BASEL II DISCLOSURES – MARCH 2012

Bank is continuously upgrading and fine-tuning the Risk Management Systems in tune with best practices and regulatory directions. Recognizing the importance of risk management in the overall growth and development of bank's business, a holistic view of risk management framework has been designed by putting in place an effective risk governance structure, systems, policies and procedures for identification, assessment, monitoring, mitigation and control of risks.

The guidelines issued by Reserve Bank of India, prescribe a series of disclosures in connection with the implementation of the new framework. The following disclosures made are intended to achieve these objectives:

Scope of application

Qualitative Disclosures

a) Name of the top Bank in the group to which the framework applies	**Syndicate Bank**
b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with brief description of the entities within the group	Not Applicable

Quantitative Disclosures

(c) 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.	Not Applicable
(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.	Not applicable

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 I or in Upper Tier 2.

The Tier I capital of the Bank mainly consists of Share capital, free Reserves and certain specific reserves appropriated from the net profit earned by the bank. Innovative Perpetual Debt Instrument (IPDI) is also reckoned as Tier I Capital as per the RBI norms.

During the FY 2011-12, Bank has allotted 2,86,64,284 equity shares of face value ₹ 10/- each for cash at a premium of ₹ 104.15 aggregating to ₹ 327.20 crore to LIC of India

Tier II Capital consists of certain percentage of revaluation reserves, risk provision which are not netted off, Tier II and Upper Tier II Bonds. The terms and conditions of these bonds and the principles of reckoning them as capital funds are guided by RBI regulation.

During the FY 2011-12 Bank has not raised any Lower Tier II Bonds.

Quantitative Disclosures

₹ in Crs

b) The amount of Tier 1 capital, with separate disclosure of	**8750.64**
• Paid-up share capital	601.95
• Reserves	7392.37
• Innovative instruments	773.00
• Other capital instruments	0.00
• Amounts deducted from Tier 1 capital, Equity investments in Associates (50%)	16.68

(c) The total amount of Tier 2 capital (net of deductions from Tier 2 capital)	**3225.37**

(d) Debt capital instruments eligible for inclusion in Upper Tier 2 capital	
Total amount outstanding	819.70
Of which amount raised during the current year	
Amount eligible to be reckoned as capital funds	819.70

(e) Subordinated debt eligible for inclusion in Lower Tier 2 capital	1925.00
Total amount outstanding	
Of which amount raised during the current year	
Amount eligible to be reckoned as capital funds	1245.00

(f) Other deductions from capital, if any. Equity investments in Associates (50%)	16.67
(g) Total eligible capital.	**11976.02**

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:

i) Bank has targeted a CRAR of 12.03% based on a projected credit growth of 19.98%. On account of International presence, maintenance of CRAR of 12% with Tier I CRAR of 8% is envisaged during the next four years.

ii) Considering the business profile and the projected growth, capital is assessed with reference to

Pillar I risks namely,

1. Credit Risk – Standardized approach
2. Market risk –Standardized duration approach
3. Operational Risk- Basic Indicator Approach and

Pillar II risks namely,

4. Concentration Risk
5. Liquidity Risk
6. Interest rate risk in banking book
7. Residual Risk
8. Reputation Risk
9. Strategic Risk
10. Earnings Risk
11. Capital Risk

iii) The Bank assesses the capital requirement keeping in view the anticipated growth in weighted assets of credit risk, market risk and operational risk. As regards the adequacy of capital to support the future activities, the Bank has drawn an assessment of capital requirement through periodically review of the business plan with the trends in the economy, as a part of the ICAAP document (in line with RBI guidelines on requirements under Pillar 2 of Basel II framework), duly approved by the Board. The surplus CRAR shall act as a cushion to support the future activities. Moreover, the headroom available for the Bank for mobilizing Tier 1 and Tier 2 capital shall additionally support capital structure to meet the required CRAR against future activities.

The Board is periodically apprised of the capital driven business plan and capital requirement, based on business strategies and future plans.

For the purpose of computation of capital under Basel II framework, bank collects account wise details of all its corporate asset class and data on other asset classes which are subjected to the audit process.

Quantitative Disclosures:

(b) Capital Requirements for Credit Risk **₹. in crores**

Portfolios subjected to standardized approach	7946.24
Securitization Exposures	NIL

(c) Capital requirements for Market Risk:
Standardized Duration Approach: **₹ in crores**

Interest rate risk	226.80
Equity position risk	84.80
Foreign exchange risk	4.50

(d) Capital Requirement for Operational Risk

Basic Indicator Approach **₹ in crores**

Capital Requirement as per Basic Indicator Approach	542.36

(e) Total Capital Ratio for the Bank

Total Capital to Risk Weighted Assets Ratio as per New Capital Adequacy Framework	12.24
Tier I Capital to Risk Weighted Assets Ratio as per Basel -II	8.94
Total Capital to Risk Weighted Assets Ratio - as per Basel I norms	10.81
Tier I Capital to Risk Weighted Assets Ratio as per Basel -I	7.89

Prudential floor on capital required **₹. in crores**

Minimum capital required as per the revised framework	8804.70
Minimum capital required as per Basel I framework for credit and market risk. (80% of Basel I)	7996.53
Prudential floor- Higher of the above	8804.70

Credit Risk – General Disclosures

a) Qualitative Disclosures:

Bank follows RBI definition of default for classifying and accounting for income recognition, asset classification and provisioning norms:

Non-Performing asset is defined as a loan/advance where

1. Interest and/or Instalment of principal remain overdue for a period of more than 90 days in respect of term loan.
2. The account remains out of order for 90 days in respect of an overdraft/cash credit
3. Bill remains overdue for a period of more then 90 days in the case of bills purchased and discounted
4. A loan granted for short duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.
5. A loan granted for long duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.
6. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Discussion of the Bank's Credit Risk Management Policy:

The business of banking is exposed to Credit Risk in the normal course of business owing to various economic and environmental factors, some of them inherent to the banking business and others are unforeseen and unexpected. The objective of credit risk management is to minimize the risks and maximize the bank's risk adjusted rate of return by assuming and maintaining the credit exposure within the acceptable parameters. Risk management is the comprehensive process adopted by a bank to minimize adverse effects of such risks and uncertainties. Through the process of risk management the bank equips itself with tools and systems capable of assessing, monitoring and controlling risk exposures in a scientific manner. Bank has an effective governance structure for managing credit risk. Risk Management Committee, a sub-committee of the Board headed by the Chairman and Managing Director devises the policy and strategies for Integrated Risk Management containing various risk exposures of the bank including credit risk. The Credit Risk Management Committee, apex level executive committee responsible for implementation of the credit risk policies and strategies.

Bank has adopted standardized approach to arrive at credit risk weighted assets for computing CRAR, as required under the New Capital Adequacy Framework (NCAF) of RBI.

Bank has a well articulated Credit and Credit Risk Policies, duly approved by the Board. The policies are regularly reviewed and updated to take care of micro and macro economic developments, regulatory guidelines, Government policies and Bank's specific requirements.

Bank has a structured and standardized credit approval process and rating model which is Basel II compliant. The credit rating/scoring framework enables the Bank to ensure that the asset portfolio is rated. An independent system of pre-sanction rating allotment and confirmation covering exposures of ₹10 Crs. and above has also been put in place. The functions of Credit sanctions and review process have been segregated. Bank has constituted Credit Approval Committee at Corporate office as per the directions of Ministry of Finance, Government of India. To mitigate Credit Risk, Credit Committees have been constituted at Corporate/Regional Offices to evaluate credit proposals from all angles and recommend for sanction to the sanctioning authority. Credit decisions and pricing are linked to borrower rating.

Bank is also encouraging its corporates to get their exposures rated by external rating agencies, with a view to optimize capital allocation.

Portfolio risk which manifests as concentration risk is addressed by limiting the size of exposures to individual borrowers/group, fixing industry/sector-wise limits which are reviewed at periodic intervals. Bank has also a system of monitoring its substantial and unsecured exposures and undertakes periodic review of sensitive sector advances.

With a view to monitor bank's exposure to large borrowal accounts on regular basis and to ensure quality of the credit portfolio, a separate Credit Monitoring Cell has been formed at Corporate Office exclusively to attend to post sanction follow-up and monitoring.

Bank has also put in place a Special Monitoring Accounts Department to exclusively monitor identified accounts and those accounts restructured, to take timely action and avoid slippages. Similar Cells function at Regional Offices for effective follow-up and monitoring.

Quantitative Disclosures:

(b) Total Gross Credit Exposures: (₹ in crs)

Fund based credit exposures	125617.44
Non-fund based credit exposures	11747.44

(c) Geographic distribution of credit exposures: (₹ in crs)

Overseas:	
Fund based credit exposures	14664.13
Non-fund based credit exposures	208.29
Domestic:	
Fund based credit exposures	110953.31
Non-fund based credit exposures	11539.15

(d**) Industry-wise distribution of exposures (Both fund based and non-fund based)** (₹in crs)

Sl No	Industry	Credit		Investment	Total Exposure
		Fund Based	Non Fund Based		
1	Infrastructure	15522.39	1303.65	123.82	16949.86
2	Petroleum	1755.25	418.94	25.73	2199.92
3	All Engineering	1241.74	2861.43	41.43	4144.60
4	Iron and Steel	4181.70	347.27	47.77	4576.74
5	Chemicals Dyes & Paints	1842.30	656.41	68.91	2567.62
6	Construction	1351.64	1705.16	40.00	3096.80
7	Textiles	1821.48	93.99	17.26	1932.73
8	Gems and Jewellery	491.11	264.82	0.00	755.93
9	Cement & Cement Products	763.27	6.19	31.02	800.48

Among industrial exposures, bank's exposure to infrastructure (fund based and non fund based) is 13.39**%** of gross fund based and non fund based credit exposure of the bank.

(e**) Residual maturity-wise breakdown of assets & liabilities**

(₹. Crs)

Residual Maturity	1 day	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 mths	Over 3 mths to 6 mths	Over 6 mths to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
i) Loans & Advances	**3547.82**	**2394.85**	**2066.63**	**3203.18**	**10284.10**	**8485.30**	**10139.45**	**45849.97**	**16720.01**	**20928.87**	**123620.18**
ii) Investments & Securities	**0.00**	**603.58**	**492.58**	**84.12**	**1185.60**	**456.91**	**149.36**	**4883.87**	**5471.51**	**27487.53**	**40815.06**
iii) Deposits	**1448.63**	**4201.69**	**2380.90**	**3540.99**	**26560.97**	**23877.39**	**22610.62**	**64424.64**	**6750.41**	**2144.81**	**157941.05**
iv) Borrowings	**0.00**	**0.15**	**0.00**	**244.07**	**1104.69**	**512.82**	**1098.44**	**1226.95**	**4217.45**	**2185.33**	**10589.90**
v) Foreign Currency Assets	**1435.33**	**1479.45**	**1145.24**	**1266.59**	**2795.65**	**2092.28**	**244.87**	**1270.30**	**1802.70**	**2297.93**	**15830.34**
vi) Foreign Currency Liabilities	**711.05**	**1038.61**	**766.87**	**1558.78**	**4190.82**	**2490.18**	**1098.61**	**475.44**	**3052.13**	**0.00**	**15382.49**

(f) Amount of NPAs

(₹ in crs)

Substandard	1928.12
Doubtful 1	401.44
Doubtful 2	653.32
Doubtful 3	88.85
Loss Assets	110.97

(g) Net NPAs (₹ in crs)

Net NPAs as on 31.03.2012	1185.43

(h) NPA Ratios:

Gross NPAs to Gross Advances	2.53%
Net NPAs to Net Advances	0.96%

(i) Movement of NPAs (Gross) (₹ in crs)

Opening Balance	2598.97
Additions	3156.28
Reduction	2572.55
Closing Balance	3182.70

(j) Movement of Provisions for NPAs (₹ in crs)

Opening Balance	1501.33
Provisions made during the year	1399.75
Write off/Write-back of excess provisions	969.81
Closing Balance	1931.27

(k) Amount of non-performing investments: (₹ in crs)

Amount of non-performing investments	40.97

(l) Amount of provisions held for non-performing investments: (₹ in crs)

Provisions held for non-performing investments	40.53

(m) Movement of provisions for depreciation of investments: (₹ in crs)

Opening Balance	43.03
Provisions made during the year	9.51
Write-off/Write-back of excess provisions	22.58
Closing Balance	29.96

Disclosures on portfolios subjected to standardized approach.

Qualitative Disclosure

Bank has computed credit risk capital on all its portfolios by applying risk weights as prescribed by Reserve Bank of India for Standardised Approach. Reserve Bank of India has recognized external ratings for application of preferential risk weight for corporate exposures. For the purpose of application of external credit ratings, rating by the following recognized external credit rating agencies are used:

1. CRISIL
2. ICRA
3. CARE
4. FITCH (INDIA)

The external ratings available in the public domain were utilized for application of preferential risk weights through the mapping process defined by Reserve Bank of India:

- Long Term and Short Term Bank Loan ratings are used for Bank's Long and Short term exposures respectively.
- Where issuer rating is assigned, same is used for Bank's exposure
- External public ratings are used only when our exposures are senior or pari-passu to the external ratings.
- Short term ratings are issue specific and are not used for mapping long term exposures. However, wherever short term ratings are applied to unrated short term exposures, the relevant short term exposure attracts a risk weight of atleast one level higher than the risk weight applicable to the rated short term of the counterparty.
- The tenor of the bond/debenture rated by external rating agencies is taken for mapping residual maturity with Bank's exposure as per the total period considered by the rating agencies for repayment.

Quantitative Disclosures:

Exposure amounts after risk mitigation subject to standardized approach:

(₹ in Crs)

Risk weight category	Exposure after Credit Risk Mitigation	Externally Rated Exposure after Credit Risk Mitigation	Unrated
Advances			
Below 100% Risk Weight	73003.83	29479.81	43524.02
100% Risk Weight	29326.69	18783.53	10543.16
More than 100% Risk Weight	12107.75	5379.42	6728.33
Deducted			
Investments			
Below 100% Risk Weight	35191.50	0.00	35191.50
100% Risk Weight	1.35	0.00	1.35
More than 100% Risk Weight	39.86	0.00	39.86
Deducted			

Credit Risk Mitigation

Bank's credit risk policy recognizes the following collaterals for mitigation of credit risk in borrowers:

1. Cash, including deposits
2. Gold
3. Securities issued by Central and State Governments, KVPs, NSCs
4. Life Insurance Policies with a declared surrender value of an insurance company which is regulated by IRDA.
5. Corporate Debt Securities
6. Equities of listed Corporates
7. Units of mutual funds
8. Land and Building
9. Raw materials/stock in trade/produce and other goods
10. Book debts and receivables
11. Movable assets such as machineries, automobiles etc.,
12. Documents of title to goods

Standardised Approach for Credit Risk under Basel-II Accord does not recognize collaterals like landed property, Stock, machinery etc. The New Framework recognizes only cash collaterals, which are termed as "Eligible Financial Collaterals". The following eligible financial collaterals are recognized by the bank for credit risk mitigation purposes for Basel II:

1. Cash including bank's own deposits
2. Gold
3. KVPs & NSCs (without Lock in Period)
4. Life Insurance Policy

The value of the collateral is permitted to be offset against the value of the exposures before computing the Risk-Weighted Assets, after adjusting for possible future fluctuations in the value of collateral caused by market movements. In respect of exposures other than those covered by deposits, wherever there is maturity mismatch, risk mitigation has not been considered.

In case of jewel loans, bank is taking sufficient margin to take care of volatility in value. Hence, even after adjusting for haircut, value of gold will off-set the exposures. In case of KVPs & NSCs, only those which have completed three years (lock in period) have been recognized for mitigation.

In line with regulatory guidelines, Bank has recognized only the following eligible guarantors for recognition of credit protection:

- Central Government,
- State Government,
- CGTMSE and
- ECGC.

The guaranteed portion is assigned the risk weight of the guarantor as prescribed by RBI.

As the bank has taken its own deposits and NSCs/KVPs as eligible collaterals, there are no market or credit concentrations within collaterals.

Securitization Disclosure for standardized approach

Not Applicable since bank does not undertake securitization activity

Market Risk in Trading Book

Qualitative Disclosures:

The Bank has a board approved investment policy which articulates various guidelines, financial benchmarks, maturity limits, entry level ratings for investment and operations in various market segments. The policy consists, inter alia, various limits like issuer wise limits, duration limits, single party exposure limits, industry wise exposure limits, modified duration based limits etc., for the portfolio as a part of market risk management. A value at Risk (VaR) based limit is also stipulated for Held for Trading Portfolio (HFT).

Quantitative disclosures: (₹ in crs)

Interest rate risk	226.80
Equity position risk	84.80
Foreign exchange risk	4.50

Operational Risk

Qualitative Disclosures:

Bank has well laid down manual of instructions covering the entire gamut of its business. These manuals are periodically supplemented with circulars to update the information with developments internal and external to the bank. Detailed checklists are provided to branches on all major products and services. Bank has a well developed Operational risk management framework which includes operational management policy as parent policy and other policies on RCSA, KRI and LDM. In addition to this, bank has put in place Fraud Risk Management Policy, KYC and AML policies to prevent KYC and AML violations. Bank had created off-site monitoring cells at head office and regional offices to monitor sensitive transactions on a regular basis to serve as an early warning system.

Bank has revised the Business Continuity plan on the basis of experience gained. A detailed disaster recovery plan has been put in place, one near site and one far site is maintained to address IT related business continuity. Information security is managed through information security policy. Periodical vulnerability and penetration testing are conducted to ensure integrity of the information system security.

Bank has adopted Basic Indicator approach to assess the capital under operational risk. In terms of new capital adequacy norms, Banks' operational risk capital charge has been assessed at 15% of positive annual average Gross Income over the previous three years as defined by RBI.

Bank is in the process of finalizing implementation of ORMS which will take care of issues like real time reporting of loss data, business disruption etc.

For facilitating moving towards The Standardized Approach, bank has undertaken the process of Business Line Mapping. As an initial measure, the mapping of income to various business lines is under process.

Interest rate risk in banking book:

Qualitative disclosures

a) Bank is monitoring the IRRBB through Earning at Risk (EaR) module periodically. Bank has also fixed a limit of ₹500 cr. or 15% of previous years NII whichever is higher as the tolerance limit for one year horizon for a 100 bps change in Rate. While calculating the EaR, it is assumed that Base rate/BPLR will be changed once in 3/6 months respectively.

Quantitative disclosures

b) 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)

As per the EaR arrived for the entire Balance sheet, the same is at ₹455.57 Crs for one year with an expected change in interest rate by 1%. This is within the tolerance of ₹ 500 Crs or 15% of previous years NII whichever is higher fixed by the bank.