

BANK OF AMERICA N.A. (INDIA BRANCHES)
(Incorporated in U.S.A. with Limited Liability)

Pillar III - Market Discipline for the year ended March 31, 2009

BASEL II - DISCLOSURES

**BANK OF AMERICA N.A. (INDIA BRANCHES)
(Incorporated in U.S.A. with Limited Liability)**

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Disclosure 1 – Scope of application

Qualitative disclosures

The BASEL II disclosures contained herein relate to Bank of America, NA – Indian Branches herein referred to as the 'Bank' or 'BANA' for the period ended March 31, 2009. These are complied in accordance with Reserve Bank of India (the 'RBI') regulations on Prudential guidelines on Capital Adequacy and Market Discipline - Implementation of New Capital Adequacy Framework(NCAF)' vide DBOD. No. BP.BC. 11 / 21.06.001/ 2008-09 dated July 01, 2008.

The provision of AS 21 (Consolidated Financial Statements), AS 23 (Accounting for Investments in Associates) & AS 27 (Financial Reporting of Interest in Joint Venture) issued by the Institute of Chartered Accountants of India do not apply in this case. Hence the disclosures are made only for Bank of America N.A. – India.

Quantitative disclosures

The quantitative disclosure shall not apply since there are no subsidiaries to be included in the above disclosures. Further the Bank also does not have any interests in insurance entities.

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Disclosure 2 – Capital Structure

Qualitative Disclosures

The capital funds of the Bank includes capital infused by the Head offices & subordinated debt borrowed by the Bank.

Tier 1 Capital

1. **Interest-free funds from Head Office** specifically for the purpose of meeting the capital adequacy norms.
2. **Statutory reserves** calculated at 25% of its profit of the year.
3. **Amount retained in India for the purposes of Capital to risk weighted assets ratio.**
4. **Capital reserve** not eligible for repatriation so long as the Bank functions in India.

Tier 2 - Capital

1. **Revaluation reserves** arise from revaluation of the premises owned by the Bank. As per the RBI guidelines a discount of 55 percent is considered while determining the value for inclusion in Tier 2 capital.
2. **Reserves included** under Tier 2 comprise of reserves that are not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses. Hence, the Bank has included the 'General Provisions on Standard Assets' & Provisions held for Country Exposures' and 'Investment Fluctuation Reserve' in Tier 2 capital. These reserves are considered as Tier 2 capital up to a maximum of 1.25 per cent of the total risk-weighted assets as on March 31, 2009.
3. **Subordinated debt** includes amounts borrowed from Head office swapped in rupees. These borrowings are of initial maturity of not less than 5 years and are progressively discounted as per the RBI guidelines, based on their residual maturity. The interest rates are referenced to market-determined rate. Subordinated debt are considered for inclusion in Tier 2 capital up to a limit of 50 percent of Tier 1 capital after all deductions.

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Quantitative Disclosures

a) Tier 1

Particulars	Amount in 000's	
	March 31, 2009	March 31, 2008
Amount brought in as start-up capital	2,000	2,000
Tier 1 Capital augmented by Head office	9,851,492	9,851,492
Statutory Reserves	5,271,737	4,429,259
Amount retained in India for CRAR	5,273,140	1,448,740
Capital Reserves	3,221,517	3,221,517
	23,619,886	18,953,008
<u>Less: Eligible deductions</u>		
Deferred Tax Asset	33,339	38,585
Head office Account	413,392	Nil
Suspense assets	3,950	1,882
Tier 1 Capital	450,681	40,467
	23,169,205	18,912,541

b) Tier 2

Particulars	Amount in 000's	
	March 31, 2009	March 31, 2008
Revaluation Reserves	25,515	25,515
General Loss Reserves (including Country Risk Provision)	12,500	14,500
Standard Assets Provision	728,415	167,889
Investment Fluctuation Reserves	1,818,800	1,276,800
Subordinated Debt (Refer note below)	509,200	597,300
Tier 2 Capital	3,094,430	2,082,004

c) Details of subordinated debt, forming part of the Tier 2 capital, borrowed from Head office swapped in rupees are as under: decrease

March 31, 2009

Date of Allotment	Final Maturity	Coupon	Amount in Rs. 000's	
			Amount Outstanding	Amount eligible to be reckoned as Tier 2
November 2005	October 2011	0.49% (USD)	1,273,000	509,200
Total			1,273,000	509,200

March 31, 2008

Date of Allotment	Final Maturity	Coupon	Amount in Rs. 000's	
			Amount Outstanding	Amount eligible to be reckoned as Tier 2
April 2003	July 2008	3.12% (USD)	676,940	-
November 2005	October 2011	3.12% (USD)	995,500	597,300
Total			1,672,440	597,300

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- d) The Bank has not raised any Debt Capital Instruments during the year.
- e) Total Eligible Capital is as under:

Particulars	Amount in Rs 000's	
	March 31, 2009	March 31, 2008
Tier 1	23,169,205	18,912,541
Tier 2	3,094,430	2,082,004
Total	26,263,635	20,994,545

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Disclosure 3 – Capital Adequacy

Qualitative disclosures

Internal Capital Adequacy Assessment Process

BANA – India has complied with all applicable laws and regulations of the Republic of India and other jurisdictions affecting its businesses, as well as with all guidelines on best practices issued by the Reserve Bank of India and other relevant regulatory bodies. Local Management Team is responsible for ensuring that BANA – India complies with Bank of America internal policies, procedures and corporate governance practices including those relating to Basel 2 and as such is guided by the principles and policies laid out in “Bank of America: Interim Internal Capital Adequacy Assessment Process (ICAAP) for International Entities”.

ICAAP establishes a framework for the Bank to perform a comprehensive assessment of the risks they face and to relate capital adequacy to these risks. Furthermore, the capital analysis performed by Bank is expected to encompass all risks, not only those risks captured by the Pillar 1 minimum regulatory capital calculation.

The Bank uses an Economic Capital (EC) framework to capture and quantify risks across the entire organization. Within the Bank, EC is used for (1) measuring Business Unit performance (Risk Adjusted Return on Capital (RAROC); Shareholder Value Added (SVA) analysis) and (2) internally assessing the adequacy of capital relative to the risks. It is calibrated to a 99.97% solvency level – which corresponds to rating from S&P.

This capital process described in ICAAP is based on the Economic Capital (EC) framework that is managed by the Risk Capital & Portfolio Analysis (RCPA) Group and is used for consolidated reporting within the Bank. EC as a measure of risk represents a probabilistic assessment of unexpected future losses at a selected confidence interval. RCPA, which is part of Corporate Treasury, is responsible for the Bank of America EC model and calculations.

The Bank leverages this EC allocation process to fulfill the ICAAP requirements across the international entities. It accomplishes this by breaking out the current Line-of-Business (L-O-B) allocations to derive a "legal entity" EC requirement that can then be compared to the capital resources of each entity.

Pillar 1

The Bank has adopted Standardised Approach (SA) for credit risk, Basic Indicator Approach (BIA) for operational risk and Standardised Duration Approach (SDA) for computing capital requirement for market risks.

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Under the **Standardised Approach** for credit risk, the rating assigned by the eligible external credit rating agencies largely supports the measure of credit risk. The Bank relies upon the ratings assigned by the external credit rating agencies chosen by the RBI for assigning risk weights for capital adequacy purposes as per the mapping furnished under the BASEL 2 guidelines. The risk weights applicable for Claims against bank, sovereign, corporate, retail portfolio (employee loans) are being assigned as per the terms of the BASEL 2 guidelines.

In compiling the credit exposure, the Bank has not reduced cash collateral received against credit exposures as eligible credit mitigants permitted by the Reserve Bank of India. Further, the Bank does not have any exposure in relation to the securitization transaction entered by it.

Under the **Basic Indicator Approach**, the Bank holds capital for operational risk equal to the average over the previous three years of a fixed percentage (15%) of the positive annual gross income as prescribed by the RBI guidelines for computing operational risk.

Under the **Standardised Duration Approach** for computing the capital requirement for market risk, the Bank has adopted the "duration" method for measuring interest rate risk. Accordingly, the Bank has measured the general market risk charge by calculating the price sensitivity (modified duration) of each position separately.

Quantitative disclosures

a) Capital Requirements for credit risk

The capital requirement for credit risk is as follows:

Particulars	Amount in Rs 000's	
	March 31, 2009	March 31, 2008
Funded Assets	43,869,807	35,546,428
Non Funded Assets	13,084,499	7,812,909
Foreign exchange contracts & derivatives	56,641,667	26,509,270
Total	113,595,973	69,868,607

In respect of securitization transactions, the loans securitised are derecognised as sales, since the management is satisfied that the controls over the assets have been transferred. Further, the Bank does not have any ongoing involvement on these assets and hence there is no exposure on this account.

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b) Capital requirement for market risk

Standard Duration Approach

Risk Weighted Assets on Trading Book	Amount in Rs 000's	
	March 31, 2009	March 31, 2008
a) Capital charge on account of Specific Risk	306,208	818,243
i) On interest rate related instruments	306,127	818,189
ii) On Equities	81	54
iii) On Derivatives	-	-
b) Capital Charge on account of general market risk	6,889,968	6,013,065
i) On interest rate related instruments	371,545	562,757
ii) On Equities	-	-
iii) On Foreign exchange and gold open positions	-	-
iv) On Precious metals	-	-
v) On Derivatives	6,518,423	5,450,308
c) Open foreign exchange position	360,000	360,000
Total Capital Charge on Trading Book (a + b+ c)	7,556,176	7,191,308
Total Risk Weighted Assets on Trading Book (9%)	83,957,514	79,903,419

c) Capital Requirement for operational risk

In line with RBI guidelines, the Bank has adopted the Basic Indicator approach for Operational risk. The operational risk is 15 % of average gross income of previous three years. The risk weighted assets for operational risk are calculated by dividing the operational risk capital charge by 9% (the minimum CRAR required by RBI). The capital requirement for Operational risk is Rs. 8,840,291 thousand (Previous year: Rs 6,339,300 thousand).

d) Total and Tier I & II Capital ratio

Sr. No.	Particulars	March 31, 2009	March 31, 2008
i)	CRAR	12.73%	13.45%
ii)	CRAR – Tier I Capital	10.82%	12.11%
iii)	CRAR – Tier II Capital	1.26%	1.34%

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Disclosure 4 – Credit Risk: General disclosures for all banks

Qualitative Disclosures

Credit Risk

Credit risk in respect of loans portfolio, Non-SLR investments, off balances sheet exposure (derivatives, letter of credits, guarantees etc.) is managed based on the risk profile of the borrower or counterparty, repayment sources and other support given the current events, conditions and expectations. Credit risk for a derivative contract is an estimate of the potential future changes in value and the replacement cost, which is the positive mark to market value of the contract. Credit risk limits address defeasance, counterparty risks and bank exposures.

The Bank has comprehensive policies in place for measurement, reporting, monitoring and mitigating of credit risk.

The Bank is focused on:

- Quality of assets.
- Return on those assets / risk capital required on account of these assets.
- Select target segment of corporate with strong credit profiles.

The Bank examines its portfolio and monitors these factors on an on-going basis. As a result of which the Bank continuously exit relationships on account of credit concerns or inadequate returns for the risk capital required to continue the lending relationship.

The Bank believes that this exercise has also improved the overall quality of our credit portfolio, and has made our credit portfolio more resilient to industry and economic downturns.

On-going monitoring helps the Bank control credit quality and respond quickly to deterioration in credit profile of any particular borrower in a timely fashion. Credit risk is viewed very conservatively as a matter of policy.

The Bank has a policy of internal rating on a scale of Risk Rating (RR) 1-11, and the RR is continuously monitored with a change in RR as and when it is warranted. Exposures with RR of 8 or worse are subject to intensive scrutiny by the senior management.

As part of the overall credit risk assessment of a borrower or counterparty, most of the commercial credit exposure or transactions are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are monitored on an ongoing basis. If necessary, risk ratings are adjusted to reflect changes in the financial condition, cash flow or financial situation of a borrower or counterparty. The Bank uses risk rating aggregations to measure and evaluate concentrations within portfolios.

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Tight credit risk management controls as above have ensured strong management systems as demonstrated by very low level of non-performing assets (NPA) of 0.02% (Previous year 0.02%) of total advances. Net NPA levels have been consistently lower at zero percent over the last several years. Bank's strong credit risk management systems are also a function of selective client base, stringent and regular monitoring and conservative Criticised Asset policy. As a result, Bank is able to start tracking potential problem assets in the initial stage itself and manages early exit, resulting in low or nil NPAs.

NORMS FOR DETERMINING WHEN TO CLASSIFY VARIOUS TYPES OF ASSETS AS NON-PERFORMING

- **Term Loans** are treated as a non-performing if the interest and/ or installments of principal remain overdue for a period of more than 90 days.
- **Cash credits & Overdrafts** are treated as non-performing if it remains out of order for a period of more than 90 days.

An account will be treated "out of order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In case where the outstanding balance is less than the sanctioned limit/drawing power, but there are no credits continuously for three months as on balance-sheet date or credits are not enough to cover the interest debited during the same period, these accounts will be treated as out of order.

- **Bills purchased /discounted** are treated as non-performing if the bill remains overdue and unpaid for a period of more than 90 days during the financial year.

Any **other facility** will be treated as non-performing if any amount to be received remains overdue for a period of more than 90 days during the financial year.

Quantitative Disclosures

a) Total Gross credit exposures

Particulars	Amount in Rs 000's	
	March 31, 2009	March 31, 2008
Funded	62,092,407	53,734,700
Market & Non-market related exposure	195,476,278	107,673,005

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b) Geographic Distribution *

Particulars	Amount in Rs 000's			
	March 31, 2009		March 31, 2008	
	Funded	Market & Non-market related exposure	Funded	Market & Non-market related exposure
Domestic	62,092,407	195,476,298	53,734,700	107,673,005
Overseas	Nil	Nil	Nil	Nil

*The Bank operates as a single unit in India and as such has no identifiable geographical segments subject to dissimilar risks and returns. Hence, all the exposures have been disclosed under Domestic segment.

c) Industry wise distribution of Advances and Non-market related exposures

Sector	Rs. in Crores			
	March 31, 2009		March 31, 2008	
	Funded	Non-market related	Funded	Non-market related
All Engineering	487	85	485	117
Automobiles including trucks	-	-	158	122
Banks	-	876	-	250
Basic Metal & Metal Products	80	2	-	-
Chemicals & Chemical Products	224	243	354	18
Construction	13	-	-	-
Employee Loans	5	-	-	-
Food Processing	180	26	330	9
Infrastructure	503	55	54	41
Iron and Steel	-	-	39	-
Non Banking Financial Companies	590	49	506	117
Paper & Paper Products	105	2	88	2
Petroleum, Coal Products & Nuclear Fuel	-	-	159	-
Rubber, Plastic & Their Products	90	-	40	7
Residuary Other Advances	-	-	338	43
Services	468	199	-	-
Textiles	62	1	83	5
Vehicles, Vehicle parts & Transport Equipments	292	45	-	-
Other Industries	333	321	819	494
Total	3,432	1,904	3,453	1,225

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d) Residual maturity breakdown of assets

As on March 31, 2009

Rs. in Crores

Particulars	Next day	2 to 7 days	8 to 14 days	15 to 28 days	29 days and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year	Over 1 year and upto 3 years	Over 3 years and upto 5 years	Over 5 years	Total
Advances	73	373	311	840	992	531	137	99	Nil	Nil	3,356
Investment in Securities	769	1,427	Nil	85	39	1	3	1,321	24	1	3,670
Deposits	747	273	135	280	147	17	23	2,541	1	3	4,167
Borrowings	11	1,424	127	79	172	348	Nil	Nil	Nil	Nil	2,161
Foreign Currency Assets	1,110	15	5	81	2,397	341	Nil	Nil	Nil	Nil	3,949
Foreign Currency Liabilities	250	15	9	80	2,399	348	Nil	978	Nil	Nil	4,079

As on March 31, 2008

Rs. in Crores

Particulars	1 to 14 days	15 to 28 days	29 days and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year	Over 1 year and upto 3 years	Over 3 years and upto 5 years	Over 5 Years	Total
Advances	759	618	728	858	187	302	Nil	Nil	3,452
Investment in Securities	1,856	Nil	54	53	51	719	Nil	72	2,877
Deposits	995	2,84	488	106	27	2,287	Nil	3	4,190
Borrowings	232	116	107	534	Nil	Nil	Nil	Nil	989
Foreign Currency Assets	913	98	169	565	Nil	Nil	Nil	Nil	1,745
Foreign Currency Liabilities	146	117	200	604	Nil	747	99	Nil	1,913

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e) Amount of NPAs (Gross) – Rs. 6,978 thousand (*Previous year: Rs 6,978 thousand*) is classified as 'loss asset'

f) Net NPAs – Nil

g) NPA ratios

- Gross NPA ratio: 0.02% (*Previous year 0.02%*)
- Net NPA ratio: Nil (*Previous year : Nil*)

h) Movement in NPAs

Amount in Rs 000's			
Sr. No.	Items	As on March 31, 2009	As on March 31, 2008
(i)	Net NPAs to Net Advances (%)	Nil	Nil
(ii)	Movement of NPAs (Gross)		
(a)	Opening balance	6,978	6,978
(b)	Additions during the year	Nil	Nil
(c)	Recoveries/ write offs	Nil	Nil
(d)	Closing balance	6,978	6,978
(iii)	Movement of Net NPAs		
(a)	Opening balance	Nil	Nil
(b)	Additions during the year	Nil	Nil
(c)	Recoveries/ write offs	Nil	Nil
(d)	Closing balance	Nil	Nil
(iv)	Movement of provisions for NPAs (excluding provisions on standard assets)		
(a)	Opening balance	6,978	6,978
(b)	Provisions made during the year	Nil	Nil
(c)	Recoveries/ write offs	Nil	Nil
(d)	Closing balance	6,978	6,978

i) Non-performing Investments : Nil (*Previous year : Nil*)

j) Provision for NPIs : Nil (*Previous year : Nil*)

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k) Movement of provisions held towards depreciation on investments.

Particulars	Amount in Rs 000's	
	Year ended March 31, 2009	Year ended March 31, 2008
(i) Opening balance	166,819	340,327
(ii) Add: Provisions made during the year	Nil	Nil
(iii) Less: Write-off/ write-back of excess provisions during the year		
- on transfer to securities from the AFS portfolio to HTM	38,287	16,850
- on securities position	93,693	156,658
(iv) Closing balance	34,839	166,819

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Disclosure 5 – Credit Risk: disclosures for portfolios subject to the standardized approach

Qualitative disclosures

The Bank has adopted the following basis:

- All exposures to scheduled banks have been reckoned at 20%.
- Ratings for foreign banks have been sourced from Standard & Poor's.
- Where the obligors have obtained rating of the facility from any of the accredited credit rating agencies approved by the Reserve Bank of India, the Bank has applied the risk weights relevant to the ratings so assigned. Further where the long-term rating is worse off than the short term rating and vice-versa, the Bank has applied the most conservative risk weight across the portfolio.
- Where the obligors have not yet obtained such a rating, the exposure in has been taken as unrated and appropriate risk weights applied.

Quantitative disclosures

March 31, 2009

Funded Exposure (Banking book)	Amount in Rs 000's				
	Rated	Unrated	Sovereign	Scheduled	Total
Below 100% risk weight	20,823,078	-	4,962,533	566,142	26,351,753
100% risk weight	-	35,740,654	-	-	35,740,654
More than 100% risk weight	-	-	-	-	-
Deducted					
Total	20,823,078	35,740,654	4,962,533	566,142	62,092,407

Market & Non-market related Exposure	Amount in Rs 000's				
	Rated	Unrated	Sovereign	Scheduled	Total
Below 100% risk weight	29,101,390	-	6,021,393	131,282,914	166,405,697
100% risk weight	24,830	29,045,751	-	-	29,070,581
More than 100% risk weight	-	-	-	-	-
Deducted					
Total	29,126,220	29,045,751	6,021,393	131,282,914	195,476,278

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March 31, 2008

Amount in Rs 000's

Funded Exposure (Banking book)	Rated	Unrated	Sovereign	Scheduled	Total
Below 100% risk weight	10,218,724	215,048	9,900,648	48,942	20,383,362
100% risk weight	-	33,351,338	-	-	33,351,338
More than 100% risk weight	-	-	-	-	-
Deducted	-	-	-	-	-
Total	10,218,724	33,566,386	9,900,648	48,942	53,734,700

Amount in Rs 000's

Market & Non-market related Exposure	Rated	Unrated	Sovereign	Scheduled	Total
Below 100% risk weight	15,750,043	42,849	1,951,786	73,542,605	91,287,283
100% risk weight	62,626	16,148,096	-	-	16,210,722
More than 100% risk weight	-	175,000	-	-	175,000
Deducted	-	-	-	-	-
Total	15,812,669	16,365,945	1,951,786	73,542,605	107,673,005

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Disclosure 6 - Credit risk mitigation: disclosures for standardised approaches

Qualitative Disclosures

In determining credit risk capital the Bank has reduced the facility amounts by the corresponding eligible collateral amount in the form of cash margins. The Bank assesses the credit facility based on the future projection of the cash flows, financial soundness, and liquidity profile and repayment capacity, of the potential/ existing clients. Since the Bank lays more emphasis on Cash flow of the client and not on the units, stocks or assets mortgaged/pledged by the client, a conservative view by not reducing the collateral of stocks and resulting in effective utilization of the capital is considered.

Further credit portfolio also includes responsibility credit (R-credits) which are used to offer credit facilities to subsidiaries and affiliates of existing credit takers that are located in areas served by credit jurisdictions other than one serving the parent entity and are unable to access credit facilities without parent support. Here the facility is provided to the Indian borrower on the support of the parent credit taker. These are secured either from corporate guarantees from the parent companies or standby letter of credit from the concerned branches. Here too the Bank takes a cautious view and has not reduced the responsibility credit so provided from the exposures.

Hence, the risk weighted asset is computed based on the gross outstanding facility amount.

Quantitative Disclosures – Nil

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Disclosure 7 - Securitisation: disclosure for standardised approach

Qualitative Disclosures

Securitisation risk includes the risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.

Loans are sold off to an independent Special Purpose Vehicle (SPV) which was created as a specific trust by an independent third party acting as the Trustee. The SPV issues rated Pass through Certificates to third party investors. The revenue to BANA – India is in the form of upfront fees on the transaction; interest for the hold period together with the difference between the sale proceeds and the book value of the loans appearing in the books of the Bank. The expenses relating to securitization namely rating fees, Trusteeship fees and legal expenses are recognised under appropriate heads in financial statements.

Further, the Bank has obtained a 'True sale' certification from the lawyers. For the purpose of the above transaction:

- (a) There is no credit enhancement given in any form. No guarantee; cash collaterals or top-ups.
- (b) No subscription to any of the PTCs by the Bank.
- (c) No involvement of the Bank as servicing agent

Hence the Bank engages in securitisation activity only to the extent of sell off without any recourse.

Quantitative Disclosures

- a) Total outstanding exposures securitised by the Bank as March 31, 2009 is Nil.
- b) For exposure securitised by the Bank.
 - Amount of impaired/past due assets securitised: Nil
 - Profit recognised by the Bank during the current period: Rs. 7,318 thousand
- c) Aggregate amount of securitisation exposures retained/purchased: Nil

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d) Summary of securitisation activity presenting a comparative position for two years:

Rs. in 000's

Particulars	For the period ended March 31, 2009	For the year ended March 31, 2008
1. Total number of loans securitized	3	4
2. Book value of loans securitized	7,620,000	9,200,000
3. Sale Consideration (net of interest accrued)	7,627,318	9,196,143
4. Gain/(loss) on securitization recognised on the P& L account	7,318	(3,857)
5. Form of credit enhancement	N.A	N.A
6. Quantum of credit enhancement	Nil	Nil

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Disclosure 8 - Market risk in trading book

Qualitative disclosures

Market Risk

Market Risk is the risk of loss due to changes in the market values of the Bank's assets and liabilities caused by changing interest rates, currency exchange rates, and security prices.

The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The capital charge is the sum of four components:

- the net short / long position in the whole trading book;
- a small proportion of the matched positions in each time-band - vertical disallowance;
- a larger proportion of the matched positions across different time bands - horizontal disallowance, and
- a net charge for positions in options.

The capital charge for interest rate related instruments and equities would apply to current market value of these items in Banks trading book. Since the Bank is required to maintain capital for market risks on an ongoing basis, the trading positions are marked to market on a daily basis. The current market value is determined as per extant RBI guidelines on valuation of investments reference DBOD No. BP. BC. 5 / 21.04.141 / 2008-09 date July 1, 2008.

The minimum capital requirement is expressed in terms of two separately calculated charges:

- Specific risk charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.
- General market risk charge towards interest rate risk in the portfolio in different securities or instruments.

The capital charge for equity risk is maintained as per RBI requirements.

Capital charge for market risks in foreign exchange is 9% on the open position limit of the Bank. This capital charge is in addition to the capital charge for credit risk on the on-balance sheet and off-balance sheet items pertaining to foreign exchange.

The options risk based on the risk reports generated from the banking systems. The option risk is the sum of capital charges arising from delta risk, gamma and Vega risk.

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The Bank has comprehensive policies in place for measurement, reporting, monitoring and mitigating of credit, market and operational risk. Capital Markets Risk Management (CMRM) Group of the Bank based at Hong Kong at regional level has an oversight into the market risk of Indian operations. The Bank had put in place various limits including DEaR, stop-loss limit, daylight limits, Stress Limit etc. to manage market risk. The Bank uses Value-at-Risk (VAR) modeling and stress testing to measure and manage market risk. Trading limits and VAR are used to manage day-to-day risks and are subject to testing where expected performance is compared to actual performance. All limit excesses are communicated to senior management for review.

The Bank has constituted an Asset Liability Committee (ALCO) which plays an important part in assessing and mitigating all aspects of the risks, which the Bank is exposed to. Chief Executive Officer, Country Treasurer and Country Finance Officer are the members of the ALCO, with heads of Corporate Banking and Relationship Management, Corporate Debt Product Group, Global Product Solutions, Technology and the Balance Sheet Manager being permanent invitees to the Committee. The ALCO reviews market updates, asset and liability trends, liquidity trends, contingency plans, funds transfer pricing, etc. ALCO also reviews the structural liquidity statements, Interest Rate Sensitivity and Dynamic Liquidity Statements apart from the review of Contingency Liquidity Planning and behavioral study. They also review compliance with the regulatory compliance as well as conformity to the market risk limits.

Quantitative disclosures

	Rs. in 000's	
Risk Weighted Assets on Trading Book	March 31, 2009	March 31, 2008
a) Capital charge on account of Specific Risk	306,208	818,243
i) On interest rate related instruments	306,127	818,189
ii) On Equities	81	54
iii) On Derivatives	-	-
b) Capital Charge on account of general market risk	6,889,968	6,013,065
i) On interest rate related instruments	371,545	562,757
ii) On Equities	-	-
iii) On Foreign exchange and gold open positions	-	-
iv) On Precious metals	-	-
v) On Derivatives	6,518,423	5,450,308
c) Open foreign exchange position	360,000	360,000
Total Capital Charge on Trading Book (a + b+ c)	7,556,176	7,191,308
Total Risk Weighted Assets on Trading Book (9%)	83,957,514	79,903,419

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Disclosure 9 - Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

There is satisfactory organizational set up for the management of Operational risk. The lines of business are responsible for all the risks within the business including operational risks. Such risks are managed through corporate-wide and line of business specific policies and procedures, controls, and monitoring tools. Examples of these include data reconciliation processes, transaction processing monitoring and analysis and business recovery planning.

The Risk Management operating model is based on a holistic, disciplined and defensive approach to managing risk. Clearly defined roles and responsibilities are in place for considering, quantifying, managing and mitigating risk across the enterprise. The cornerstone of risk governance is individual decision making and accountability and these concepts are reflected in the following three lines of defense that have been defined to actively manage risk (a) First Line of Defense – Business Units: Business units are responsible for identifying new and existing risks, quantifying the risks and taking actions to mitigate and manage all risks (b) Second Line of Defense – Risk Management and other support units: Risk Management helps direct the day-to-day management of risk (by providing analysis, tools, and training), and protects the Corporation. The level of participation of Risk Management in the business transaction depends on the complexity of the product and the market environment (c) Third Line of Defense – Audit- first internal then external audit. They act as independent eyes on how business is conducted.

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Disclosure 10 – Interest rate risk in the banking book (IRRBB)

Qualitative Disclosure

Interest rate risk represents the most significant market risk exposure to the Bank's non-trading (core) exposures. It represents the Bank's exposure to adverse movements in interest rates. The overall goal is to manage interest rate risk so that movements in interest rates do not adversely affect core net interest income – managed basis.

Interest rate risk is measured as the potential volatility in the Bank's core net interest income – managed basis caused by changes in market interest rates. Client facing activities, primarily lending and deposit-taking, create interest rate sensitive positions on the balance sheet.

The BANA- India branches are currently funded through BAC International Treasury operations and through local Treasury operations. For the portion of funding that is match funded by International Treasury, any interest rate risk is managed and held by International Treasury. For the portion of funding that is provided locally, interest rate risk is captured by the Balance Sheet Management division of Corporate Treasury.

International Treasury Funding

BAC branches and subsidiaries that are match funded by International Treasury, the interest rate risk is effectively borne by International Treasury and not the local entity. Any interest rate risk in these positions is measured through the corporation's Market Risk limits process (VaR), and subsequently captured and quantified in the Trading risk capital allocation. Where the International Treasury operations reside in a different entity, the hedge or offsetting transaction would typically be booked as an inter-company transaction between International Treasury and the entity funded. Where the International Treasury operations reside within the same entity (e.g., BANA-India), or where the local Treasury Group has responsibility for the day-to day funding management, the banking book exposure would be hedged by actions taken in the trading book of the entity. In the case where some portion of the interest rate risk is not completely offset (or eliminated), as when the funding may not have been matched completely, the entity will receive a small interest rate risk allocation, which will appear in the trading risk capital allocation.

Local Funding

Core (non-trading) interest rate risk for BAC is managed centrally through ALM activities under the oversight of the Asset Liability Committee (ALCO). The Balance Sheet Management division within Corporate Treasury conducts independent measurement of interest rate risk and provides reports for management and for ALCO. The EC for interest rate risk is quantified and allocated to the different businesses according to plan numbers and any variance between Plan and actual is kept by Corporate Treasury.

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5. Advances (Performing)									
(i) Bills Purchased and Discounted (including bills under DUPN)	104	79	52	-	-	-	-	-	235
(ii) Overdrafts, Cash credit & Repayable on demand	1,387	618	145	-	-	-	-	-	2,149
(iii) Term Loan	-	120	223	-	20	-	5	-	368
6. NPAs (Advances and Investments)	-	-	-	-	-	0	-	-	0
7. Fixed Assets	-	-	-	-	-	-	-	25	25
8. Other Assets	-	-	-	-	-	-	-	-	-
(i) Inter-office Adjustment	-	-	-	-	-	-	-	41	41
(ii) Others	-	-	-	-	-	-	-	772	772
9. Reverse Repos	-	-	-	-	-	-	-	-	-
10. Swaps (Sell / Buy) / maturing forwards	4,251	22,394	21,488	17,078	1,681	349	-	-	67,241
11. Bills Rediscounted (DUPN)	-	-	-	-	-	-	-	-	-
12. Interest receivable	-	-	-	-	-	-	-	58	58
13. Committed Lines of Credit	-	-	-	-	-	-	-	-	-
14. Others (specify)	-	-	-	-	-	-	-	3	3
B. TOTAL INFLOWS	8,243	23,604	22,187	17,390	2,040	349	5	1,236	75,054
C. MISMATCH (B-A)	929	3,390	808	752	606	98	2	(3,431)	3,153
D. INTEREST RATE SWAPS	1006	736	(927)	(1517)	651	293	(241)	-	
E. Net GAP (C-D)	(77)	2654	1735	2269	(45)	(195)	243	(3431)	3153