

December 4, 2008

All Scheduled Commercial Banks
(excluding Local Area Banks and Regional Rural Banks)

Dear Sirs,

**Implementation of the New Capital Adequacy Framework (NCAF) –
Parallel run reporting format – Monitoring of Prudential Floor**

Please refer to paragraph 2.4 of our 'Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of NCAF', issued vide letter DBOD.No.BP.BC.11/21.06.001/2008-09 dated July 1, 2008, containing existing instructions regarding parallel run of the revised framework, introduced with effect from June, 2006.

2. The banks had been separately advised in May 2006 to cover certain broad elements while submitting their parallel run reports to their respective Boards, every quarter, for reviewing the results of the parallel run as also to furnish a copy of the report to the RBI. In the light of the experience gained in the parallel run of the NCAF over the last two years, and also with a view to ensuring a degree of standardisation in their reporting to the Boards and to the RBI, a reporting format (as per the Annex) has since been prepared for adoption by all the banks. The reporting in the format is expected to continue till March 2011/ March 2012, as per the date of migration to the NCAF by a bank, for monitoring compliance with Prudential Floors, envisaged in paragraph 4.1.2 of the aforesaid circular on NCAF.

3. The banks are advised to adopt the format for reporting to their Boards with effect from the quarter ending December 31, 2008. The format represents the minimum reporting requirements to the Board and banks could provide such additional information to their Boards as may be considered necessary. A copy of the quarterly report, duly approved by the Boards in the format prescribed, may also be sent to the Chief General Manager-in-Charge, Department of Banking Supervision, Central Office, Reserve Bank of India, World Trade Centre, Cuffe Parade, Coloba, Mumbai – 400 005, so as to reach RBI not later than a month from the end of the quarter to which it relates. In cases, where there the Board's approval of the report is likely to take longer time, the banks may furnish an advance copy of the report to the RBI, to be followed by the comments/remarks/guidance of the Board, if any, on the report.

Yours faithfully,

(P. Vijay Bhaskar)
Chief General Manager

**Format for the Parallel Run Report furnishing the Progress in Implementation
of New Capital Adequacy Framework for the Quarter ended**

Name of the Bank:.....

<u>Pillar I Aspects</u>

(Rs. in crore)

1.1 Capital Adequacy

1.1.1	Risk Weighted Assets	Basel-I		Basel-II	
		Book Value	Risk Weighted Value	Book Value	Risk Weighted Value
	RWA for Credit Risk				
	a) <u>On Balance Sheet Items</u>				
	i. Loan and Investment portfolio				
	• Standard				
	• NPA / NPI				
	ii. Other Assets				
	b) <u>Off Balance Sheet Items:</u>				
	i. Market Related				
	ii. Non-Market Related				
1.1.2	RWA for Market Risk				
1.1.3	RWA for Operational Risk				
1.1.4	Total Capital				
1.1.5	Tier I capital				
	Tier II capital				
	CRAR				

1.2 Rating profile of exposures

Sl. No.	Type of Exposure	Amount	Percentage of loan amount to total credit
1.2.1	Corporate Loans(Other than SME)		
	a) Rated		
	b) Unrated		
1.2.2	Corporate Loans(SME)		
	a) Rated		
	b) Unrated		
1.2.3	Securitised Exposures		N.A.
	a) Rated		
	b) Unrated		

Note: 'Rated' includes, ratings derived from Issuer rating / rating of other rated instruments of the same issuer.

1.3 Use of CRM Techniques - Extent of CRMs used

Sl. No.	Eligible Financial Collateral (FC)	Total amount of (FC) used	% to total amount	Net amount of FC after haircut	Percentage of FC to total RWA.	Capital relief availed on account of FC (9% of Net amount of FC after haircut)
1.3.1	Cash					
1.3.2	Gold					
1.3.3	Govt. Securities					
1.3.4	KVP/NSC					
1.3.5	LIC Policy					
1.3.6	Debt Securities					
	(i) Rated					
	(ii) Unrated					
1.3.7	Units of Mutual Fund					

1.4 Collateral Risk Management

	Govt. securities	Debt Securities	Gold	LIC/ NSC/ KVP	Units of MF
Frequency of Valuation of FC					

- 1.4.1 Any credit concentration recognized on account of the nature of collaterals?
- 1.4.2 Has the bank made an assessment of the market liquidity risk involved in the financial collateral? How is that taken into account in capital adequacy assessment under Pillar II?
- 1.4.3 What is the bank's assessment of operational risk especially the legal risk arising out of collaterals (such as on account of inadequate /incomplete documentation).
- 1.4.4 Does the bank hold as FC securities issued by any of its borrowing companies or their associates? If yes, the value of such FC may be indicated in the following table.

Latest Market value	Value after applicable haircut

- 1.4.5 Are any collateral securities for the bank's exposures held by the custodian? Does the bank ensure that the custodian segregates these securities from its own securities?
- 1.4.6 The amount of exposures subject to on-balance sheet netting.

1.4.7 Details of eligible non-financial collateral

	Basel-I	Basel-II
	The amount of NPA secured by physical collateral (in cases where the amount of provisions held is at least 15% of the outstanding).	The amount of <u>secured</u> portion of NPAs after taking into account only the physical collateral which is eligible as per para 5.12.4 of our circular dated April 27, 2007

<u>Pillar II Aspects</u>

2.1 Existence of ICAAP

2.1.1 Whether the bank has formulated the ICAAP with the approval of board?

2.1.2 If so, what are its main components and risks covered?

2.1.3 Whether the outcomes of the ICAAP are periodically submitted to the Board and RBI? At what periodicity the outcomes of the ICAAP are reviewed by the board and Senior Management?

2.1.4 Whether ICAAP is an integral part of the management and decision making in the bank?

2.2 Board and Senior management oversight

2.2.1 Whether the bank has a Risk Management Committee (RMC)? Is it a Board Level Committee?

2.2.2 If so, please indicate its composition and qualifications and experience of the members of the RMC.

2.2.3 Periodicity of submission of reports to the Board reviewing capital position and future capital needs of the banks.

2.2.4 Does the bank project its capital requirements in the medium term? If so, what parameters are taken into account in arriving at such projections?

2.2.5 Is the capital plan reviewed periodically? If yes, at what frequency? Please indicate the date of the last review.

2.2.6 Has the bank set up a separate Risk Management Department? If so, please indicate its broad set up.

2.2.7 Has the bank laid down a written detailed policy and procedure to ensure that the bank identifies, measures and reports all material risks to the board?

2.2.8 Does the bank have a process to relate its capital needs to risk?

2.2.9 Has the internal capital adequacy assessment process (ICAAP) is subject to an independent validation process? Is so, which agency conducts such validation – within or outside the bank? Whether validation has been brought within the scope of the Internal Audit?

2.3 Assessment of specific risks under ICAAP

2.3.1 Credit Risk

- A. Has the bank identified any additional credit risks in the bank's credit portfolio such as credit concentration risk?
- B. Does the bank think that its credit portfolio is well-diversified?
- C. Does the bank assess the level of concentration risk in its non-retail portfolio by analyzing the distribution of such exposures across different bands within the regulatory ceiling for single borrower and group of borrower exposures, e.g. upto 5% of capital funds, 5-10% of capital funds and 10-15% of capital funds and so on?
- D. The outstanding credit accounted for by the top 20 single borrower and top 20 borrower groups(separately):

Amount	% of total credit

- E. Percentage of credit portfolio covered under the bank's internal rating system?

2.3.2 Operational Risk

- A. Has the bank developed a framework for managing its operational risk exposure?
- B. Does the bank consider that the capital maintained as per BIA is adequate for the level of operational risk it has.
- C. Has the bank devised any strategy to transfer the operational risk outside the bank, such as by means of insurance?
- D. Name the five sources of operational risks considered most significant for the bank at present, given its business mix and operational strategy?

2.3.3 Market Risk

- A. Does the bank use VaR for managing any of its market risk exposures? If so, please indicate the names of such exposures?
- B. Does the bank supplement the VaR measure with stress tests wherever it is used?
- C. If so, please indicate the areas subjected to stress testing during the last quarter?
- D. Is there a system of independent validation or the stress testing exercise? If so, by whom?

2.3.4 Interest rate risk in the banking book

- A.** Does the bank assess its exposure to interest risk in the banking book?
- B.** If so, does the bank calculate likely drop in Market Value of Equity with 200 bps change in interest rates? If so, please indicate the estimated impact of such shock as at the end of the last quarter.

2.3.5 Liquidity Risk

- A.** How does the bank assess its liquidity risk exposure? Does it specifically estimate the market funding risk and market liquidity risk?
- B.** Who is the authority/entity designated to monitor and manage the liquidity risk in the bank? Please give details.
- C.** Whether the bank has a system of internal allocation of capital for liquidity risk? If so, please describe briefly.
- D.** What are the five most important measures taken by the bank to control its liquidity risk?
- E.** Total amount of bulk deposits taken from the 20 largest depositors and percentage of these deposits to total deposits

2.3.6 Non-quantifiable Risks

What is the methodology for assessing and controlling non-quantifiable risks such as reputation risk and strategic risk?

2.4 MIS and Audit

- 2.4.1** Please indicate the names and brief contents of the reports which are generated by the bank with a view to monitoring exposure to various risks and the final authority to whom the reports are put up? Please attach a separate sheet for this.
- 2.4.2** Does the external audit check/review the bank's ICAAP and other risk management reports? Are such Reports put up to the Audit Committee/RMC/Board for information?
- 2.4.3** Does the internal audit check the accuracy of MIS reports on risk management and capital adequacy submitted? Are the results of stress tests put up to the Board?
- 2.4.4** Does the bank have adequate MIS and level of computerisation and networking to support the implementation of Standardised approaches and ICAAP? If not, what are the plans and targets/deadlines set for achieving it?
- 2.4.5** Please indicate the major deficiencies identified in respect of the above.
- 2.4.6** Please indicate the steps taken to address the above deficiencies during the quarter.

2.5 Details of any additional capital requirement assessed by the bank

Sl. No.	Type of Risk	Capital add-on assessed	
		Amount	% age CRAR
2.5.1	Credit Concentration Risk		
2.5.2	Liquidity Risk		
2.5.3	Settlement Risk		
2.5.4	Reputational Risk		
2.5.5	Strategic Risk		
2.5.6	Risk for underestimation of Credit Risk		
2.5.7	Model Risk		
2.5.8	Risk on weakness in credit mitigants		
2.5.9	IRRBB		
2.5.10	Any other risks: (i) Quantifiable (ii) Non-quantifiable		
2.5.11	<i>In respect of risks already captured under Pillar-I</i>		
	(a) Credit Risk		
	(b) Market Risk		
	(c) Operational Risk		

2.6 Stress Testing

- A. Whether the bank has Board approved stress testing framework? What is the periodicity of review of stress testing framework?
- B. What are the risks covered under stress testing framework?
- C. At what periodicity, the stress tests are conducted and the results thereof are reviewed by the Board and senior management of the bank?
- D. Have there been any breaches in the stress tolerance levels in the past one year? If so, what are the remedial measures initiated by the bank?
- E. Is there any mechanism to validate the stress tests and their findings?

2.7 Skill development initiatives taken

How does the bank assess the adequacy of its human resources in terms of skills and specialisation required for smooth implementation of Basel II framework? Please indicate the HRD strategy adopted by the bank as also the major skill development initiatives taken during the quarter.

2.8 Miscellaneous

- A. What are the Board approved policy on disclosure?
- B. What are the mechanisms in place for validating the CRAR position computed as per the New Capital Adequacy framework?
- C. What are the assessments/findings /recommendations of these validation exercise?