



## BASEL II DISCLOSURES – MARCH 2008

Reserve Bank of India on 27<sup>th</sup> April 2007 issued guidelines for implementation of the New Capital Adequacy Framework and directed that Foreign banks operating in India and Indian banks having operational presence outside India should adopt Standardised Approach (SA) for credit risk and Basic Indicator Approach (BIA) for operational risk for computing their capital requirements under the Revised Framework with effect from 31<sup>st</sup> March 2008. The guidelines prescribe a series of disclosures in connection with the implementation of the new framework.

Disclosures are intended to inform the general market participants about the scope of application of new capital adequacy framework, capital of the Bank, risk exposures of the Bank, Bank's risk assessment processes, its risk mitigation strategies and practices and capital adequacy of the bank. The following disclosures made are intended to achieve these objectives.

### Scope of application

a) Name of the top Bank in the group to which the framework applies

The Bank does not belong to any group

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.

### Capital structure

#### Quantitative 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

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earned by the bank. IPDI is also reckoned as Tier I Capital as per the RBI norms.

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. The minimum tenure of Tier II Bonds are five years and for Upper Tier II bonds are ten years.

Rs. in Crs

b) The amount of Tier 1 capital, with separate disclosure of	
• Paid-up share capital	521.97
• Reserves	3340.05
• Innovative instruments raised during the Year	240.00
• Other capital instruments	NIL
• Amounts deducted from Tier 1 capital, Equity investments in Associates	16.68
(c) The total amount of Tier 2 capital (net of deductions from Tier 2 capital)	2836.95
(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	NIL
Amount eligible to be reckoned as capital funds	819.70
(e) Subordinated debt eligible for inclusion in Lower Tier 2 capital	
Total amount outstanding	1525.00
Of which amount raised during the current year	NIL
Amount eligible to be reckoned as capital funds	1465.00
(f) Other deductions from capital, if any.	NIL
(g) Total eligible capital.	6922.29

### 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:

RBI in its Guidelines for implementation of the New Capital Adequacy Framework dated 27<sup>th</sup> April 2007 directed banks to maintain a minimum capital to Risk Weighted Assets ratio of 9 percent. The minimum capital maintained by banks is subjected to a prudential floor which shall be the higher of the following amounts:

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- a) Minimum capital required to be maintained as per the revised framework
- b) A specified per cent of the minimum capital required to be maintained as per the Basel I framework for credit and market risks.

Banks are also encouraged to maintain a Tier I CRAR of at least 6% on or before 31<sup>st</sup> March, 2010.

RBI in its new capital adequacy guidelines instructed banks to adopt the following approaches for allocating capital for the following risks:

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

For the purpose of computation of capital under Basel II framework, Bank has collected account wise details of all its corporate asset class and the same was certified by external auditors. Data on other asset classes was also collected through a separately drawn balance sheet which was also subjected to the audit process.

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

### Quantitative Disclosures:

#### (b) Capital Requirements for Credit Risk

Rs. in crores

Portfolios subjected to standardized approach	4492.97
Securitization Exposures	NIL

#### (c) Capital requirements for Market Risk:

##### Standardised Duration Approach:

Rs. in crores

Interest Rate Risk	312.77
Foreign Exchange Risk	5.40
Equity Risk	121.63

#### (d) Capital Requirement for Operational Risk

##### Basic Indicator Approach

Rs. in crores

Capital Requirement as per Basic Indicator Approach	339.74
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#### (e) Total Capital Ratio for the Bank

Total Capital to Risk Weighted Assets Ratio as per New Capital Adequacy Framework	11.82
Tier I Capital to Risk Weighted Assets Ratio as per Basel -II	6.97
Total Capital to Risk Weighted Assets Ratio - as per Basel I norms	11.22
Tier I Capital to Risk Weighted Assets Ratio as per Basel -I	6.62

<b>Prudential floor on capital required</b>	<b>Rs. in crores</b>
Minimum capital required as per the revised framework	5272.51
Minimum capital required as per Basel I framework for credit and market risk.	5578.67
Prudential floor- Higher of the above	5578.67

### **Credit Risk – General Disclosures**

#### **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 than 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:**

Bank is exposed to uncertainties and risk due to various economic or environmental factors, some of them inherent to the banking business and others which are unforeseen and unexpected. 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. There is also a Credit Risk Management Committee, an apex level executive committee responsible for implementation of the credit risk policy and strategies.

Credit risk is defined as the possibility of losses arising out of failure of borrowers to fulfill their contractual commitments or the diminution in the credit quality of borrowers. The credit risk of a borrower or that of a credit facility sanctioned to a borrower is assessed through a credit rating system. Our bank has developed

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and implemented an internal credit rating framework from the year 2000. Bank's credit rating system is used to rate and assess credit risk of all borrowers. Rating models are introduced based on the value of exposures and category of borrowers. A simple method of allotment of credit rating is followed for advances below Rs.10 lacs and a detailed rating framework for assessing exposures of the value of Rs.10 lacs and above. Credit ratings allotted are subjected to independent review by the next higher authority.

Bank undertakes mid-year review of operative credit limits of Rs.One Crore and above. In case of borrowers enjoying credit limits of above Rs.50 Crore, review of credit rating is also done during the mid-year review. Sensitive sector accounts (capital market, commercial real estate, commodity sector, NBFCs) are subjected to a monthly/quarterly monitoring system depending upon their exposure value.

Bank also has a system of identifying and monitoring problem accounts at the early stages of their delinquency so that timely corrective measures are initiated.

### Quantitative Disclosures:

<b>(b) Total Gross Credit Exposures:</b>	(Rs in crs)
Fund based credit exposures	65196.94
Non-fund based credit exposures	7762.45

<b>(c) Geographic distribution of credit exposures:</b>	(Rs in crs)
<b>Overseas:</b>	
Fund based credit exposures	6008.81
Non-fund based credit exposures	155.86
<b>Domestic:</b>	
Fund based credit exposures	59188.13
Non-fund based credit exposures	7606.59

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

SI No	Industry	Credit		Investment	Total Exposure
		Fund Based	Non Fund Based		
1	Iron and Steel	1651.78	158.85	11.41	1822.04
2	Other Metal and Metal Products	511.50	36.03	8.14	555.67
3	All Engineering	717.24	1126.5	28.09	1871.80
4	Cotton Textiles	839.95	25.85	0.06	865.86
5	Other Textiles	468.02	122.88	22.87	613.77
6	Chemicals Dyes & Paints	667.99	128.51	19.05	815.54
7	Construction	658.27	791.59	54.53	1504.39
8	Petroleum	2575.98	12.26	77.56	2665.80
9	Infrastructure	5155.34	878.38	122.06	6155.78
10	NBFCs	2103.59	10.41	122.41	2236.41

d) Among industrial exposures, bank's exposure to infrastructure (fund based and non fund based) is 8.88% of gross fund based and non fund based credit exposure of the bank.

**(e) Residual contractual maturity-wise breakdown of assets**  
(Rs. 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	3494	4616	1398	1251	4543	2613	6120	22807	7157	10052	64051
ii) Investments & Securities	42	1165	0	105	653	338	267	3025	2987	19494	28076
iii) Deposits	827	4207	2668	2408	7711	11493	20457	30817	3602	10981	95171
iv) Borrowings	3	80	0	1	122	152	489	330	67	62	1306
v) Foreign Currency Assets	1682	1406	161	499	1513	562	239	338	544	348	7292
vi) Foreign Currency Liabilities	576	608	305	1072	1495	693	790	28	3	0	5570

Note: 1 Item no v) & vi) of above table are assets /liabilities denominated in foreign currencies of both London and International Division and these forms a part of heads given in item numbers i) to iv) in the respective heads.

2. The above maturity pattern has been compiled based on information received from branches, guidelines prescribed by RBI for determining core and volatile portion of

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certain assets/liabilities and adjustment/ apportionment made at Head Office on the basis of behavioural maturity.

<b>(f) Amount of Gross NPAs (Domestic)</b>	(Rs in crs)
Substandard	851.24
Doubtful 1	410.07
Doubtful 2	258.40
Doubtful 3	138.43
Loss Assets	101.52

<b>(g) Net NPAs (Domestic)</b>	(Rs in crs)
	620.51

<b>(h) NPA Ratios:</b>	(Rs in crs)
Gross NPAs to Gross Advances	2.71
Net NPAs to Net Advances	0.97

<b>(i) Movement of Gross NPAs (Global)</b>	(Rs in crs)
Opening Balance	1559.81
Additions	1265.41
Reduction	1056.57
Closing Balance	1768.65

<b>(j) Movement of Provisions for NPAs (Global)</b>	(Rs in crs)
Opening Balance	1135.75
Provisions made during the year	385.87
Write-off	64.26
Write-back of excess provisions	349.96
Closing Balance	1107.40

<b>(k) Amount of non-performing investments:</b>	(Rs in crs)
Amount of non-performing investments	12.03

<b>(l) Amount of provisions held for non-performing investments:</b>	(Rs in crs)
Provisions held for non-performing investments	11.39

<b>(m) Movement of provisions for depreciation of investments:</b>	(Rs in crs)
Opening Balance	136.11
Provisions made during the year	21.71
Write-off	Nil
Write-back of excess provisions	88.45
Closing Balance	69.37

**Disclosures on portfolios subjected to standardized approach.**

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 RBI has recognized the following external credit rating agencies:

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

Bank loan ratings issued by the recognized credit rating agencies to the borrowers of the bank are utilized for application of preferential risk weights for calculation of risk weighted assets for such of those borrowers. Bank has adopted the mapping methodology specified by RBI for using public issue ratings for application of preferential risk weights for the corporate borrowers. 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 ratings are used for mapping unrated Long Term and Short Term Exposures
- 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.



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The risk weight mapping as prescribed by RBI is furnished here below:

### Quantitative Disclosures:

#### Exposure amounts after risk mitigation subject to standardized approach:

(Rs in crs)

Risk weight category	Exposure after Credit Risk Mitigation	Externally Rated Exposure after Credit Risk Mitigation	Unrated
<b>Advances</b>			
Below 100% Risk Weight	38263.67	9067.76	29195.91
100% Risk Weight	16705.54	-	16705.54
More than 100% Risk Weight	11821.48	-	11821.48
Deducted	-	-	-
<b>Investments</b>			
Below 100% Risk Weight	18826.64	-	18826.64
100% Risk Weight	51.48	-	51.48
More than 100% Risk Weight	0.25	-	0.25
Deducted	33.35	-	33.35

### Credit Risk Mitigation

Bank's credit risk policy recognizes the following collateral for mitigation of credit risk in borrowers. They are:

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". As on March 2008, only 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)

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As provided in the New Capital Adequacy framework guidelines a comprehensive approach is adopted for applying collateral values for mitigation. 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.. Accordingly, the CRM benefits are applied.

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

Bank undertakes valuation of securities on an ongoing basis.

In line with regulatory guidelines Bank has as on 31.03.2008 recognized only the following eligible guarantors for recognition of credit protection:

- Central Govt,
- State Govt,
- CGTSI and
- ECGC.

The guaranteed portion is assigned the risk weight of the guarantor provided 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:**

Bank has a Board approved Investment Policy which clearly 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 part of Market Risk Management. A Value at Risk (VaR) based limit is also stipulated for Held for Trading Portfolio (HFT). The Capital Charge for Market Risk is calculated at monthly intervals based on Standardised approach under Modified Duration method as per Basel II guidelines of RBI.

**Quantitative disclosures:**

(Rs in crs)

Interest rate risk	312.77
Equity position risk	5.40
Foreign exchange risk	121.63

**Operational Risk**

Bank has well laid down policies and procedures for all areas of its operations. Guidelines and procedures are periodically updated depending upon Bank's risk assessment. Detailed circulars, check lists and desk guides are provided to branches on all products and services of the bank. Bank has put in place monitoring mechanism for AML compliance and strictly follows KYC norms for its customer dealings and other banking operations. Bank has already put in place an operational risk management policy to manage operational risk. Policy on Risk and Control Self-Assessment was introduced as part of the operational risk management framework

A bank wide Business Continuity Plan has been implemented to continue or restore operations of the bank in the event of business disruptions. Bank has a well defined disaster recovery plan and information security policy to take care of IT disasters and information security.

For the current year 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.

**Interest rate risk in banking book:**

a)Qualitative disclosures

**Bank is monitoring the IRRBB through Earning at Risk (EaR) module periodically. Bank has also fixed a limit of Rs.125 crs. as the tolerance limit for EaR for one year. While calculating the EaR it is assumed that PLR of the bank will be changed once in 6 months.**

Bank is in the process of shifting to Duration Gap Analysis with a new software support, which is under implementation stage. Also with the new software bank propose to give effect of embedded option risk on loans, deposits etc

**b) Quantitative disclosures**

As per the EaR arrived for the entire balance sheet, the same is at Rs 30.85 Crs for one year with an expected change in interest rate by 1%. This is within the tolerance of Rs. 125 crs. fixed by the bank.