposures.
3. The Bank has identified various types of credit risk at a generic level in the Credit Risk Management policy. More granular identification is done at the product /process level. Various risks are looked into before introducing new products/processes, which are cleared from the risk angle
4. The Credit Risk Management framework outlined in the policy is built on three distinct building blocks namely **Policy & Strategy, Organisational Set up and Operations/Systems**

#### **Policy and Strategy**

The Bank has been following a conservative risk philosophy, which has steered the bank through difficult times. However the Bank has an open policy regarding new and unexplored areas and new opportunities are not lost sight of. The important aspects of this philosophy are embodied in the circulars and are periodically codified in the form of Manual of Instructions.

The business objectives and the strategy of the Bank is decided taking into account the profit considerations, the level of various risks faced, level of capital, market scenario and competition. The Bank is always conscious of its asset quality and earnings and hence judiciously matches profit maximisation with risk control.

The Credit Risk Management policy and significant credit risk related policies like Credit Policy, and Credit Monitoring Policy are approved and periodically reviewed by the Board of Directors. The Credit Policy covers various areas of credit like Clientele, Marketing, Segmented Approach to Lending, Credit Delivery, Credit Thrust, Tenure of Credit, Credit Acquisition, Risk Rating (including risk acceptance criteria), Pricing, Credit appraisal, Assessment of Limits, Exposure Norms, Industry Norms, Collateral and Margins, Review of Relationship, Scheme of Delegation, Statutory and other Restrictions and Documentation. Credit Policy for International Operations is in place and each centre has its own credit policy dovetailed to the main policy. The delegation of powers for credit matters is covered by a separate policy. In addition Credit Risk is tracked and monitored as per the Credit Monitoring Policy. Restructuring Policy, Write Off and Recovery Policy, Asset Classification and Provisioning Policy, Bank Exposure Policy, Country Risk policy and Credit Audit Policy are also in place. Investments are contracted as per the policy guidelines laid down in the Investment Policy and after clearance by the Investment Committee.

## 4.2 Organisational Set up

The organizational structure of the Bank for Credit Risk Management function has the Board of Directors at the Apex levels that have the overall oversight of management of risks. The Risk Management Committee of the Board (RCom) which is the sub-committee of the Board headed by the Chairman & Managing Director and whose members also include heads of Credit, Market & Operational Risk Management Committees, devises the policy and strategy for integrated risk management including credit risk. At the operational level the Credit Risk Management Committee (CRMC) manages the credit risk. The main functions include implementation of credit risk management policy approved by the Board, monitoring credit risk on a bank wide basis, recommending to the board for its approval all policies relating to credit matters including delegation of credit, prudential limits on large credit exposures, portfolio management, etc.

The Risk Management Department headed by the Chief Risk Officer of General Manager rank, measures, controls and manages credit risk on bank wide basis within the limits set by the Board and enforces compliance with risk parameters set by Board/RCom/CRMC. The Credit Monitoring Department headed by a General Manager, monitors the quality of loan portfolio, identifies problems and takes steps to correct deficiencies. Loan review / credit audit is undertaken by the Credit Audit function.

## 4.3 Operations/Systems/Processes

The Bank has proactive Credit Risk Management practices like consistent standards for the credit origination, maintenance and documentation for all credit exposures including off balance sheet items, periodic individual obligor reviews, periodic inspections and collateral management systems.

Credit risk limits including obligor limits and concentration limits by industry, systems and procedures for monitoring financial performance of customers and for controlling outstanding within limits are followed. Checks and balances are in place for extension of credit viz. separation of credit risk management from credit sanction, vetting of new products and systems from risk angle by the CRMC, multiple credit approvers, system of assigning risk rating, vetting of ratings, mechanism to price facilities depending on the risk grading of the customer, Credit Risk Evaluation committee for vetting credit proposals from risk angle, credit process audit, post sanction pre disbursement review and post sanction review systems and an independent audit and risk review function. Proposals for investments are subjected to credit risk analysis, detailed appraisal and rating. As a matter of entry level, minimum ratings/quality standards, industry, maturity, duration, issue-wise limits are stipulated for investments to mitigate the adverse impact of concentration and risk of liquidity. Investment exposure is taken into consideration while computing exposure to a customer/group. A suitable framework is in place to provide a centralised overview on the aggregate exposure on other banks and half-yearly reviews are undertaken at a single point. The country exposures are monitored on half yearly basis.

A diversified portfolio of risk assets is maintained and a system to conduct regular analysis of the portfolio so as to ensure ongoing control of risk concentrations is in place. A conservative policy for provisioning in respect of non-performing advances is followed. Management Information System (MIS) is being upgraded with introduction of Credit Risk Management System, which would enhance the capabilities of the bank to manage and measure the credit risk inherent in all on- and off-balance sheet activities.

## 5. The following tools are used for credit risk management/ mitigation -

### a. Credit Approving Authority – Delegation of Powers

The Bank has a well-defined scheme of risk based delegation of powers with a multi-tier risk based approving system, which is reviewed periodically and revised as and when necessary to meet the compulsions of business environment

### b. Prudential Limits

Prudential limits on various aspects of credit/investment like Single/Group borrower limits for various types of borrowers are in place.

c. Risk Rating/Pricing

The bank has introduced rating models for various segments, which serve as a single point indicator of diverse risk factors of a counter party and support credit and pricing decisions.

d. Credit Audit/Loan review mechanism (LRM)

Credit Audit/LRM is an effective tool for constantly evaluating the quality of loan book and to bring about qualitative improvements in credit administration

e. Portfolio Management through analysis.

It is also important to have in place a system for monitoring the overall composition and quality of various credit portfolios and investments. With this objective, to start with, the bank has introduced a simple portfolio-monitoring framework. Going forward the bank will be graduating to a more sophisticated Portfolio Management model. Rating Migration of accounts with Rs. 10 lacs and above is being done on half yearly and submitted to Board. Credit Risk Management Software (CRMS) is being implemented phase-wise. Bank is getting prepared for adopting Advanced Approaches as per time schedule given by RBI.

## 6. Risk Measurement

At present Credit Risk is assessed through Risk rating at the individual level and through Risk Weighting of the assets at the portfolio level and capital is maintained based on Risk Weights. The Bank has migrated to the Standardized approach under the New Capital Adequacy Framework (Basel II), effective 31<sup>st</sup> March 2008 –

## 7. Risk Reporting System: -

All credit related policies are cleared by the CRMC (which is the operational level committee for credit risk) before submission to the appropriate authorities for approval. Various Credit Related reportings are submitted to CRMC to enable proper monitoring.

## 8. Risk Review:

Audit –Credit Risk Management Systems procedures and Tools are also subjected to internal audit for ensuring effectiveness.

## B. PT Bank Swadesi Tbk (Subsidiary)

Bank Swadesi is selective in approving new credits and maintains higher loan provisions than that required by the Regulator. In collateral based lending, hair cut is applied to the value of collateral. The Risk Manager of the bank reports to the Director Compliance. Risk Management Unit (RMU) supervises/ has oversight of the credit approval process. All the Divisions including the RMU are supervised by the Risk Management Committee (RMC) for strengthening the Internal Control functions and policies. The RMC reports to Board of Commissioners.

## C. Bank of India (Tanzania) Ltd (Subsidiary)

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit committee. The credit department of the bank, reporting to the Credit committee is responsible for management of the bank's credit risk, including:-

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for approval and renewal of credit facilities. The credit limits are governed by the Credit policy, as approved by the board.
- Reviewing and assessing credit risks.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).

Monthly interest application has become a useful tool to tackle potential delinquencies or defaults in standard accounts. To retain the asset quality, the Banks has adopted the following policy:-

- a) Recover the overdues or at least the critical amount through active follow up with borrowers;
- b) Put the accounts under holding on operations in case of temporary cash flow mismatches;
- c) Reschedule the repayment terms as per expected cash flows;
- d) Restructure the dues in keeping with the expected cash flows and gaps in cash flows, if any as per guidelines given in the restructuring policy.

Any one or more of the above actions are taken by the Bank before the account becomes NPA.

#### Measures for follow up of Especially Mentioned Accounts / NPA Accounts

The various means of monitoring / resolving NPAs generally available to the Banks are listed below:-

A) Before the account becoming NPA (Especially Mentioned A/c)

- i) Close monitoring for compliance of sanction terms to maintain asset quality.
- ii) Reminders to be sent promptly whenever irregularities are observed.
- iii) To recover overdues quickly to ensure account does not slip to NPA category
- iv) Periodic inspection of the unit and charged assets along with analysis of financial data.
- v) To restructure the dues before accounts become NPAs. Remedial action includes enhancement of moratorium period, funding of interest, and deferment of instalments.

B) After the account becoming NPA – following measure to be initiated for recovering Bank's dues. The following means have to be effectively pursued for resolution of NPAs.

- i) Appropriation of liquid securities (TDR, shares, margin money etc.) and pledged goods, to reduce outstanding
- ii) Disposal of other securities, with the co-operation of borrowers.
- iii) Compromise settlement of dues through negotiation
- iv) Recalling the advance
- v) Filing suit in Court– Execution of decree
- vi) Lastly, after all the chances of recovery of dues are exhausted, we may resort to writing off of the balance dues

#### Quantitative Disclosures:

1. The total gross credit exposures are:

Category	Rs in Crores	
	Domestic	Overseas
Fund Based	171865	
Non Fund Based	37792	

2. The geographic distribution of exposure is:

	Rs in Crores	
	Domestic	Overseas
Fund Based	135194	36671
Non Fund Based	34292	3500

3. Industry type distribution of exposure is as under:

Rs. in Crores

Industry Name	Fund Based Amt Outstanding	Non Fund Based Amt Outstanding
Coal	194.31	165.35
Mining	1051.69	920.53
Iron & Steel	8345.17	2432.46
Other Metal & Metal Products	1832.15	772.28
All Engineering	1646.59	1350.63
Of which Electronics	684.57	273.36
Electricity	6439.18	2511.10
Cotton Textiles	3343.40	210.32
Jute Textiles	73.93	3.94
Other Textiles	2941.97	321.50
Sugar	1297.08	89.64
Tea	21.99	0.96
Food Processing	933.75	297.18
Vegetable Oil & Vanaspati	281.55	998.73
Tobacco & Tobacco Products	286.22	5.33
Paper & Paper Products	799.93	94.15
Rubber & Rubber Products	1282.07	632.74
Chemical, Dyes, Paints etc.	3836.28	1445.40
Of which Fertilisers	241.21	12.11
Of which Petro-chemicals	867.89	421.53
Of which Drugs & pharmaceuticals	1955.85	436.01
Cement	715.20	34.08
Leather & Leather Products	400.77	92.43
Gems & Jewellery	2901.86	194.86
Construction	2062.68	702.71
Petroleum	484.32	485.49
Automobiles including trucks	1788.50	1481.14
Computer Software	18.03	13.88
Infrastructure *	10056.42	3995.64
Other Industries	7232.13	2172.65
Residuary Other Advances (to balance with Gross Advances)	109900.75	16366.88
<b>Total</b>	<b>171865.00</b>	<b>37792.00</b>

\* Exposure to Infrastructure Sector at 5.85% exceeds 5% of total fund based advances

\* Exposure to Iron & Steel, Electricity & Infrastructure at 6.44% 6.64% & 10.57% respectively exceeds 5% of total non fund based outstanding.

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

(Rs in Crores)

Maturity Pattern	Advances*	Investments (gross)	Foreign Currency Assets*
Next day	17690.25	600.51	152.79
2 – 7 days	2300.74	50.22	1330.44
8 –14 days	3049.36	87.28	150.16
15 – 28 days	5593.34	229.49	416.22
29 days – 3 months	39204.63	1147.57	2031.06
>3 months – 6 months	17798.13	1562.52	3528.35
> 6months – 1 year	14588.79	1520.98	1387.23
>1 year – 3 years	19283.65	5287.09	208.86
> 3 years – 5 years	17867.14	7713.91	76.14
> 5 years	31654.20	49210.90	2824.92

\*Figures are shown on net basis

5. The gross NPAs are:

Category	(Rs in Crores)
Sub Standard	2829.02
Doubtful – 1	820.50
Doubtful – 2	372.48
Doubtful – 3	177.59
Loss	693.55
<b>TOTAL</b>	<b>4893.14</b>

6. The amount of net NPAs is Rs. **2215.64** crores.

7. The NPA ratios are as under:

- a. Gross NPAs to Gross Advances: 2.85%
- b. Net NPAs to Net Advances: 1.31%

8. The movement of gross NPA is as under:

	(Rs in Crores)
i) Opening balance at the beginning of the year	2480.24
ii) Additions during the year	4173.24
iii) Reductions during the year	1760.34
iv) Closing balance at the end of the year (i+ii-iii)	<b>4893.14</b>

9. The movement of provision for NPAs is as under:

	(Rs in Crores)
i) Opening balance at the beginning of the year (excluding floating provision)	1389.23
ii) Provisions made during the year	1765.42
iii) Write-off/write-back of excess provisions	953.36
iv) Closing balance at the end of the year (i+ii-iii)	<b>2201.29</b>

10. The amount of non-performing investment is Rs. **275.21** crores.

11. The amount of provision held for non-performing investment is Rs. **283.22** crores

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

	(Rs in Crores)
i) Opening balance at the beginning of the year	706.19
ii) Provisions made during the year	419.02
iii) Write-off/write-back of excess provisions	238.93
iv) Closing balance at the end of the year (i+ii-iii)	<b>886.28</b>

#### **Table DF-5**

#### **Credit risk: disclosures for portfolios subject to the standardised approach**

#### **Qualitative Disclosure**

a) For portfolios under the standardized approach:

- Names of credit rating agencies used, plus reasons for any changes;
- Types of exposure for which each agency is used; and
- A description of the process used to transfer public issue ratings onto comparable assets in the banking book;

**A: BANK OF INDIA**

1. The Bank has approved using the general rating of the following credit rating agencies for risk weighting under the standardized approach for CRAR calculations  
**CRISIL, ICRA, Fitch India, and CARE for domestic claims and S&P FITCH and Moody's for claims on non-resident corporates, foreign banks and foreign sovereigns.** SME ratings are not being used, as they are not approved by RBI.
2. The ratings of all these agencies are being used for all exposures subjected to rating for risk weighting purposes under the standardized approach for CRAR calculations under Basel-II.  
The process used to transfer public issue ratings on to comparable assets in the banking book is as per regulatory requirements of RBI. The public ratings published by the rating agencies on their website are used for this purpose. Only, ratings which are in force as per monthly bulletin of the concerned rating agency and which have been reviewed at least once during the previous 15 months are used.  
For all the exposures on a particular counterparty, bank uses the rating of only one agency, even though these exposures are rated by more than one with exception being where each of the exposures is rated by only one of the approved rating agencies.
3. To be eligible for risk-weighting purposes, it is ensured that the external credit assessment takes into account and reflects the entire amount of credit risk exposure the bank has with regard to all payments owed to it. Even while extending an issuer or an issue specific rating to any other exposure on the same counterparty it is extended to the entire amount of credit risk exposure i.e., both principal and interest. External assessments for one entity within a corporate group is not used to risk weight other entities within the same group.
4. For assets that have contractual **maturity less than or equal to one year, short term ratings** are used while for other assets, **long term ratings** are used. For Cash Credit exposures **long term ratings** are taken.
5. Where an issuer has a long-term exposure with an external long term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short-term or long-term, also receive a 150% risk weight, except incases where credit risk mitigation techniques are used for such claims. Similar is the case with short-term rating.
6. The long-term ratings assigned by the approved rating agencies are directly mapped to the risk weights under the Standardised Approach for long-term exposures. On the contrary, the *unrated short-term* claim on counter-party attracts a **risk weight of at least one level higher** than the risk weight applicable to the **rated short-term claim** on that counter-party. Issue-specific short-term ratings are used to derive risk weights for claims arising from the rated facility against banks and a corporate's short-term rating is not used to support a risk weight for an unrated long-term claim.
7. If there are two ratings accorded by eligible credit rating agencies, which map into different risk weights, the higher risk weight is applied. If there are three or more ratings accorded by eligible credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weights are applied, i.e., the second lowest risk weight.
8. The RW of the investment claim is based on specific rating by a chosen credit rating agency, where the claim is not an investment in a specific assessed issue:
  - i. the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) is applied to the bank's un-assessed claim only if this claim ranks *pari passu* or senior to the specific rated debt in all respects and the maturity of the un-assessed claim is not later than the maturity of the rated claim, except where the rated claim is a short term obligation.
  - ii. 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, an unrated claim on the same counterparty, is 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.

**B: PT Bank Swadesi Tbk (Subsidiary)**

Bank Swadesi has not approved any External Credit Rating Agency

**C: Bank of India (Tanzania) Ltd (Subsidiary)**

As per prevailing norms in the Country credit rating is not required to be done by any external credit rating agency. There is no credit rating agency operating in the Country.

**Quantitative Disclosures:**

<p>b) For exposure<sub>28</sub> amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted;</p> <p>The total credit exposure (excluding market related off balance sheet items) of the bank (subject to standardized approach), are classified under major risk buckets are as under: -</p> <p><input type="checkbox"/> Below 100 % risk weight:  <input type="checkbox"/> 100 % risk weight:  <input type="checkbox"/> More than 100 % risk weight:  <input type="checkbox"/> Deducted</p>	<p>Rs. 209859 Crores  Rs. 97538 Crores  Rs. 13976 Crores  NIL</p>
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**Table DF-6****Credit risk mitigation: disclosures for standardised approaches****Qualitative Disclosures**

(a) 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 creditworthiness; and
- information about (market or credit) risk concentrations within the mitigation taken

**A: BANK OF INDIA**

1. Credit Risk Mitigation is a proactive management tool designed to enhance revenue growth, both in good and bad times, while protecting an entity's earnings from loss. Banks employ various methods and techniques to reduce the impact of the credit risks they are exposed to in their daily operations. Such a process is termed as credit risk mitigation and some of the credit risk mitigation techniques are permitted to be used by the supervisor for reducing the capital charge after adjustment for value, currency mismatch and maturity mismatch. The Credit Risk Mitigants (CRM) recognized under the New Capital Adequacy Framework (Basel II) are as follows:

- (1) Collateralised transactions
- (2) On-balance-sheet-netting
- (3) Guarantees

**2. Eligible financial collateral:**

All collaterals are not recognised as credit risk mitigants under the Standardised Approach. The following are the financial collaterals recognised

- i. Cash and Deposits including deposits in foreign currency.
- ii. Gold: benchmarked to 99.99% purity.
- iii. Securities issued by Central and State Governments
- iv. Kisan Vikas Patra and National Savings Certificates
- v. Life insurance policies
- vi. Debt securities -Rated subject to conditions.
- vii. Debt securities not rated issued by banks subject to conditions
- viii. Units of mutual funds subject to conditions

There are certain additional standards for availing capital relief for collateralized transactions, which have direct bearing on the management of collaterals, and these aspects are taken into account during Collateral Management.

### 3. On-balance-sheet-netting

On-balance sheet netting is confined to loans/advances (treated as exposure) and deposits (treated as collateral), where Bank has legally enforceable netting arrangements, involving specific lien with proof of documentation and which are managed on a net basis.

### 4. Guarantees

Where guarantees are direct, explicit, irrevocable and unconditional, bank takes account of such credit protection in calculating capital requirements. The **range of eligible guarantors/ counter guarantors includes:**

- (i) Sovereigns, sovereign entities (including BIS, IMF, European Central Bank and European Community as well as certain specified MDBs, ECGC and CGTSM), banks and primary dealers with a lower risk weight than the counterparty;
  - (ii) Other entities rated AA or better.
5. The Bank has a well-defined Collateral Management policy, which provides the controlling framework to ensure collateral is used optimally. This is a key component in mitigating the credit risks inherent in lending. The Bank accepts both tangible and intangible securities. Tangible Securities are either in physical form or such other material form like cash margin, Deposits with Banks, Gold or such other precious metals, Shares NSC/KVP/Life Insurance Policies. The intangible securities are –Bank Guarantees / Letters of Credit, book debts, Letter of Comfort, Letter of Negative Lien, Unregistered Charge etc. The common ways for obtaining security for moneys lent are - Mortgage, Pledge, Hypothecation and lien. The assets created out of the bank's credit exposure are as a general rule charged to the bank by way of first charge /or on paripassu basis.

Guarantees are normally insisted upon whenever available/permissible

The main types of guarantors are: -

- i) Central/State Government and Central Government sponsored agencies like DICGC, CGTMSE, and ECGC.
  - ii) Promoters/Major owners of corporates.
  - iii) Individual Guarantees of relatives in case of individuals
6. The various aspects of collateral management are -

Minimum conditions for the acceptance of collateral: For collateral to be valid and enforceable the bank ensures that the assets accepted as collateral are marketable, legally enforceable and can be taken control of if necessary. It is also ensured that the market value of the asset is readily determinable or can be reasonably established and verified. For internal control purposes, the bank has a list of types of assets acceptable as collateral and the maximum loan to value ratio for each of these assets taken as primary security. The bank also takes into account statutory restriction while taking collaterals.

(b) Validity of collateral;

- i) Enforceability

Bank ensures that credit documentation supporting the collateral, is legally enforceable in all relevant jurisdictions and empowers the Bank to apply the collateral freely to discharge the borrower's obligations.

## ii) Title and ownership

Bank always verifies the existence and ownership of the assets being received as collateral before acceptance and ensures that there is no prior claim by any other party on the said collateral. Bank secures its control of the collateral prior to the draw down of credit facilities. Information on collaterals is provided to Top Management periodically to facilitate management of credit risk. Charges on collaterals are promptly registered with the relevant authorities wherever applicable.

## c) Loan-to-value ratios

Bank has specified the maximum loan-to-value ratio (margin) for major types of asset to be accepted as primary security. Such ratios are commensurate with the relative risk of the assets and should be able to provide an adequate buffer against potential losses in realising the collateral

## d) Valuation

Bank has a Board approved policy in place for valuation of properties accepted for bank's exposures, where Basis of valuation, Qualification of Valuer and Frequency of revaluation are laid down for compliance across the bank.

## (e) Safe keeping of collateral and control to their access

Authority and responsibility has been delegated to relevant individuals and departments for approving the acceptance, monitoring or safe custody of collaterals

## (f) Additional / Replacement of collateral;

Procedures for requesting additional collateral are clearly documented

## (g) Insurance;

All eligible collaterals except those specially exempted are covered by insurance for relevant risks and detailed guidelines for the same are in place

## (h) Sale of collateral;

The Bank has clear and robust procedure for the timely liquidation of collateral.

The Bank has no major risk concentrations of collaterals or credit risk mitigants.

**B: PT Bank Swadesi Tbk (Subsidiary)**

Bank Swadesi has policy and processes for collateral valuation, based on Bank of Indonesia Regulation and national discretions for mortgage loan. Independent appraisal is made if the value of collateral is above USD 200,000. Liquidation value is calculated based on type of collateral. Collateral value is reviewed every year. The main type of collateral taken is Land & Buildings. Generally personal or third party guarantee is not taken. Sectoral caps in lending are in place to take care of concentrations. The Bank has no major risk concentrations of collaterals or credit risk mitigants.

**C: Bank of India (Tanzania) Ltd (Subsidiary)**

The collaterals is obtained in the form of Bank's own Term Deposit receipts, Legal Mortgage over Immovable properties, Hypothecation charge over movable assets of the company, Pledge of shares etc. As per regulatory requirements maximum exposure limits on single borrower/group are as detailed under

Collateral position	limit(as % of core capital)
1) Secured by collateral the value of which is at least	
a) 125% of the credit accommodation secured by it ( fully secured)	25%
b) Secured by collateral the value of which is less than 125% Of the credit accommodation secured by it ( partly secured)	10%
c)Unsecured	5%

**Quantitative Disclosures:**

(b) For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on – or off balance sheet netting) that is covered by eligible financial collateral: after the application of haircuts.	Rs. 66220 Crores
(c) For each separately disclosed portfolio the total exposure (after, where applicable, on – or off balance sheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI)	Rs. 5356 Crores

**Table DF-7****Securitisation: disclosure for standardised approach**

The Bank has no Securitization Exposure as on 31.03.2010.

**Table DF-8****Market risk in trading book****Qualitative disclosures**

- (a) The general qualitative disclosure requirement for market risk including the portfolios covered by the standardised approach.

**A: BANK OF INDIA**

In Trading book the Bank holds "Held for Trading "(HFT) and "Available for Sale "(AFS) portfolios of investments. The rest of the assets – i.e. Investments under Held to Maturity portfolio and advances - are treated as Banking Book. Given below is brief description of the Market Risk Management objectives and policies.

**(i) Strategies and Processes:**

Under Market Risk Management, Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk, and Equity Price risk are monitored. Bank is not currently trading in commodities.

**Liquidity Risk**

Gap analysis is followed for monitoring Liquidity risk on a fortnightly basis. Prudential limit - for percentage of cumulative gap to cumulative outflow - based on Reserve Bank of India guidelines for the short-term buckets up to 28 days is monitored. Besides, prudential limits are in place for market borrowing – Daily and average call borrowing – Inter Bank Liabilities, Purchased funds etc.

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

**Interest Rate Risk**

Gap analysis is used to assess the impact on the Net Interest Income of the bank for the next 12 months and till the next financial year. The Bank also uses duration gap analysis. Prudential limits have been fixed for duration of liabilities. Bank's investments portfolio is monitored on basis of duration analysis.

VaR methodology is followed for dated securities under SLR and Non SLR (domestic) Prudential limits for VaR have been fixed and daily monitoring is being done and reported to Top Management. Foreign investments in dated securities are normally hedged and the interest rate risk is minimal.

Stress Testing is done to assess the impact on Economic Value of Equity by infusing a shock of change in market rate by 200 basis points.

#### Foreign Exchange Risk

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

Derivative transactions are monitored by fixing prudential limit for net open position and a cap for PV01 on the outstanding derivatives.

#### Equity Price Risk

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

#### **(ii) Structure and Organisation of Market Risk Management function:**

Risk Management is a Board driven function supported by three levels-. Risk Management Committee of the Board for overseeing and issuing directions, wherever necessary / approving Risk Management Policies etc., Asset Liability Management Committee (ALCO) who consider policy issues and with Risk Management Cell providing support at the ground level. Asset Liability Management Committees are operational at foreign centres also.

#### **(iii) Scope and nature of risk reporting and / or measurement systems:**

In respect of domestic business the guidelines stipulated by RBI for managing Market Risk is followed such as – Preparation of Interest Rate Sensitivity statement on a monthly basis – Duration analysis of investments in the Trading book on a daily basis – VaR calculation of trading book investments on a daily basis excepting the equity portfolio – conducting stress test for liquidity risk / market risk on a quarterly basis. – Duration analysis of domestic balance sheet and impact on the Economic Value of Equity on a quarterly basis. Interest Rate sensitivity is reviewed on a monthly basis at the foreign centres and on a quarterly basis by ALCO at the corporate level

Various prudential measures have been put in respect of market borrowing and lending in conformity with RBI guidelines for monitoring liquidity risk. Structural Liquidity statement is prepared on monthly basis and Short Term Dynamic Liquidity statement on a fortnightly basis and reported to ALCO. Structural liquidity of international operations is being done on a quarterly basis at the corporate level.

The results of the Quarterly study on Stress Testing and Impact on Economic Value of Equity is reported to ALCO. Trading book position – Duration and VaR is reported daily to Top Management.

#### **(iv) Policies for hedging and / or mitigating risk.**

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

#### **B: PT Bank Swadesi Tbk (Subsidiary)**

The Market risk impact for the bank is negligible. Bank Swadesi is exempted for Market Risk as its transaction is below USD 2 Mn as per Regulations

**C: Bank of India (Tanzania) Ltd (Subsidiary)**

- i. Market risk: Market risk arises from open positions in interest rate, currency and equity products. The board sets limits and reviews it at regular interval on the risk that may be accepted. Further the exposure is monitored on daily basis.
- ii. Liquidity risk: The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loans drawn and guarantees, from margin and other calls on cash settlement. The board has set limit based on their experience of the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facility that should be in place to cover withdrawals at unexpected levels of demand.
- iii. Interest rate risk: The bank is exposed to various risks associated with the effect of fluctuation in the prevailing levels of market interest rates on its financial position and cash flow. The bank has the discretion to change the rates on deposits, loans and advances in line with changes in market trend. These measures minimize the bank's exposure to interest rate risk.
- iv. Currency risk: The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate. The bank is involved in foreign currency market only to the extent of buying and selling to the extent of required currency. The bank is not involved in foreign currency forward contracts and thus the risk is limited.

**Quantitative disclosures**

(b) The capital requirements for: <input type="checkbox"/> interest rate risk: <input type="checkbox"/> equity position risk: and <input type="checkbox"/> foreign exchange risk:	Rs.896.88 Crores Rs. 414.43 Crores Rs. 14.67 Crores
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**Table DF-9****Operational risk****Qualitative disclosures**

In addition to the general qualitative disclosure requirement, the approach (es) for operational risk capital assessment for which the bank qualifies.

**A: BANK OF INDIA**

The Bank assesses and identifies operational risks inherent in all the material products, processes and systems under different Lines of Business on ongoing basis. All new products, activities and systems are being routed through Committee on Operational Risk Management (CORM). The Loss Data analysis is done on half yearly basis to assess the high-risk prone product and business lines and adopt mitigating measures.

The Board after clearance by the Risk Management Committee of Directors (RCom) decides on policies on Operational Risk Management. Down below is the CORM headed by Executive Director. The Chief Risk Officer implements the directives of R.Com and oversees day-to-day Operational Risk Management. The committee of Business Operational Risk Managers (BORM) and Risk Management Specialists gives feedback on the Risk and Self-assessment, Key Risk Indicators, mapping of products to Business Lines, etc. Branch level KRIs are tracked through Zonal office and Bank Level KRIs are tracked through I & A Department H. O. on half yearly basis.

Risk reporting in the form of Fraud Analysis, Loss Data Analysis and Impact Frequency Analysis is done to R.Com. Risk related reporting on Housekeeping matters, Reconciliation etc. is done to CORM periodically. Fraud and related reporting is done to Audit Committee of Board. Operational Risk Capital Charge is quantified through Basic Indicator Approach. The regulatory reporting is tested on reliability and timeliness parameters.

Bank adopts best practices in Risk Management. Risk Management function works in close coordination with the committee of Business Operational Risk Managers (BORM) and Operational Risk Management Specialists and Inspection and Audit function who conduct Risk Based Audit which also helps in putting in place additional risk mitigation and control measures.

**B: PT Bank Swadesi Tbk (Subsidiary)**

Bank adopts best practices in operational risk management, like segregation of duties, trainings, clear laid down procedures etc

**C: Bank of India (Tanzania) Ltd (Subsidiary)**

The bank's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiate and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management at each branch level. The responsibility is supported by the development of overall standards for management of operational risks in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this effective.

**Quantitative Disclosure:** Not Required

**Table DF-10**

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

**Qualitative Disclosures**

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

**A: BANK OF INDIA**

Interest Rate Risk in banking book is calculated generally on a quarterly basis. Banking book includes all advances and investments held in Held to Maturity (HTM) portfolio.

The strategies & processes /structure & organization / scope and nature of risk reporting / policies etc are the same as reported under Table DF –8.

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

Based on monthly information from networked branches on the residual maturity of the advances and the deposits covering around 85% of bank's business, Interest Rate Sensitivity statement is prepared with various time buckets, having regard to the rate sensitivity as well as residual maturity of different assets and liabilities.

The duration for each asset and liability is arrived at taking the midpoint of each time bucket as the maturity date and the average yield as coupon and taking the market rate for discounting purpose. For investments, the actual duration is taken, as data is available with full particulars. In respect of investments, the AFS and HFT portfolios are excluded for this exercise as the focus is on IRR in the Banking Book.

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

### **Assumptions:**

The interest rate moves uniformly across all time buckets and for all assets.

In respect of demand deposits – savings and current – the same are distributed as per the RBI guidelines on stress testing.

Generally the bank follows RBI guidelines on stress testing while calculating the IRRBB including selection of coupon rate / discount rate / taking midpoint of each time bucket as the maturity date etc.

Re-pricing of PLR advances has been taken in the 6 months to 1-year bucket.

### **B: PT Bank Swadesi Tbk (Subsidiary)**

In terms of present Regulation PT Bank Swadesi Tbk does not require IRRBB disclosures. Bank of Indonesia may introduce it in future as it is currently making an impact study.

### **C: Bank of India (Tanzania) Ltd (Subsidiary)**

The bank is exposed to various risks associated with the effect of fluctuation in the prevailing levels of market interest rates on its financial position and cash flow. The bank has the discretion to change the rates on deposits, loans and advances in line with changes in market trend. These measures minimize the bank's exposure to interest rate risk.

### **Quantitative Disclosures**

The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (where the turnover is more than 5 per cent of the total turnover).

### **INTEREST RATE IN BANKING BOOK**

	<b>Total</b>	<b>Of which in USD (where turnover is more than 5% of total turnover)</b>
<b>1. Earnings At Risk (NII)</b>		
<b>At 0.50% change for 1 year</b>	<b>Rs. 70.17 crores</b>	<b>Rs. 0.57 crores</b>
<b>2. Economic Value of Equity at Risk</b>		
<b>200 basis point shock</b>	<b>Rs. 1677.28 crores</b>	<b>Rs. 132.64 crores</b>
<b>Drop in equity value in %age terms</b>	<b>8.00</b>	<b>0.63</b>