

Basel II Pillar 3 Disclosures

Disclosures under Pillar 3 in terms of New Capital Adequacy Framework (Basel II) of Reserve Bank of India

I. Scope of application

- a. The framework of disclosures applies to Bank of Baroda, which is the top bank in the group.
- b. The Bank has following Subsidiaries both domestic and foreign:

Sr. No.	Name of the subsidiary	Extent of ownership
SUBSIDIARY (DOMESTIC)		
i.	Nainital Bank Limited	98.39%
ii.	BOBCARDS Limited	100.00%
iii.	BOB Capital Market Limited	100.00%
SUBSIDIARY (FOREIGN)		
iv.	Bank of Baroda (U.K.) Ltd	100.00%
v.	Bank of Baroda (Uganda) Ltd.	80.00%
vi.	Bank of Baroda (Hong Kong) Ltd.	100.00%
vii.	Bank of Baroda (Kenya) Ltd.	86.70%
viii.	Bank of Baroda (Guyana) Ltd.	100.00%
ix.	Bank of Baroda (Botswana) Ltd.	100.00%
x.	Bank of Baroda (Tanzania) Ltd.	100.00%
xi.	Bank of Baroda (Trinidad & Tobago) Ltd.	100.00%
xii.	Bank of Baroda (Ghana) Ltd	100.00%

The Bank also has following Associates/joint ventures both domestic and foreign:

Sr. No.	Name of the associate	Extent of ownership
ASSOCIATES (DOMESTIC)		
i.	UTI Asset Management Company Limited	25.00%
ii.	UTI Trustee Company Pvt. Limited	25.00%
iii.	Jhabua Dhar K G Bank	35.00%
iv.	Nainital Almora K G Bank	35.00%
v.	Baroda Gujarat K G Bank	35.00%
vi.	Baroda Rajasthan Gramin Bank	35.00%
vii.	Baroda U P Gramin Bank	35.00%
ASSOCIATE (FOREIGN)		
viii.	Indo Zambia Bank Limited	20.00%
JOINT VENTURE (DOMESTIC)		
ix.	Baroda Pioneer Asset Management Company Limited	49.00%

The Subsidiaries, Associates and Joint Ventures are fully consolidated in the Consolidated Statement of Accounts as per Accounting Standard 21, 23 and 27 respectively of Institute of Chartered Accountants of India (ICAI).

- c. BOBCARDS Limited, a subsidiary of the Bank, has capital of Rs.87.28 Crore, after adjusting accumulated losses, against minimum capital of Rs.100 crores stipulated by RBI. Therefore the subsidiary is short of minimum regulatory capital by Rs. 12.72 crore.

There is no deficiency of capital in respect of any other subsidiary.

- d. The bank does not have any investment in an insurance entity.

II. Capital structure

- a. The Tier I capital of the Bank consists of equity capital and various types of reserves. The tier II capital consists of Revaluation Reserves and Provisions on Standard Assets, Upper Tier II Capital and Lower Tier II capital. Upper Tier II capital also consists of MTN Bonds issued in overseas market. The terms of unsecured redeemable debts are as under:

Upper Tier 2 Capital:

Series	Interest Rate (%)	Date of maturity	Amount in Rs. Cr
Debentures	8.30	06.09.2009	20.00
Series VII	9.30	28.12.2022	500.00
Series VIII	9.30	03.01.2023	1000.00
MTN Tier II Bonds (Overseas)	6.625	25.05.2022 (with call option on 25.05.2017)	1408.99
			2928.99

Lower Tier 2 Capital:

Series	Interest Rate (%)	Date of maturity	Amount in Rs. Cr
Series II	14.30	09.04.2009	300.00
Series IV	5.85	02.07.2014	300.00
Series V	7.45	28.04.2015	770.00
Series VI	8.95	15.05.2016	920.00
TOTAL			2290.00

- b. The Tier 1 capital of the bank is as under:

(Amount in Rs. Crore)

i)	Total Tier I Capital	9227.08
	Out of which:	

ii)	Paid up share capital	365.53
iii)	Reserves excluding revaluation reserves	9938.70
iv)	Total Deductions	1077.15

c. The Total amount of Tier 2 capital of the bank (net of deduction from tier 2 capital) is Rs. 6090.09 Crore.

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

(Rs in Crores)

Total amount outstanding	2928.99
Of which amount raised during the current year	NIL
Amount eligible to be reckoned as capital funds	2912.99

e. Subordinated debt capital instruments eligible for inclusion in Lower Tier 2 capital are:

(Rs in Crores)

Total amount outstanding	2290.00
Of which amount raised during the current year	0.00
Amount eligible to be reckoned as capital funds	1990.00

f. For computation of Capital Adequacy, a deduction of Rs. 59.44 crore has been made from Tier II capital towards credit enhancement guarantee given by the bank in respect of securitization of standard assets.

g. The total eligible capital comprises of:

(Rs in Crores)

Tier – I Capital	9227.08
Tier – II Capital	6094.09
TOTAL	15321.17

III. Capital Adequacy

a. Bank maintains capital to cushion the risk of loss in value of exposure, businesses etc. so as to protect the depositors and general creditors against losses. Bank has a well defined Internal Capital Adequacy Assessment Policy (ICAAP) to comprehensively evaluate and document all risks and substantiate appropriate

capital allocation so as to evolve a fully integrated risk/capital model for both regulatory and economic capital.

In line with the guidelines of the Reserve Bank of India, the Bank has adopted Standardised Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Duration Approach for Market Risk for computing CRAR.

The capital requirement is affected by the economic environment, the regulatory requirement and by the risk arising from bank's activities. The purpose of capital planning of the bank is to ensure the adequacy of capital at the times of changing economic conditions, even at times of economic recession. In capital planning process the bank reviews:

- Current capital requirement of the bank
- The targeted and sustainable capital in terms of business strategy and risk appetite.
- The future capital planning is done on a three-year outlook.

The capital plan is revised on an annual basis. The policy of the bank is to maintain capital as prescribed in the Internal Capital Adequacy Assessment Policy (minimum 12% Capital Adequacy Ratio or as decided by the Bank from time to time). At the same time bank has a policy to maintain capital to take care of the future growth in business so that the minimum capital required is maintained on continuous basis. On the basis of the estimation bank raises capital in Tier-1 or Tier-2 with the approval of Board of Directors of the Bank. The Capital Adequacy position of the bank is reviewed by the Board of the Bank on quarterly basis

- b. The position of bank's Risk Weighted Assets (RWA), Minimum Capital Requirement and Actual Capital Adequacy as on 30.09.2008 are as under:

(i) Capital requirements for credit risk:	RWA/ Capital (Amount in Rs. Crore)
Portfolios subject to Standardised approach in respect of credit risk	107066.53
Securitisation exposures	NIL
Total RWAs in respect of Credit Risk	107066.53
Minimum Capital Requirement for Credit Risk @ 9.00% of the RWAs	9635.99
(ii) Capital requirements for market risk in respect of :	

Interest rate risk	4175.33
Foreign exchange risk (including gold)	75.00
Equity risk	2734.33
Total RWAs in respect of Market Risk	6984.66
Minimum Capital Requirement for Market Risk @ 9.00% of the RWAs	628.62
(iii) Capital requirements for operational risk:	
RWA as per Basic Indicator approach	7824.39
Minimum Capital Requirement for Operational Risk under Basic indicator approach	704.20
(iv) Total Capital & CRAR	
Total RWAs in respect of Credit, Market and Operational risk	121875.58
Minimum Capital Requirement for Credit, Market & Operational Risk @ 9.00% of the RWAs	10968.80
<u>Actual Position</u>	
Eligible Tier I Capital	9227.08
Eligible Tier II Capital	6094.09
Total Eligible Capital	15321.17
CRAR	12.57%
Tier I capital to Total RWA	7.57%

IV. General disclosures in respect of Credit Risk

a. The policy of the bank for classifying bank's loan assets is as under:

NON PERFORMING ASSETS (NPA): 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' 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.

An OD/CC 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**'.

An 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 Assets of the Bank are further classified in to three categories as under:

Sub standard Assets

A sub standard asset would be one, which has remained NPA for a period less than or equal to 12 months. All the recovery measures are relevant in substandard assets also. If the entire overdues are recovered by way of cash recovery, the account can be upgraded to standard category immediately. Similarly, if an account is classified as NPA due to technical reasons, the account shall be upgraded on clearance of technical reasons.

Doubtful Assets

An asset would be classified as doubtful if it remained in the sub standard category for 12 months.

Substandard and Doubtful accounts which are subjected to restructuring/ rescheduling, can be upgraded to standard category only after a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection. In Loss assets, realizable value of security available is not more than 10% of balance outstanding/ dues. Since security back up will not be available, the restructuring/ rehabilitation, if required, is considered with utmost care.

b. Strategies and Processes:

The bank has a well defined Loan Policy & Investment Policy covering the important areas of credit risk management as under:

- Exposure ceilings to different sectors of the economy, different types of borrowers and their group and industry
- Fair Practice Code in dispensation of credit
- Discretionary Lending Powers for different levels of authority of the bank
- Processes involved in dispensation of credit – pre sanction inspection, rejection, appraisal, sanction, documentation, monitoring, and recovery.
- Fixation of pricing

c. The Credit Risk philosophy, architecture and systems of the bank are as under:

Credit Risk Philosophy:

- To Optimise the Credit and return envisaged in order that the Economic Value Addition to Shareholders is maximized and the interests of all the Stakeholders are protected alongside ensuring corporate growth and prosperity with safety of bank's resources.
- To regulate and streamline the financial resources of the bank in an orderly manner to enable the various channels to incline and achieve the common goal and objectives of the Bank.
- To comply with the national priorities in the matter of deployment of institutional finance to facilitate achieving planned growth in various productive sectors of the economy.
- To instill a sense of credit culture enterprise-wide and to assist the operating staff.
- To provide need-based and timely availability of credit to various borrower segments.
- To strengthen the credit management skills namely pre-sanction, post-sanction monitoring, supervision and follow-up measures so as to promote a healthy credit culture and maintain quality credit portfolio in the bank.
- To deal with credit proposals more effectively with quality assessment, speed and in full compliance with extant guidelines.

- To comply with various regulatory requirements, more particularly on Exposure norms, Priority Sector norms, Income Recognition and Asset Classification guidelines, Capital Adequacy, Credit Risk Management guidelines etc. of RBI/other Authorities.

Architecture and Systems of the Bank:

- A Sub-Committee of Directors has been constituted by the Board to specifically oversee and co-ordinate Risk Management functions in the bank.
- Credit Policy Committee has been set up to formulate and implement various credit risk strategy including lending policies and to monitor Bank's Enterprise-wide Risk Management function on a regular basis.
- Formulating of policies on standards for credit proposals, financial covenants, rating standards and benchmarks.
- Credit Risk Management cells deal with identification, measurement, monitoring and controlling credit risk within the prescribed limits.
- Enforcement and compliance of the risk parameters and prudential limits set by the Board/regulator etc.,
- Laying down risk assessment systems, developing MIS, and monitoring quality of loan portfolio, identification of problems, correction of deficiencies.
- Evaluation of Portfolio, conducting comprehensive studies on economy, industry, test the resilience on the loan portfolio etc.,
- Improving credit delivery system upon full compliance of laid down norms and guidelines.

d. The Scope and Nature of Risk Reporting and / or Measurement System:

The Bank has in place a robust credit risk rating system for its credit exposures. An effective way to mitigate credit risks is to identify potential risks in a particular asset, maintain a healthy asset quality and at the same time impart flexibility in pricing assets to meet the required risk-return parameters as per the bank's overall strategy and credit policy.

The bank's robust credit risk rating system is based on internationally adopted frameworks and global best practices and assists the bank in determining the Probability of Default and the severity of default among its loan assets, and thus allow the bank to build systems and initiate measures to maintain its asset quality.

e. The Quantitative Disclosures in respect of Credit Risk are as under:

(Amount in Rs. Crores)

	Fund based	Non Fund Based	Total
(i) Total gross credit risk exposures	120390.65	22913.07	143303.72
(ii) Geographic distribution of exposures,			
• Overseas	28302.94	4575.32	32878.26
• Domestic	92087.71	18337.75	110425.46
(iii) Industry type distribution of domestic exposures			
Industry			
COAL	23.88	89.13	113.01
MINING	329.88	175.98	505.86
IRON & STEEL	4631.30	2471.44	7102.74
OTHER METALS & METAL PRODUCT	1197.67	421.11	1618.78
ALL ENGINEERING	2271.41	2153.84	4425.25
OF WHICH: ELECTRONICS	473.43	164.47	637.90
ELECTRICITY (GEN. & TRANS.)	597.25	0.00	597.25
COTTON TEXTILES	1887.95	66.84	1954.79
JUTE TEXTILES	96.08	38.84	134.92
OTHERS TEXTILES	3132.90	370.61	3503.51
SUGAR	370.13	9.23	379.36
TEA	29.29	0.10	29.39
FOOD PROCESSING	703.51	31.35	734.86
VEGETABLE OILS (INCL.VANASPA	124.36	459.74	584.10
TOBACCO & TOBACCO PRODUCTS	23.54	2.99	26.53
PAPER & PAPER PRODUCTS	483.56	153.55	637.11
RUBBER & RUBBER PRODUCTS	219.83	51.14	270.97
CHEMICALS,DYES,PAINTS & PHAR	6264.17	1478.30	7742.47
OF WHICH :			0.00
FERTILIZERS	459.53	932.00	1391.53
PETRO-CHEMICALS	3385.96	108.30	3494.26
DRUGS & PHARMACEUTI	953.22	111.45	1064.67
CEMENT	434.60	35.60	470.20
LEATHER & LEATHER PRODUCTS	201.81	34.76	236.57
GEMS & JEWELLERY	678.46	2.99	681.45

Industry	Fund based	Non Fund Based	Total
CONSTRUCTION	1335.99	380.24	1716.23
PETROLIUM	1118.43	859.12	1977.55
AUTOMOBILES INCLUDING TRUCKS	1025.36	347.54	1372.90
COMPUTER SOFTWARE	44.02	76.79	120.81
INFRASTRUCTURE	7791.79	1242.95	9034.74
OF WHICH:			0.00
POWER	5839.26	313.66	6152.92
TELECOMMUNICATION	591.19	136.08	727.27
ROADS	706.79	437.32	1144.11
PORTS	363.14	52.37	415.51
OTHER INFRASTRUCTURE	291.41	303.52	594.93
NBFCs	4292.45	55.69	4348.14
TRADING	3835.92	2005.42	5841.34
OTHER INDUSTRIES	3017.04	781.26	3798.30
OF WHICH: BEVERAGES	124.43	3.26	127.69
WOOD	119.81	34.32	154.13
GLASS	229.13	35.38	264.51
PLASTIC	1126.36	157.63	1283.99
TOTAL	46162.55	11503.16	57665.71

The Bank's gross credit exposure to any particular industry has not exceeded 5% of the Bank's gross credit exposure.

f. Residual maturity breakdown of assets

(Amount in Rs. Crores)

Time Bucket	Advances	Investments	Foreign Currency Assets	Total Assets	%age
TOTAL	87481.98	40452.78	46885.47	174820.23	100.00%
1 day	1110.23	4662.36	3923.86	9696.45	5.55%
2 - 7 days	594.05	756.18	2135.98	3486.21	1.99%
8 -14 days	1619.43	132.03	2506.13	4257.59	2.44%
15- 28 days	2869.63	316.76	4309.58	7495.97	4.29%
29days - 3months	8616.35	1052.64	9505.46	19174.45	10.97%
>3months-6months	7623.07	659.32	5257.77	13540.16	7.75%
>6months-1yr	10630.89	4076.23	5103.36	19810.48	11.33%
>1yr-3yrs	27512.44	4986.62	4685.07	37184.13	21.27%
>3yrs-5yrs	8529.71	5350.89	6544.84	20425.44	11.68%
>5yrs	18376.18	18459.75	2913.42	39749.35	22.74%

g. Disclosures in respect of Non Performing Advances and Investments:

Sr. No.	Asset Category	Amount in Rs. Crores
(i)	NPAs (Gross):	1954.39
	Substandard	691.21
	Doubtful 1	401.15
	Doubtful 2	364.21
	Doubtful 3	115.07
	Loss	382.75
(ii)	Net NPAs	
	Total	509.24
(iii)	NPA Ratios	
	Gross NPAs to gross advances	1.62%
	Net NPAs to net advances	0.43%
(iv)	Movement of NPA(Gross)	
	Opening balance	1981.38
	Additions	544.91
	Reductions	571.90
	Closing balance	1954.39
(v)	Movement of provisions for NPAs	
	Opening balance	894.22
	Closing balance	861.52
(vi)	Non Performing Investments	
	Amount of Non-Performing Investments	187.17
	Amount of provisions held for non-performing investment	184.29
(vii)	Movement of provisions for depreciation on investments during the year	
	Opening balance	439.08
	Provisions made during the period	319.99
	Write-off	6.66
	Closing balance	752.41

V. Credit risk: disclosures for portfolios subject to the standardised approach

- a. Under Standardized Approach, the bank accepts rating of all RBI approved ECAI (External Credit Assessment Institution) namely CARE, CRISIL, Fitch, and ICRA for domestic credit exposures. For overseas credit exposures the bank accepts rating of Standard & Poor, Moody's and Fitch.

The bank encourages large corporate borrowers to solicit ratings from ECAI and has used these ratings for calculating risk weighted assets wherever such ratings are available.

The amount of exposure after risk mitigation subject to Standardized Approach (rated and unrated) in the following three major risk buckets are as under:

Category of Risk Weight	(Amount in Cr.)
Below 100 % risk weight	72584.03
100 % risk weight	46950.49
More than 100 % risk weight	13258.50
Total CRM Deducted	10510.70
Total Risk Weighted Assets	143303.72

VI. Credit Risk mitigation:

a. Bank obtains various types of securities (which may also be termed as collaterals) to secure the exposures (Fund based as well as non-fund based) on its borrowers. Generally following types of securities (whether as primary securities or collateral securities) are taken:

1. Moveable assets like stocks, moveable machinery etc.
2. Immoveable assets like land, building, plant & machinery.
3. Bank's own deposits
4. NSCs, IVPs, KVPs, Govt. Bonds, RBI Bonds, LIC policies, etc.
5. Cash Margin against Non-fund based facilities
6. Gold Jewellery
7. Shares as per approved list

The bank has well-laid out policy on valuation of securities charged to the bank.

The Bank has applied securities mentioned at sr.no.3 to 6 above as Credit Risk Mitigants.

The main types of guarantors against the credit risk of the bank are :

- Individuals (Personal guarantees)
- Corporates
- Central Government
- State Government
- ECGC

- CGFTSI

CRM collaterals are mostly available in Loans Against Bank's Own Deposit and Loans against Government Securities, LIC Policies/ Shares.

CRM securities are also taken in non fund based facilities like Guarantees and Letters of Credit.

Eligible guarantors (as per Basel II) available as CRM in respect of Bank's exposures are mainly Central/ State Government, ECGC, CGFTS.

The total Credit Risk Mitigants (CRM's) eligible for deduction from the outstanding exposures as on 30.09.2008 is to the tune of Rs 10510.70 crores.

VII. Securitisation:

The bank has a Securitization Policy duly approved by its Board. As per the Policy the nature of portfolio to be securitized are retail loans (housing loans, auto loans, advance against properties, personal loans and credit cards) SSI and Infrastructure projects loans. The Bank does not have any case of its assets securitised as on 30th Sept.,2008.

VIII. Market risk in trading book

The Bank defines market risk as potential loss that the Bank may incur due to adverse developments in market prices. The following risks are identified as Market risk:

- Interest Rate Risk
- Currency Risk
- Price risk

To manage risk, Bank's Board of Directors has laid down various limits such as Aggregate Settlement limits, Stop loss limits and Value at Risk limits. The risk limits, control the risks arising from open market positions. The stop loss limit takes in to account realized and unrealized losses.

Bank has put in place a proper system for calculating capital charge on Market Risk on Trading Portfolio as per RBI Guidelines, viz., Standardised Duration Approach. The capital charge thus calculated is converted into Risk Weighted Assets. The aggregated

Risk Weighted Assets for credit risk, market risk and operational risk are taken in to consideration for arriving at the CRAR.

Minimum capital charge on Market Risk (as per Standardised Duration Approach) as on 30th Sept. 2008 is as under:

(Rs. in Crores)

	Amount
Interest Rate Risk	375.78
Equity Position Risk	246.09
Foreign Exchange Risk	6.75
Total Capital Charge	628.62

IX. Operational risk

In line with RBI guidelines, Bank has adopted the Basic Indicator Approach to compute the capital requirements for Operational Risk.

X. Interest rate risk in the banking book (IRRBB)

a. The interest rate risk is measured and monitored through two approaches:

(i) Earning at Risk (Traditional Gap Analysis) (Short Term):

The immediate impact of the changes in the interest rates on net interest income of the bank is analyzed under this approach. The Earning at Risk is analyzed under different scenarios for domestic operations as under:

1. Yield curve risk: A parallel shift of 1% is assumed for assets as well as liabilities.
2. Bucket wise different yield changes are assumed for the assets and the same are applied to the liabilities as well.
3. Basis risk and embedded option risk is assumed as per historical trend.

(ii) Economic Value of Equity (Duration Gap Analysis) (Long term)

- a. Economic Value of Equity is done by calculating modified duration of assets and the liabilities to arrive at the modified duration of equity. Impact on the Economic Value of Equity is analyzed for a 200 bps rate shock at regular intervals for domestic operations through Duration Gap Method.
- b. The net impact on NII of the bank against 100 bps movement in interest rates is Rs. 82.03 Crore for domestic operations and Rs. 13.26 Crores for International Operations as on 30.09.2008.

