Disclosures under Pillar III of Basel II (New Capital Adequacy Frame work) as on 31.03.2013

Table DF-1: Scope of Application

1.1 Qualitative Disclosures:

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

Disclosures in this report pertain to Andhra Bank (Solo). The Capital to Risk Weighted Assets Ratio (CRAR) of the Bank on standalone basis only is shown.

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:

Andhra Bank has only one Subsidiary i.e., Andhra Bank Financial Services Ltd (ABFSL). In fact, ABFSL is not carrying on any significant financial activity. The total Share Capital (100%) of Rs. 5.00 crore is contributed by Andhra Bank only.

ii. That are pro-rata consolidated:

Sl. No.	Name of the entity	Country of Incorporation	Proportion of ownership percentage
1.	India First Life Insurance Co.	India	30.00%
2.	ASREC (India) Ltd.	India	26.02%
3.	India International Bank (Malaysia) BHD	Malaysia	25.00%

iii. That are given a deduction treatment:

Bank has the following associates where in the bank has contributed 35% of the share capital.

Sl. No.	Name of the entity	Country of Incorporation	Proportion of ownership percentage
1.	Chaitanya Godavari Grameena Bank	India	35%

The above mentioned associate is making profits and there is no capital deficiency.

iv. That are neither consolidated nor deducted (e.g. where the investment is risk-weighted): Nil

1.2 Quantitative Disclosures:

a) 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: Nil

The sole subsidiary of the Bank, ABFSL has outstanding accumulated losses. The Bank has fully provided entire capital of Rs.5.00 Crore towards its investment in subsidiary.

b) 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.

The Bank launched India First Life Insurance Company, a Joint Venture with Bank of Baroda and Legal & General with a share of 30% in the year 2009-10.

Sl. No.	Name of the entity	Country of Incorporation	Proportion of ownership percentage	Amount invested
1.	India First Life Insurance Co. Ltd.	India	30.00%	Rs. 142.50 crore

The investment in the Joint Venture is categorized as 'Held to Maturity' and risk-weighted accordingly.

Table DF-2: Capital Structure

2.1 Qualitative Disclosures

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 II.

Bank has earlier issued Innovative Perpetual Debt Bonds (Tier I Capital), Subordinated Debt Bonds (Lower Tier II) and Upper Tier II Bonds for inclusion in Capital.

a) Innovative Perpetual Debt Bonds:

Unsecured Non Cumulative Subordinated Perpetual Bonds (Innovative Perpetual Debt- Tier I Capital) in the nature of Promissory Notes - I Issue

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate **#**	Tenor	Call Option	Put Option
31.12.2008	200.00	9.50%	Perpetual	After 10 years (subject to RBI Approval)	None

There was no issue of Innovative Perpetual Debts/Bonds during the financial year 2012-13 eligible for inclusion in Tier-I Capital.

With regard to issue of Debts/Bonds eligible for inclusion in Tier-II Capital, the Bank has issued the following:

b) Outstanding Subordinated Debt Bonds:

Unsecured Redeemable Non-Convertible Subordinated Tier II Debt Bonds V issue (Series E)

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate	Tenor	Call Option	Put Option
05.01.2005	200.00	7.25%	111 months	None	None

Unsecured Redeemable Non-Convertible Subordinated Tier II Debt Bonds VI issue (Series F)

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate	Tenor	Call Option	Put Option
11.01.2008	700.00	9.15%	124 months	None	None

Unsecured Redeemable Non-Convertible Subordinated Tier II Debt Bonds VII issue (Series G)

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate	Tenor	Call Option	Put Option
10.09.2008	600.00	11.00%	120 months	None	None

Unsecured Redeemable Non-Convertible Subordinated Tier II Debt Bonds VIII issue (Series H)

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate	Tenor	Call Option	Put Option
24.12.2009	320.00	8.55%	120 months	None	None

c) Upper Tier II Bonds:

Unsecured Redeemable Non-Convertible (Upper Tier-II) Bonds Issue I (A-Series):

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate **#**	Tenor	Call Option	Put Option
25.03.2009	200.00	9.30%	15 years from the deemed date of allotment, in case call option is not exercised at the end of 10 years	After 10 years (Subject to RBI Approval)	None

Unsecured Redeemable Non-Convertible (Upper Tier-II) Bonds Issue II (B-Series):

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate #	Tenor	Call Option	Put Option
08.06.2009	520.00	8.72 %	15 years from the deemed date of allotment, in case call option is not exercised at the end of 10 years	After 10 years (Subject to RBI Approval)	None

Unsecured Redeemable Non- convertible (Upper Tier II) Bonds Issue III (C-Series):

Date of Allotment	Bond amount (Rs. in Crore)	Coupon Rate #	Tenor	Call Option	Put Option
18.12.2009	280.00	8.70	15 years from the deemed date of allotment, in case call option is not exercised at the end of 10 years	After 10 years (Subject to RBI Approval)	None

Step up option of 0.5% at the end of the call option i.e., 10th year from the date of issue of the Bond in case the call option is not exercised.

2.2 Quantitative Disclosures:

a. The amount of Tier I Capital:

The Bank's Tier I Capital comprise of Equity shares, Reserves and Innovative Perpetual Bonds. The details of the same are as mentioned below.

(Rs. in Cr)

Particulars	**31.03.2013**	
	Amount	**Amount**
Paid up Equity Share Capital		559.58
Reserves:		
Share Premium	1778.42	
Statutory Reserve	2348.45	
Capital Reserve	359.39	
Special Reserve under Sec 36 (1) (viii) of Income Tax	775.00	
Retained Earnings (Balance in P&L A/c)	98.00	
Revenue Reserve	2522.34	7881.60
Innovative Perpetual Debt Bonds		200.00
Total		**8641.18**
Less :		
Intangible Assets	11.93	
Deferred Tax Asset	0.00	
Capital Charge for Securitization Transactions	0.11	
Deduction for investment in Subsidiaries & associates	3.80	**15.84**
TOTAL TIER-I CAPITAL		**8625.34**

b. The total amount of Tier II Capital (Net of deductions from Tier II Capital)

The Bank's Tier II Capital comprise of Subordinated Debt Bonds, Upper Tier-II Debt Bonds and other general provisions and loss reserves. The details of the same are as mentioned below:

(Rs. in Cr)

Particulars	**31.03.2013**	
	Amount	**Amount**
Undisclosed Reserve	5.00	
General Provisions and Loss Reserves	0.00	
Contingent Provisions on Standard Assets	613.35	**618.35**
Upper Tier-II Debt Bonds		
Total amount outstanding	1000.00	
Out of which raised during the year	0.00	
Amount eligible for inclusion in Tier-II	**1000.00**	**1000.00**
Total		
Subordinated debts eligible for inclusion in Lower Tier II capital		
Total amount outstanding as on 31.03.2012	1700.00	
Amount raised during the year	0.00	
Discounted during the year	40.00	
Redeemed during the year	0.00	
Amount eligible for inclusion in Tier-II	**1660.00**	**1660.00**
Total		**3278.35**
Other deductions from Tier II capital		
Capital Charge for Securitization Transactions	0.11	
Deduction for investment in Subsidiaries & associates	3.80	**3.91**
TOTAL TIER-II CAPITAL		**3274.44**

c. Total eligible capital comprise of:

(Rs. in Cr)

	31.03.2013
Tier I Capital	8625.34
Tier II Capital	3274.44
Total eligible Capital	**11899.78**

Table DF-3: Capital Adequacy

3.1 Qualitative disclosures:

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

Bank is geared up to adopt global best practices while implementing risk management stipulations that are in conformity with the Basel II framework. Comprehensive risk management architecture is in place to address various issues concerning Basel II. For periodic assessment of Capital needs of the Bank, an Internal Capital Adequacy Assessment (ICAAP) Committee comprising of the top executives has been constituted, to monitor and assess the Capital requirement of the Bank over the medium horizon of 4 years, keeping in view the anticipated growth in Risk Weighted Assets in Credit Risk, Market Risk and Operational Risk.

The Committee meets regularly and decides on the capital related issues, with due focus on different options available for capital augmentation and realignment of Capital structure duly undertaking the scenario analysis for capital optimization. The Bank is raising Tier II capital in the form of Subordinated Debt and Hybrid Instruments, as and when required.

3.2 Quantitative disclosures:

(Rs. in Cr)

Items	Amount as on 31.03.2013
Capital requirements for credit risk	
▪ Portfolios subject to standardized approach	8188.67
▪ Securitisation exposures	NIL
Capital requirements for market risk	
- Standardized duration approach	
▪ Interest rate risk	331.77
▪ Foreign exchange risk (including gold)	1.35
▪ Equity position risk	69.52
Capital requirements for operational risk	
- Basic indicator approach	585.74
Total and Tier 1 CRAR for the Bank	
▪ Total CRAR (%)	11.76%
▪ Tier 1 CRAR (%)	8.52%
Total and Tier 1 CRAR for the Consolidated Group	
▪ Total CRAR (%)	11.76%
▪ Tier 1 CRAR (%)	8.52%
Total and Tier I CRAR for the Significant Subsidiary which is not under consolidated group	
▪ Total CRAR (%)	NA
▪ Tier 1 CRAR (%)	

Table DF-4: Credit Risk: General Disclosures

4.1 Qualitative Disclosures:

a) General qualitative disclosures with respect to credit risk

4.1.1 Definition of Past due and impaired (for accounting purposes):

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

i) Interest and/or instalment 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' for a period of more than 90 days as indicated hereunder, 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 instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
v) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
vi) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
vii) In respect of derivative transactions, the overdue receivables representing positive mark-to market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

4.1.2 Strategies and Processes:

Credit Risk is defined as "**the possibility of losses associated with diminution in the credit quality of borrowers or counter parties".** There is always a possibility for the borrower to default from his commitments for various reasons, resulting in crystallization of Credit risk to the Bank. These losses could stem from outright default due to inability or unwillingness of a customer or counter party to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk is, therefore, a combined outcome of Default Risk & Exposure Risk and arises from the Bank's dealings with or lending to a corporate, individual, bank, financial institution or a sovereign.

Credit risk may take the following forms:

- in the case of direct lending: principal/and or interest amount may not be repaid;
- in the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- in the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases;
- in the case of securities trading businesses: funds/ securities settlement may not be effected;
- in the case of cross-border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign.

The effective management of credit risk is a critical component of comprehensive risk management and is essential for the long - term success of any banking institution. Credit Risk Management encompasses identification, measurement through credit rating/scoring, quantification through estimate of expected loan losses, pricing on a scientific basis and controlling through effective Loan Review Mechanism & Portfolio Management.

The Bank has in place a Credit Risk Management Policy which is reviewed from time to time. Over the years, the policy and procedures in this regard have been refined as a result of evolving concepts and actual experience. The policy and procedures have been aligned to the approach laid down in Basel-II guidelines

The Credit Risk Management Policy is designed with the following Objectives.

1. Enhance the risk management capabilities to ensure orderly and healthy credit growth.
2. Maintain the Asset Quality.
3. Maintain credit risk exposure within acceptable parameters/prudential exposures.
4. Manage the asset portfolio in a manner that ensures bank has adequate capital to hedge risks.
5. Build database necessary for migration to the Internal Ratings Based (IRB) approach, using the Credit Risk Rating Model implemented in the Bank.
6. Mitigate and reduce the risk by streamlining the Systems and Controls.

4.1.3 The structure and organisation of the relevant risk management function:

Credit Risk Management structure of the Bank is as under-

- Board of Directors
- Risk Management Committee of the Board
- Credit Risk Management Committee (CRMC)
- General Manager-Integrated Risk Management Department (Chief Risk Executive)-Head Office
- Credit Risk Management Cell, Integrated Risk Management Department, Head Office

4.1.4 Scope and nature of risk reporting and measurement systems:

The measurement of Credit Risk includes setting up exposure limits to achieve a well diversified portfolio across dimensions such as companies, group companies, industries, collateral type and geography. For better risk management and avoidance of concentration of Credit Risks, internal guidelines on prudential exposure norms in respect of individual companies, group companies, Banks, individual borrowers, non-corporate entities, sensitive sectors such as capital market, real estate, sensitive commodities, etc., are in place.

4.1.5. Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

The bank also has a well defined Loan Policy in place. The bank has formulated policies & procedures on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudential limits on large credit exposures, asset concentrations, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning, regulatory/legal compliance etc.

4.2 <u>Quantitative Disclosures:</u>

a) The total Gross Credit Risk Exposures are :

(Rs. in Cr)

Category	Amount as on 31.03.2013
Fund Based	100137.75
Non Fund Based	18255.94

b) Bank has no Overseas Branches. Hence, Geographical exposures are not given.

c) Industry type distribution of exposures:

INDUSTRY WISE INTERNAL (FUNDED) EXPOSURE CEILINGS AND EXPOSURE AS ON 31.03.2013.

TOTAL ADVANCES AS ON 31.12.2012 (PREVIOUS QUARTER) : RS 90292.02 CRORE

(Rs. In Crore)

Sl. No	Industry	Ceilings as % of total advances of previous quarter	Ceiling amount on total advances of previous quarter	Actual Fund based exposure as on 31.03.2013	Actual Fund based outstanding as on 31.03.2013	Fund based Exposure as % of total advances of previous quarter i.e. 31.12.2012
1	Textiles*	9.00	8126.28	4867.18	3526.70	5.39%
2	Petroleum Products	10.00	9029.20	1261.79	956.00	1.40%
3	Power*	22.00	19864.24	16633.42	12757.54	18.42%
4	Engineering (Heavy & Light)	5.00	4514.60	2570.21	2013.00	2.85%
5	NBFC*	10.00	9029.20	8772.23	6991.84	9.72%
6	Diamonds, Gems & Jewellery	5.00	4514.60	1538.14	1266.93	1.70%
7	Rice Mills	6.00	5417.52	2176.26	1772.07	2.41%
8	Sugar	5.00	4514.60	1502.08	1242.15	1.66%
9	Drugs & Pharmaceuticals	5.00	4514.60	1782.11	1274.00	1.97%
10	Tobacco	2.00	1805.84	744.14	575.00	0.82%
11	Cement & Cement Products	5.00	4514.60	914.83	481.00	1.01%
12	Distilleries	1.00	902.92	217.73	207.30	0.24%
13	Iron & Steel*	10.00	9029.20	5921.93	4359.57	6.56%
14	Construction & Contractors	10.00	9029.20	2927.88	2390.80	3.24%
15	Software	1.50	1354.38	240.00	232.00	0.27%
16	Hospitals	3.00	2708.76	553.57	376.89	0.61%
17	Hotels	3.00	2708.76	1163.00	874.00	1.29%
18	Educational Institutions	2.00	1805.84	566.09	547.05	0.63%
19	Housing Loans* (includes residential mortgages & indirect finance to Housing intermediaries)	15.00	13543.80	9486.41	7897.53	10.51%
20	Commercial Real Estate	7.00	6320.44	3090.96	2018.52	3.42%

*Exposure is more than 5 per cent of the gross credit exposure of previous quarter

INDUSTRY WISE INTERNAL (NON-FUNDED) EXPOSURE CEILINGS AND EXPOSURE AS ON 31.03.2013.

TOTAL NON-FUNDED Limits AS ON 31.12.2012 (PREVIOUS QUARTER), Rs.29437.50 Cr.

(Rs. In Crore)

Sl. No	Industry	Ceilings as % of Non Fund Limits of previous quarter	Ceiling amount on Non Fund Limits of previous quarter	Actual Non Fund based exposure as on 31.03.2013	Actual Non Fund based outstanding as on 31.03.2013	Non Fund based Exposure as % of Non Fund Limits of Previous Quarter i.e. 31.12.2012
1	Textiles	4.00	1177.50	1090.50	608.48	3.70%
2	Petroleum Products	1.00	294.38	57.70	33.13	0.20%
3	Power*	10.50	3090.94	2808.00	2000.88	9.54%
4	Engineering (Heavy & Light)*	12.00	3532.50	2111.67	1861.94	7.17%
5	NBFC	5.00	1471.88	527.00	492.08	1.79%
6	Diamonds, Gems & Jewellery	3.00	883.13	326.19	183.55	1.11%
7	Rice Mills	2.00	588.75	46.73	32.41	0.16%
8	Sugar	4.00	1177.50	567.63	110.82	1.93%
9	Drugs & Pharmaceuticals	6.00	1766.25	893.55	573.89	3.04%
10	Tobacco	0.50	147.19	77.83	46.36	0.26%
11	Cement & Cement Products	2.00	588.75	57.50	20.77	0.20%
12	Distilleries	0.50	147.19	19.30	3.53	0.07%
13	Iron & Steel*	14.00	4121.25	2861.81	1866.19	9.72%
14	Construction & Contractors*	50.00	14718.75	4303.13	2063.66	14.62%
15	Software	1.00	294.38	33.35	15.60	0.11%
16	Hospitals	1.50	441.56	83.74	58.37	0.28%
17	Hotels	1.50	441.56	7.78	4.25	0.03%
18	Educational Institutions	2.00	588.75	54.46	30.52	0.19%
19	Commercial Real Estates	2.00	588.75	303.08	72.60	1.03%

*Exposure is more than 5 per cent of the non fund limits of the previous quarter

d) Residual contractual Maturity breakdown of assets:

(Rs. in Cr)

Maturity Pattern	Advances (Net)	Investments	Foreign Currency Assets
0 to 1 day	347.77	78.21	363.86
2 to 7 days	726.24	170.90	57.83
8 to 14 days	1744.17	495.91	59.41
15 to 28 days	1454.37	420.80	225.82
29 days to 3 months	9700.13	1919.67	651.50
Over 3 months & upto 6 months	6761.67	888.52	1137.03
Over 6 months & upto 1 year	10581.17	622.24	53.52
Over 1 year & upto 3 years	40750.36	4407.73	0.00
Over 3 year & upto 5 years	11190.86	4590.43	0.00
Over 5 years	15116.55	24201.07	0.00
Total	**98373.29**	**37795.48**	**2548.97**

e) Amount of NPAs (Gross):

(Rs. in Cr)

CATEGORY	AMOUNT As on 31.03.2013
Sub-Std	1985.74
Doubtful-1	1282.68
Doubtful-2	333.27
Doubtful-3	72.58
Loss	40.22
Total	**3714.49**

f) Net NPAs:

(Rs. in Cr)

	31.03.2013
Net NPAs	2409.18

g) NPA Ratios:

	31.03.2013
Gross NPA to Gross Advances (%)	3.71%
Net NPA to Net Advances (%)	2.45%

h) Movement of NPAs (Gross):

(Rs. in Cr)

	31.03.2013
(a) Opening Balance	1798.01
(b) Additions during the year	2741.67
(c) Reductions during the year	825.19
(d) Closing Balance	3714.49

i) Movement of Provision for NPAs:

(Rs. in Cr)

	31.03.2013
Movement of Specific Provisions for NPAs	
(a) Opening Balance	1042.12
(b) Provisions made during the year	635.80
(c) Write-off / Write-back of excess provisions	372.61
(d) Closing Balance	1305.31

j) Amount of Non-Performing Investments: Rs. 33.88 cr

k) Amount of provisions held for non-performing investments: Rs. 8.79 cr

l) Movement of provisions for depreciation on investments:

(Rs. in Cr)

	31.03.2013
(a) Opening Balance	0.53
(b) Provisions made during the period	8.36
(c) Write –off	-
(d)Write back of excess provisions	0.10
(e) Closing Balance	8.79

Table DF-5: Credit Risk: Disclosures for Portfolios subject to the Standardised Approach

5.1 Qualitative Disclosures:

For portfolios under the standardized approach:
Name of the credit rating agencies used, plus reasons for any changes

- Credit Rating Information Services India Limited (CRISIL)
- Credit Analysis and Research Limited (CARE)
- India Ratings and Research Private Limited
- ICRA Limited
- Small and Medium Enterprises Rating Agency(SMERA)
- Brick Work Ratings India Private Limited

Two new credit rating agencies SMERA and BWI have been added during the year.

Types of exposure for which each agency is used:

- For exposures with a contractual maturity of less than or equal to one year (except cash credit, overdraft) Short term rating given by approved Rating Agencies is used.
- For domestic cash credit, overdraft and for term loan exposures of over 1 year, Long Term Rating is used.
- The Bank uses only publicly available solicited ratings that are valid and reviewed by the recognized ECAIs.
- The Bank does not simultaneously use the rating of one ECAI for one exposure and that of another ECAI for another exposure to the same borrower, unless the respective exposures are rated by only one of the chosen ECAIs. Further, the bank does not use rating assigned to a particular entity within a corporate group to risk weight other entities within the same group.

- Where exposures/ borrowers have multiple ratings from the chosen ECAIs, the bank has adopted the following procedure for risk weight calculations:
  i. If there are two ratings accorded by chosen ECAIs, which map into different risk weights, the higher risk weight is applied.
  ii. If there are three or more ratings accorded by the chosen ECAIs which map into different risk weights, the ratings corresponding to the lowest 2 ratings are referred to and higher of those two risk weights is applied.

A description of the process used to transfer public issue ratings onto comparable assets in the banking book:
No such process is applied

5.2 Quantitative Disclosures:

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's outstandings (rated & unrated) in the following major risk buckets as well as those that are deducted:

(Rs. in Cr)

	31.03.2013	
	Fund Based	**Non Fund Based**
Below 100% risk weight	38154.40	5456.39
100% risk weight	37987.57	8868.05
More than 100% risk weight	15503.32	2400.72
Deducted	8492.46	1530.78
Total	**100137.75**	**18255.94**

Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach

6.1 Qualitative Disclosures:

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

6.1.1 Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting

The Bank makes use of on-balance sheet and off-balance sheet netting only in cases where deposits/cash is held against the particular loan asset.

6.1.2 Policies and processes for collateral valuation and management:

A Board approved Policy on valuation of properties obtained by the Bank, is in place.
As per RBI guidelines, the Bank adopts the comprehensive approach, which allows full offset of collateral (after appropriate haircuts) against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral.

6.1.3 Description of the main types of collateral taken by the Bank:

The main types of collateral commonly used by the Bank as risk mitigants comprise of

1. Cash/ Bank's deposits
2. Gold
3. Securities issued by Central and State Government
4. NSCs and KVPs
5. LIC policies with a declared surrender value
6. Debt securities (as defined in the New Capital Adequacy Framework)
7. Units of Mutual Funds.
8. Plant & Machinery, Land & Building (In case of NPAs only)

The Credit Risk Mitigants are applied in accordance with the RBI guidelines.

6.1.4 Main types of Guarantor counterparty and their creditworthiness:

Wherever required, the Bank obtains Personal or Corporate guarantee, as an additional comfort for mitigation of credit risk, which can be translated into a direct claim on the guarantor, and is unconditional and irrevocable. The Creditworthiness of the guarantor is normally not linked to or affected by the borrower's financial position. The Bank also accepts guarantee given by State / Central Government as a security comfort. Such Guarantees remain continually effective until the facility covered is fully repaid or settled.

6.1.5 Information about risk concentration (market or credit) within the mitigation taken:

Bank has a well dispersed portfolio of assets which are secured by various types of securities, such as:

- Eligible financial collaterals listed above
- Guarantees by sovereigns and well-rated corporates
- Fixed and current assets of the counterparty

6.2 Quantitative Disclosures:

(Rs. in Cr)

Particulars	Amount
a. Total exposure covered by eligible financial collateral after application of haircuts. Of which : i) Gold : 5740.14 Cr ii) Bank Deposits : 4258.53 Cr iii) Insurance Policies : 18.43 Cr iv) NSCs / KVPs etc. : 6.14 Cr	**10023.24**
b. Total exposure covered by guarantees Total exposure covered by credit derivatives	**5707.81** Nil

Table DF-7: Securitisation Exposures: Disclosure for Standardised Approach

7.1 Qualitative disclosures:

The general qualitative disclosure requirement with respect to securitisation including a discussion of:

7.1.1 The bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities.

Objectives of the Bank for undertaking the securitization activity –
- Reduction of asset liability mismatches;
- Increase in fee based income; and
- Redeployment of funds.

Credit Risk of the underlying securitized exposures (i.e. Housing Loans) is transferred to the investors of Pass Through Certificates (PTCs).

7.1.2 The nature of other risks (e.g. liquidity risk) inherent in securitised assets;

While Liquidity risk has been taken care by providing Cash Collaterals, Credit risk is taken care by making adequate provisions.

7.1.3 The various roles played by the bank in the securitisation process and an indication of the extent of the bank's involvement in each of them;

Andhra Bank is the originator and service provider. The Bank is also the provider of credit enhancement in the following form:

- Subscription to subordinate tranche (PTC-B) to the extent of 14.70% of the pool principal aggregating to Rs.7.41 crore.
- Subordination of excess interest spread in the pool.
- Cash collateral equivalent to Rs.68 lacs.

7.1.4 A description of the processes in place to monitor changes in the credit and market risk of securitisation exposures.

The Bank has in place processes to access information on the performance of underlying pool of securitized exposures on an on-going basis and in a timely manner. Such information includes – percentage of loans which are 30, 60 and 90 days past due, default rates, prepayment rates and loans in foreclosure.

7.1.5 (a) A description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures;

The Bank has provided credit enhancement by way of subscribing to the sub-ordinate PTCs and also by making suitable provisions.

b) Summary of the bank's accounting policies for securitisation activities, including:

Whether the transactions are treated as sales or financings;
The transaction is treated as a sale.

Methods and key assumptions (including inputs) applied in valuing positions retained or purchased

The Bank has only one securitization exposure. The outstanding in the loan accounts as on the date of securitization was considered to be the value of PTCs.

Changes in methods and key assumptions from the previous period and impact of the changes;

Nil

Policies for recognizing liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitised assets.

Nil

c) In the banking book, the names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.

CRISIL, the Rating Agency has rated the pool as AAA (so).

<u>7.2 Quantitative disclosures:</u>

7.2.1 Banking Book

d) **The total amount of exposures securitised by the bank:** Rs.50.36 crore

e) **For exposures securitised losses recognised by the bank during the current period broken by the exposure type (e.g. Credit cards, housing loans, auto loans etc. detailed by underlying security):** Nil

f) **Amount of assets intended to be securitised within a year:** Nil, at this stage

g) **Of (f), amount of assets originated within a year before securitisation:** Nil

h) **The total amount of exposures securitised (by exposure type) and unrecognized gains or losses on sale by exposure type.**

Bank has securitized Housing Loans to the tune of Rs. 50.36 crore during 2004.

No losses were recognised by the Bank

i)Aggregate amount of:

- **on-balance sheet securitisation exposures retained or purchased broken down by exposure type and**
- **off-balance sheet securitisation exposures broken down by exposure type**

Rs.7.41 crore of Securitised Housing Loans is subscribed by the Bank as PTC-B, subordinate to PTC-A.

j)

- **Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach**

Rs.7.41 crore of Securitised Housing Loans is subscribed by the Bank as PTC-B, subordinate to PTC-A.

- **Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital (by exposure type).**

Capital charge on Securitisation transaction is Rs.22.31 lacs, of which 50% is deducted from Tier I and 50% from Tier II Capital.

7.2.2 Trading book

The Bank does not have any securitization exposure in its trading book.

Table DF-8: Market Risk in Trading Book

8.1 Qualitative Disclosures:

8.1.1 Strategies and processes:

The Bank has in place a well-defined and Board approved 'Market Risk Management Policy' and organizational structure for Market risk management functions. The objectives of the policy are

- to capture all the market related risks inherent in on and off-balance sheet items, monitor and manage them in the best interests of the bank.
- to ensure that the bank's NII is protected from the volatilities in the market related factors
- to improve the sophistication levels of the risk management systems pertaining to Market Risk; and
- to prepare the bank for adoption of the advanced methods of capital computation to ensure optimum utilization of the capital sources.

8.1.2 The structure and organisation of the relevant risk management function:

Market Risk Management structure of the Bank is as under-

- Board of Directors
- Risk Management Committee of the Board
- Asset Liability Management Committee (ALCO)
- General Manager-Integrated Risk Management Department (Chief Risk Executive)-Head Office
- Market Risk Management Cell, Integrated Risk Management Department, Head Office-
  - Integrated Mid Office
  -Asset Liability Management Cell

8.1.3 Scope and nature of risk reporting and measurement systems:

- Bank has put in place various exposure limits for market risk management such as Overnight limit, Intraday limit, Aggregate Gap limit, Stop Loss limit, VaR limit, Broker Turnover limit, Capital Market Exposure limit, Product-wise Exposure limit, Issuer-wise Exposure limit etc.
- A risk reporting system is in place for monitoring the risk limits across different levels of the bank from trading desk to the Board level.

- The rates used for marking to market for risk management or accounting purposes are independently verified.
- The reports are used to monitor performance and risk, manage business activities in accordance with bank's strategy.
- The reporting system ensures timelines, reasonable accuracy with automation. The reports are flexible and enhance decision-making process.
- The Dealing room activities are centralized
- The reporting formats & the frequency is periodically reviewed so as to ensure that they suffice the risk monitoring, measuring and mitigation requirements of the Bank.

8.1.4 Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

Various Board approved policies viz., Market Risk Management Policy, Country Risk Management Policy, Counterparty Bank Risk Management Policy, Investment Policy, Forex Policy, and ALM policy are put in place for market risk management. Market risk management policy provides the framework for risk assessment, identification and measurement and mitigation, risk limits & triggers, risk monitoring and reporting.

Bank has in place a scoring model for categorization of International banks under Counterparty Bank Risk Management Policy. The various exposure limits are set based on the points secured by the counterparties as per the scoring matrix.

Liquidity risk management policy lays down various guidelines to ensure that the liquidity position is comfortable at times of stress by formulating contingency funding plan. Tolerance levels are incorporated under each time frame and any breach of the same would signal a forthcoming liquidity constraint.

8.2 Quantitative Disclosures:

(Rs. in Cr)

Capital requirements for market risk	
- Standardized duration approach	
▪ Interest rate risk	331.77
▪ Foreign exchange risk (including gold)	1.35
▪ Equity position risk	69.52

Table DF-9: Operational Risk:

9.1 Qualitative Disclosures:

9.1.1 Strategies and processes:

The Operational Risk Management process of the Bank is driven by a strong organizational culture and sound operating procedures, involving corporate values, attitudes, competencies, internal control culture, effective internal reporting and contingency planning. Policies are put in place for effective management of Operational Risk in the Bank.

The main objectives of the policy are –

- To have common understanding of Operational Risk and facilitate its management.
- Put in place a suitable Organizational Structure.
- Identification of the Operational Risks faced by the bank in each of the products / activities / processes.
- Developing sound Operational Risk Management systems consistent with the guidelines issued by Reserve Bank of India for management / mitigation of operational risks faced by the bank.
- Suggesting measures for strengthening of internal control systems & procedures based on the deficiencies observed.

9.1.2 The structure and organisation of the relevant risk management function:

The Operational Risk Management Structure in the Bank is as under:

- Board of Directors
- Risk Management Committee of the Board
- Operational Risk Management Committee (ORMC)
- General Manager of Integrated Risk Management Department, Head Office (Chief Risk Executive)
- Operational Risk Management Cell (IRMD),Head Office

9.1.3 Scope and nature of risk reporting and measurement systems:

The Risk reporting consists of operational risk loss incidents / events occurred in branches / offices relating to people, process, technology and external events. The data collected from different sources are used for preparation of MIS on loss event types.

9.1.4 Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

Bank has put in place the following policies pertaining to Operational Risk Management:

- **Operational Risk Management Policy:** The policy covers the terms of operational risk, risk management structure, identification, assessment, measurement and monitoring of operational risk.
- **Compliance Policy:** The Bank has in place a Comprehensive Compliance Policy. As per the Policy adopted by the Bank, suitable organizational structure has been laid down defining the roles and responsibilities for Compliance Officers of various Departments, Zonal Offices, other operating departments at HO and branches, so as to address group wide and multi jurisdictional compliance risk. Suitable reporting system is also put in place to ensure effective implementation of Compliance Policy Bank wide.
- **Business Line Mapping Policy:** The Bank has in place 'Business Line Mapping Policy' to map all activities of the Bank into Eight business lines as stipulated by Reserve Bank of India and arrive at the Gross Income business-line wise.

Operational risk capital assessment:

- The Bank has adopted Basic Indicator Approach for calculating capital charge for Operational Risk, as stipulated by the Reserve Bank of India.

Table DF-10: Interest Rate Risk in Banking Book

10.1 Qualitative Disclosures:

With the deregulation of interest rates, liberalization of exchange rate system, development of secondary markets for bonds and deepening and widening of financial system, Banks are exposed to interest rates risk, liquidity risk, exchange rate risk etc.; Asset Liability Management outlines a comprehensive and dynamic framework for measuring, monitoring and managing various risks. Primary objective of ALM is to maximize the Net Interest Income within the overall risk bearing capacity of the Bank.

Various stress tests are conducted by varying the liquidity and interest rate structure to estimate the resilience and/or the impact. It evaluates the Earnings at Risk by means of parallel shift in the interest rates across assets and liabilities as also basis risk.

The stress tests are carried out by assuming stress conditions wherein embedded options are exercised like prepayment of loans and premature closure of deposits much above the revelations of the behavioral studies to test the stress levels.

Traditional Gap Analysis method suggested by RBI is followed for calculation of IRR from Earnings perspective.

Modified Duration Gap method is followed, as per RBI guidelines, to assess the effect of interest rate changes on the Market Value of Equity in percentage terms.

The ALCO decides on the fixation of interest rates on both assets and liabilities after considering the macro economic outlook – both global and domestic, as also the micro aspects like cost-benefit, spin offs, financial inclusion and a host of other factors.

10.1.1 Strategies and process: The strategy adopted for mitigating the risk is conducting stress tests before hand by simulating various scenarios so as to be in preparedness for the plausible event and if possible in mitigating it. The process for mitigating the risk is initiated by altering the mix of asset and liability composition, bringing the duration gap closer to zero, change in interest rates etc

10.1.2 The structure and organization of the relevant risk management functions: The ALM cell reports to the General Manager- Integrated Risk Management Department and the ALM reports on various subjects/ topics along with the structural liquidity, the interest rate sensitivity and short term dynamic liquidity statements are presented to the ALCO on fortnightly basis, and to the Risk Management Committee of the Board on monthly basis. The ALCO is chaired by the Chairman & Managing Director of the Bank and has the Executive Directors and GMs of functional Departments as its members.

10.1.3 The scope and nature of risk reporting and measurement systems: The liquidity and interest rate sensitivity statements reveal the liquidity position and the Interest rate risk of the Bank. With the approval by the Board, tolerance level is stipulated, within which the Bank is to operate. Any breach in the limits is reported to the ALCO which in turn directs remedial measures to be initiated.

10.1.4 Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigates: Mitigating measures are initiated in the ALCO on how to contain the liquidity risk and interest rate risk. The fortnightly statements presented to the ALCO reveal the liquidity and interest rate structure based on residual maturity. The gap position under various time buckets denotes the liquidity risk and interest rate risk. The ALCO on studying the gap position in detail evolves the strategies to reduce the mismatches in order to minimise the liquidity and interest rate risks.

<u>10.2 Quantitative Disclosures:</u>

EARNINGS AT RISK

(Rs. in crore)

Change in interest rate	Re-pricing up to 1 year
0.25%	19.15
0.50%	38.30
0.75%	57.45
1.00%	76.60

ECONOMIC VALUE OF EQUITY

For a 200 bps rate shock the drop in equity value (including reserves)	Rs. 927.15 Crore