

IDBI Bank Limited
Consolidated Pillar III Disclosures

1. Scope of Application- Capital and Related disclosures

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

(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. The consolidation is done using uniform accounting policies for all transactions and other events in similar circumstances. Where it is not practicable, in view of statutory/ regulatory requirements, accounting policies as mandated by respective statues/ regulatory authorities are followed.

(i) Entities that are fully consolidated:

- IDBI Capital Market Services Ltd- Business includes stock broking, distribution of financial products, merchant banking, corporate advisory services etc.
- IDBI Homefinance Ltd- engaged in providing housing finance,
- IDBI Gilts Ltd- Primary Dealership business.

(ii) Entities that are pro-rata consolidated:

- IDBI Fortis Life Insurance Ltd. – Life insurance business

(iii) Entities that are given a deduction treatment:

- IDBI Intech Ltd- undertakes activities in the IT sector.
- IDBI Trusteeship Services Ltd- caters to Trusteeship Assignments

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

(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- **Nil**

(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, the impact on regulatory capital of using this method versus using the deduction or alternate group-wide method- **Nil**.

2. Capital structure

a) Summary

The capital adequacy norms of RBI classify capital funds into Tier I and Tier II capital.

Elements of Tier I capital includes;

paid up equity capital, statutory reserves, other disclose frees reserves, Capital reserves and Innovative perpetual debt instruments eligible for inclusion in Tier I capital.

Elements of Tier II capital includes;

Revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and subordinated debt.

Tier I Bonds: As on March 31, 2009 the Bank's Tier I capital includes;

(i) Tier I bonds of Rs.2,130.50 crore subscribed by the Government of India (GoI) in March 2002, on conversion of liability of the Bank towards RBI under NIC (LTO) fund & IBRD Lines of Credit, Tier I bonds subscribed by the GOI have a tenor of 20 years with an option for conversion into equity or for rolling it over for a further period of another 20 years, at the request of the Bank. Further, GOI would favourably consider foregoing the interest due on these bonds in the years in which the Bank incurs loss. RBI has made these bonds eligible for qualifying as Tier-I Capital of the Bank. and;

(ii) Innovative Perpetual Debt Instrument (IPDI) of Rs.332 crore raised in March 2009 in compliance with RBI guidelines for issue of such instruments.

IPDI instruments are perpetual in nature, having a call option after 10 years with the prior approval of RBI. Interest on these bonds is not payable if the Bank's CRAR is below the regulatory requirement. Further, the interest on these bonds is not cumulative. As per RBI guidelines, coupon on these bonds may carry a step-up option up to a maximum of 100 bps, which may be exercised only once, in conjunction with the call option.

Upper Tier II Bonds: Unsecured, redeemable Upper Tier II bonds of Rs.1,500 crore with a maturity of 15 years (call option after 10 years with the approval of RBI) were raised by the Bank in tranches during FY 2008-09. According to RBI guidelines, coupon on these bonds may carry a step-up option up to a maximum of 100 bps, which may be exercised only once, in conjunction with the call option. Interest on these bonds is not payable if the bank's CRAR is below the regulatory requirement. These bonds are redeemable only with the prior approval of RBI.

Subordinated (lower) Tier II Bonds: Unsecured, Redeemable Subordinated (lower) Tier II Bonds have been raised in different tranches. Most of these bonds carry a fixed maturity without put/ call option and are repayable with prior approval of RBI. The outstanding amount of such bonds as on March 31, 2009 aggregated Rs.4,922.94 crore.

b) Main features of the instruments being reckoned as Tier I and Tier II capital

Particulars	Date of Issue	Amount Outstanding as on 31.3.2009 (Rs. crore)	Average Tenor (years)	Weighted average Coupon (% p.a.)	Rating
Innovative Perpetual Debt Instrument	26.03.2009	332.00	Perpetual (Call option after 10 years)	9.50 #	'AA/Negative' by CRISIL 'LAA' by ICRA
Convertible Tier I Bonds (subscribed by GOI)	30.03.2002	1157.02	20	8.00	
	31.03.2002	973.48	20	11.88	
		2130.50	20	9.77	
Upper Tier II Bonds	29.09.2008	650.00	15	11.15 #	'AA/Negative' by CRISIL 'LAA' by ICRA 'AA-(ind)' by FITCH
	29.10.2008	500.00	15	11.40 #	
	31.03.2009	350.00	15	9.50 #	
		1500.00	15 (Call option after 10 years)	10.85	
Subordinated (lower) Tier II Bonds	On various dates	4169.07*	9.04	9.10	'AA+/Negative' by CRISIL 'LAA+' by ICRA (with Negative outlook) 'AA+(ind)' by FITCH

With step up of 50 bps if call option not exercised at the end of 10 years.

* Is the discounted value of the total outstanding of Rs. 4922.94 crore.

c) Composition of capital

As on March 31, 2009

(Rs. crore)

Amount of Tier I Capital	
Tier I Capital	
Paid up share capital	724.78
Reserves	6891.25
Innovative instruments	332.00
Other capital instruments (Tier I Bonds)	2130.50
Gross Total	10078.53
Deductions:	
Investments in subsidiaries	311.04
Intangible assets	7.84
Others	3.36
Net Total (a)	9756.29
Amount of Tier II Capital	
Tier II Capital	
Revaluation reserve	890.80
Upper Tier II investments	1500.00
Lower Tier II investments	4265.38
General Provisions	436.46
Gross Total	7092.64
Deductions:	
Investments in paid-up equity of financial subsidiaries / associates	311.04
Other deductions	3.36
Net Total (b)	6778.24
Total Eligible capital (a+b)	16534.54
Capital raised during the year 2008-09:	
Tier I	332.00
Upper Tier II	1500.00
Lower Tier II	190.00
Total	2022.00

3. Capital Adequacy:

a) Summary

Capital is maintained by the Bank to cushion against risk of loss in value of the exposures and to protect the depositors and general creditors against losses. In line with the guidelines of the RBI, the Bank is required to maintain a capital ratio of Total Capital to Risk weighted assets (CRAR) at a minimum of 9% (on consolidated basis) comprising a minimum Tier I capital ratio of 6%. CRAR of the Bank is estimated to be well above the minimum capital as stipulated by RBI.

The Bank has adopted Standardised Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardised Duration Approach for Market Risk for calculating the capital adequacy of the Bank.

b) Capital Requirements as per Basel II norms

The position of the Minimum Capital required (at 9%) for different types of risks and the CRAR of the Bank on a consolidated basis as on March 31, 2009 is as follows:

(Rs. crore)

(a) Credit risk Capital:	
Portfolios subject to standardised approach	11590.78
Securitisation	135.61
(b) Market risk Capital:	
Standardised duration approach	
Interest Rate Risk	408.94
Foreign exchange Risk (including Gold)	19.71
Equity Risk	470.11
(c) Operational risk Capital:	
Basic indicator approach	334.11
Total Minimum Capital required	12959.25
Total and Tier 1 capital ratio:	
Tier I (%)	6.78%
Total (%)	11.48%

4. General Disclosures in respect of Credit Risk

Credit Risk is the risk of loss that may occur from failure of the counter party to meet its obligations and abide by the terms of the financial contract. The Credit Risk faced by the Bank arises through its lending operations.

a) Bank's credit risk management policy

The Bank's Credit Management Policy encompasses identification, assessment, measurement, monitoring and control of the credit exposures. It aims at sustaining a high quality of credit portfolio by ensuring that there is no deterioration in the quality of asset in the portfolio, diversification across companies, group companies, industries, geographies and products. The Bank has also put in place internal guidelines on exposure norms in respect of single borrower, group companies, exposure to sensitive sector, industry exposure and unsecured exposures. The Bank utilizes risk rating as one of the key tools to assist in maintaining quality asset portfolio.

b) Definitions of non performing assets

The Bank classifies its advances into performing and non-performing advances in accordance with extant RBI guidelines. The guidelines inter-alia, define a non performing asset (NPA) as a loan or an advance where;

- interest and/ or installment of principal remains overdue for more than 90 days for a term loan,
- the account remains 'out of order' in respect of overdraft / cash credit continuously for 90 days. An account would be 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'.
- A bill purchased or discounted by the Bank remains 'overdue' for more than 90 days.
- In respect of an agricultural loan, the interest and / or installment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops.

Further, NPAs are classified in to substandard, doubtful and loss assets based on the criteria stipulated by RBI.

In respect of investments in securities, where interest / principal is in arrears, the Bank does not reckon income on such securities and makes appropriate provisions for the depreciation in the value of investments.

c) Credit Exposures as on March 31, 2009 : Top 20 Industry wise exposure

(Rs. crore)

Sr.No	Name of Industry	Fund Based	Non Fund Based	Total
1	Real Estate	21,156.91	636.09	21,793.00
2	Power	12,207.71	5,222.76	17,430.48
3	Iron And Steel	12,385.33	3,982.64	16,367.97
4	Refined Petroleum Products	7,198.06	5,733.81	12,931.87
5	Telecom Services	4,037.76	5,553.21	9,590.97
6	Construction	2,617.28	6,791.98	9,409.26
7	Cotton Textiles	5,009.32	806.67	5,815.99
8	Engineering	965.87	4,173.25	5,139.12
9	Cement	3,891.91	1,142.39	5,034.30
10	Fertilizers	1,804.11	2,897.48	4,701.58
11	Electrical Machinery	1,921.07	2,641.90	4,562.97
12	NBFC	4,247.19	193.79	4,440.98
13	Electronics/Communication	3,230.43	805.09	4,035.52
14	Trading	1,941.41	1,631.55	3,572.96
15	Sugar	3,015.20	441.98	3,457.18
16	Food	2,799.02	532.41	3,331.43
17	Non-Ferrous	1,594.57	1,444.33	3,038.90
18	Roads / Bridges	2,552.09	344.11	2,896.20
19	Drugs & Pharmaceuticals	2,530.76	329.13	2,859.89
20	Textiles (Others)	2,191.45	581.11	2,772.56
	Total	97,297.45	45,885.68	143,183.14

ii) Residual contractual maturity breakdown of assets as on March 31, 2009

(Rs. crore)

Time Buckets	Cash and Balances with RBI and other banks	Investments	Advances	Fixed Assets & Other Assets	Total Assets
Next Day	747	21	2622	15	3405
2 to 7 days	2635	6367	2071	89	11162
8 to 14 days	219	1	1939	103	2262
15 to 28 days	148	144	1194	41	1527
29 days & upto 3 m	799	1658	5961	1285	9702
Over 3 m & upto 6 m	1027	1120	7053	490	9689
Over 6 m & upto 12 m	2492	1647	12391	203	16733
Over 1 year & upto 3 years	1875	2742	32270	0	36887
Over 3 years & upto 5 years	434	4649	12812	15	17910
Over 5 years	844	31701	25115	5466	63125
Total	11219	50048	103428	7707	172402

d) Non Performing Assets as on March 31, 2009

(Rs. crore)

NPAs (gross)	
a. Substandard	543.42
b. Doubtful 1	394.29
c. Doubtful 2	396.60
d. Doubtful 3	65.84
e. Loss	35.54
f. Amount of Net NPAs	948.96
g. NPA Ratios	
• Gross NPAs to Gross Advances	1.38%
• Net NPAs to Net Advances	0.92%
h. Movement of NPAs (Gross)	
• Opening Balance	1376.61
• Additions	637.03
• Reductions	577.95
• Closing Balances	1435.69

i. Movement of Provisions for NPAs	
• Opening Balance	451.38
• Provisions made during the period	198.33
• Write offs / Write Back of excess provisions	162.97
• Closing Balances	486.73
j. Amount of Non-performing Investments	296.93
k. Amount of provisions held for Non-performing Investments	156.89
l. Movement of provisions for depreciation on investments (including bonds and debentures)	
Opening Balance	579.12
Provisions made during the period	292.34
Write offs / Write Back of excess provisions	551.87
Closing Balance	319.59

e) External Credit Rating Agencies

The Bank uses ratings given by the accredited agencies; CARE, CRISIL, ICRA and FITCH (India) for its domestic exposures and FITCH, Moodys and S & P for its overseas exposures.

In cases where multiple ratings for a given facility are available, the lower rating, where there are two ratings and the second lowest rating where there are three or more ratings are used.

Amount of Credit Exposures in different risk buckets

Risk Weight	Total Exposure*(Rs. crore)
Less than 100%	118708.65
100%	68684.67
More than 100%	14742.11
Total	202135.43

* Includes Fund and Non Fund Based outstanding amount only.

f) Credit Risk Mitigation (CRM) Techniques

The Bank uses various collaterals, both financial as well as non financial and guarantees as credit risk mitigants. The Bank determines appropriate collaterals based on the type of borrower and facility. The main financial collaterals include cash, gold, securities issued by Central and State Governments, Kisan Vikas Patra, Shares, Mutual Funds, National Saving Certificate, Life Insurance Policies with a declared surrender value and certain debt securities rated by recognized credit rating agency. Whereas the non financial collaterals includes Land and Building, Plant and Machinery and Stock. Under the retail portfolio the collaterals are defined as per the type of product e.g. collateral for housing loan would be residential mortgage.

The Bank has in place a policy on Credit Risk Mitigation Techniques and Collateral Management, which aims to put in place procedures and processes to enable classification and valuation of the credit risk mitigants. It also recognizes financial collaterals as specified in Basel II guidelines for availing capital relief under CRM techniques. The credit exposure to a counter party is reduced by the

value of specified financial collaterals after applying appropriate haircuts to take account of risk mitigating effect of the collateral.

The main types of eligible financial collaterals accepted by the Bank are Bank's own deposits, National Savings Certificates, Kisan Vikas Patra Corporate Guarantees and insurance policies.

Exposure covered by CRM techniques:

	<i>(Rs. crore)</i>
Exposure before use of credit risk mitigation techniques	2553.51
Exposure after use of credit risk mitigation techniques	1680.98

5. General disclosures of Market risk in trading book

a) Summary

Market Risk is the risk of loss in the value of an investment due to adverse movements in the level of the market variables such as interest rates, equity rates, exchange rates and commodity rates, as well as volatilities in them. The Bank is exposed to market risk through its trading activities, which are carried out on its own account as well as those undertaken on behalf of its customers.

The Bank has set up an Asset Liabilities Management (ALM) Policy, a Market Risk Policy and an Investment Policy to manage these risks. The Asset Liability Management Committee (ALCO) comprising top executives of the Bank meets regularly to manage balance sheet risks in a co-ordinated manner. ALCO focuses on the management of market risks viz., liquidity, interest rate and foreign exchange risks. Interest rate sensitivity analysis measures the impact of interest rate movements on Net Interest Income (NII) of the Bank.

The Market Risk Policy identifies the trading risks to be managed by the Bank. It also lays down the organizational structure, tools, systems, processes, etc., necessary for appropriate levels of risk management in the trading book. The major risk management tools employed by the Bank are Marked to Market (MTM) of trading portfolio, stress testing etc.

b) Aggregation of capital charge for market risks

	<i>(Rs. crore)</i>
Risk Category	Capital charge
a. Capital Charge on account of specific risk	479.48
i) On interest rate related	244.42
ii) On equities	235.05
iii) On derivatives	-
b. Capital charge on account of general market risk	419.28
i) On interest rate related instruments	164.44
ii) On equities	235.05
iii) On Foreign exchange	19.71
iv) On precious metals	-
v) On derivatives (FX Options)	0.07
Total Capital Charge on Trading Book (a+b)	898.76
Total Risk Weighted Assets on Trading Book	9,986.23

6. Interest Rate Risk in Banking Book (IRRBB)

Interest rate risk in the Banking book is the risk associated with change in the values of interest sensitive instruments that are not held in the Trading book. It is the potential loss in net interest income and value of assets and liabilities arising from changes in interest rate.

The Bank manages the interest rate risk in the banking book as part of the overall Asset Liability Management (ALM) Policy of the Bank. These risks are assessed through sensitivity of net interest income (earning perspective) and economic value of equity (capital value perspective) with respect to changes in interest rate through Interest Rate Sensitivity and Duration analysis. With a view to monitor and control interest rate risks, the Board of the Bank has specified tolerance limits, in terms of the potential impact on Net Interest Income and Economic Value of Equity. Interest rate risk exposures are regularly monitored by the Asset Liability Committee (ALCO) and depending upon requirements, on and off-balance sheet strategies are followed to keep the exposure within the specified limits.

Impact of parallel shift in Interest Rate by 100 basis points	
	<i>(Rs. crore)</i>
Sensitivity of Net Interest Income to Interest rate change (Earning at Risk) (Time Horizon: 1 year)	Sensitivity of Economic Value of Equity (EVE) to Interest rate change (Economic Value at Risk)
Impact on NII	Impact on EVE
60.62	1388.00

7. Securitisation exposure under Standardised Approach

The Bank takes up securitisation activity for efficient use of capital, enhancing liquidity and churning of assets as part of risk management strategy.

The Bank enters into purchase /sale of corporate loans, pool of retail loans and securitised paper. These loans/ receivable are acquired through direct assignment route as also through Securitisation route in accordance with the RBI guidelines dated February 1, 2006.

Gain on sale of securitisation paper is recognized over the remaining maturity period of the underlying securities. However, any loss arising on sale on transfer of assets is recognized upfront.

Ratings obtained from domestic accredited ratings agencies CARE, CRISIL, ICRA, and FITCH (India) are used for securitisation exposures.

The Bank acted as facilitator for 9 securitisation transactions where total exposure was Rs 304.24 crore. The Bank also has investments in Pass Through Certificates (PTCs) amounting to Rs 651.83 crore.

8. Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes legal risk but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions as well as private settlements. The Bank faces operational risk due to its exposure to potential errors, frauds, or unforeseen catastrophes resulting in unexpected losses in the course of its business activities.

The Operational Risk Management System of the Bank ensures effective management of such risks by developing an appropriate operational risk management framework, reviewing it periodically and creating awareness thereof. The Bank has an Operational Risk Group which is a cross-functional Group assigned with the overall responsibility for overseeing the implementation of the operational risk management framework.