BASEL III – PILLAR 3 DISCLOSURES FOR THE PERIOD ENDED 31.12.2019

RBI issued Basel III guidelines, applicable w.e.f. 01.04.2013. These guidelines initially provided a transition schedule for Basel III implementation till 31.03.2019. RBI has extended the transition period for implementing the last tranche of 0.625% under the Capital Conservation Buffer (CCB), by one year, i.e., up to March 31, 2020. Upon full implementation i.e. as on March 31 2020, Basel III guidelines target minimum capital to risk-weighted assets ratio (CRAR) would be 11.50%, minimum Common Equity Tier -1 ratio would be 8.00% and minimum Tier 1 ratio would be 9.50%. Minimum capital required to be held by Bank for the half year ended 30th September 2019 is 10.875% with minimum CET 1 (incl. CCB) of 7.375%.

Basel III framework consists of three mutually reinforcing pillars:
(i) Pillar 1: Minimum Capital Requirement (Credit Risk, Market Risk and Operational Risk)
(ii) Pillar 2: Supervisory Review and Evaluation Process
(iii) Pillar 3: Market Discipline

Market Discipline (Pillar 3) consists of set of disclosures on capital adequacy and risk management framework of Bank. These disclosures have been set out as under:

TABLE DF – 2: CAPITAL ADEQUACY

<u>Qualitative Disclosures</u>

a. Capital Management

Bank has a process for assessing its overall capital adequacy in relation to Bank's risk profile and a strategy for maintaining its capital levels. Process provides an assurance that Bank has adequate capital to support all risks inherent to its business. Bank actively manages its capital to meet regulatory norms by considering available options of raising capital.

Organisational Set-up:

Capital Management is administered by Financial Management and Accounts Department in co-ordination with Integrated Risk Management Department under the supervision of Board of Directors. Bank has also formed Capital Planning Committee to provide guidance and assess the capital position on quarterly basis.

Internal Assessment of Capital:

Bank's Capital Management framework includes a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) conducted annually which determines adequate level of capitalisation for Bank to meet regulatory norms and current and future business need, including under stressed scenarios. ICAAP encompasses capital planning for two years time horizon, after identification and evaluation of significance of all risks that Bank faces, which may have an adverse material impact on its financial position. Bank considers following Pillar II risks it is exposed to in the normal course of its business and considers them for capital planning:

- Liquidity Risk
- Risk of under-estimation of credit risk under standardized Approach
- Credit Concentration Risk
- Reputational Risk
- Strategic Risk
- IT Risk
- Pension Obligation
- Compliance Risk
- Model Risk
- IRRBB
- Risk of decline in collateral values of Credit Risk Mitigants
- Settlement Risk
- Currency Induced credit Risk
- Legal Risk
- Group Risk
- Country Risk
- Securitization Risk
- Capital Risk

Bank has implemented the scorecard for IT Risk, Reputational Risk and Strategic Risk. Bank periodically assesses and refines its stress tests in an effort to ensure that stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. Stress tests are used in conjunction with Bank's business plans for the purpose of capital planning.

Monitoring and Reporting:

The Board of Directors of the Bank monitors capital adequacy levels of Bank. An analysis of the capital adequacy position and risk weighted assets and an assessment of various aspects of Basel III on capital and risk management are undertaken by Board on a quarterly basis

Quantitative Disclosures

b. Capital Requirement

Bank's capital requirements have been computed using Standardized Approach for Credit Risk, Standardized Duration Method for Market Risk and Basic Indicator Approach for Operational Risk. Minimum capital required to be held by Bank for the year ended 31st December 2019 is 10.875% with minimum CET 1 (incl. CCB) of 7.375% for credit, market and operational risks is given below:

(Amount in Rs million)

Sr. No.	Particulars	Amount	Amount
(A)	**Capital Required for Credit Risk**		
(i)	Portfolios subject to Standardized Approach	75143.15	
(ii)	For Securitization Exposure	0.00	
	Total capital charge for credit risks under standardized approach (i+ii)		**75143.15**
(B)	**Market Risk**		
(i)	Interest Rate Risk	5567.08	
(ii)	Foreign Exchange Risk (including Gold)	45.00	
(iii)	Equity Risk	816.12	
	Total capital charge for market risks under standardized duration approach (i+ii+iii)		**6428.20**

Sr. No.	Particulars	Amount	Amount
(C)	**Capital Charge for Operational Risk**		
	As per Basic Indicator Approach (BIA)		***7349.86**
	Under The Standardized Approach (Parallel run)		***6985.10**
(D)	**Capital Ratios**		**Standalone (In %)**
	Common Equity Tier 1 Capital Ratio (Incl CCB)		**9.442%**
	Tier 1 Capital Ratio (Incl CCB)		**9.442%**
	Total Capital Ratio(CRAR) – Including CCB		**11.210%**

(*For market and operational risks capital charge is converted in RWA @ 12.50 to arrive at CRAR as per RBI guidelines.)

TABLE DF-3: CREDIT RISK - GENERAL DISCLOSURES

<u>Qualitative Disclosures</u>

Credit Risk is defined as possibility of losses associated with diminution in credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

Organizational Structure for Credit Risk Management

Bank has comprehensive credit risk management architecture. Board of Directors of Bank endorses its Credit Risk strategy and approves credit risk policies. The Board has formed committees to oversee risk management processes, procedures and systems. Risk Management Committee (RMC) is responsible for devising policy and strategy for credit risk management. For this purpose, committee co-ordinates with Credit Risk Management Committee (CRMC) of Bank. CRMC is responsible for overseeing implementation of credit risk management framework across Bank and providing recommendations to RMC.

Policy & Strategy

Bank has been following a conservative risk philosophy. The important aspects of risk philosophy are embodied in various policies, circulars, guidelines etc. The business objectives and strategy of Bank are decided taking into account profit considerations, level of various risks faced, level of capital, market scenario and competition. Bank is conscious of its asset quality and earnings and judiciously matches profit maximization with risk control.

Bank has put in place following policies approved by Board.

i) Lending & Loan Review Policy
ii) Credit Risk Management Policy
iii) Credit Risk Mitigation Techniques & Collateral Management

iv) Investment Management Policy
v) Policy for Exposure to Real Estate
vi) Policy for Issuance of Bank Guarantees
vii) Policy for Financing of NBFC

Lending & Loan Review Policy, Credit Risk Management Policy documents define organizational structure, role and responsibilities and, processes and tools whereby credit risks carried by Bank can be identified, quantified and managed within framework that Bank considers consistent with its mandate and risk appetite. The policies prescribe various prudential and exposure limits, collateral standards, financial benchmarks for the purpose of credit risk management. The policy on Credit Risk Mitigation Techniques & Collateral Management lays down details of eligible collaterals for credit risk mitigation under Basel III framework. The Investment Management Policy, Policy on Exposure to Real Estate, Policy for issuance of Bank Guarantee and Policy for Financing of NBFCs forms an integral part of credit risk management.

Systems / Process / tools for Credit Risk Management

Credit Appraisal standards: Bank has in place proactive credit risk management practices like consistent standard for credit origination, maintenance and documentation for all credit exposures including off balance sheet items. Systems of periodic reviews, periodic inspections and collateral management systems are in place.

Exposure Limits: Credit risk limits including single / group borrower limits, substantial exposure limits, exposure limits in respect of sectors / industries are in place. The exposure vis-à-vis the limits are monitored on a quarterly basis.

Credit Approval Committees: Credit Approval committees have been constituted at various levels covering very large branches / Zonal offices / Head Office for considering fresh / existing proposals with or without enhancement. Bank has also setup centralized processing cells at zonal level for considering credit proposals above specified limit.

Sanctioning Powers: Bank follows a well-defined multi-layered discretionary power structure for sanctioning of loans. Higher sanctioning powers are delegated to sanctioning authorities for sanctioning loans and advances to better rated customers in line with RBI guidelines. In respect of high value loans, committee approach is adopted.

Credit Risk Rating and Appraisal Process: Bank manages its credit risk through continuous measuring and monitoring of risks at each obligor (borrower) and portfolio level. Bank has in place an internal Credit Risk Rating Framework (CRRF) and well established standardized credit appraisal / approval processes. Credit risk rating enables Bank to accurately assess risk in a credit proposition and take a decision to accept or reject proposal based on risk appetite of Bank. It also enables risk pricing of credit facilities for risk return trade off.

As a measure of robust credit risk management practices, Bank has in place a framework for approval of credit risk ratings. Rating for every borrower is reviewed at least once in a year. Credit risk rating, as a concept, has been well internalized in Bank.

Loan review Mechanism: Objectives of Loan Review Mechanism are:

i) To ensure that credit decisions by various authorities are in conformity with Bank's Lending Policy and delegated lending powers.
ii) To ensure that stipulated terms & conditions of sanction are complied with and various post sanction follow up, monitoring and supervision measures prescribed by Bank are adhered to.
iii) To ensure that all credit facilities are reviewed / renewed well in time so as to revise risk perception and take necessary corrective action if necessary, immediately.
iv) To aim at achieving maintenance of standard assets quality and up gradation in non-performing assets (NPAs) so as to have a favourable impact on profitability of Bank through prevention / reduction / up gradation of NPAs.
v) To assess health of credit portfolio of Bank and to apprise Top Management about the same from time to time.

Checks and balances viz. separation of credit risk management from credit sanctions, system of assigning credit risk rating, validation of ratings, mechanism to price credit facilities depending on risk rating of customer, credit audit etc. are in place. Minimum entry level rating benchmarks are stipulated. A suitable mechanism is in place to monitor aggregate exposure on other banks and country exposures. A diversified credit portfolio is maintained and a system to conduct regular analysis of portfolio so as to ensure ongoing control of credit is in place.

Loans past due and Impaired:

Regulatory guidelines are adhered to in respect of income recognition, asset classification and provisioning. Bank considers following categories of loans and advances as Non-performing Assets, wherein:

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan

- Account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC) for 90 days or more

- Bill remains overdue for a period of more than 90 days in case of Bills Purchased and Discounted

- In case of agricultural advances, interest and/or installment of principal remains overdue for 2 crop seasons (in respect of short duration crops) & 1 crop season (in respect of long duration crops).

- Any amount receivable that remains overdue for a period of more than 90 days in respect of other accounts.

'Out of Order' status: An account is treated as **'out of order'** if the outstanding balance remains continuously in excess of sanctioned limit/drawing power. In cases where outstanding balance in the principal operating account is less than sanctioned limit/drawing power, but there are no credits continuously for 90 days as on date of Balance Sheet or credits are not enough to cover interest debited during same period, these accounts are also treated as **’out of order’**.

Overdue: Any amount due to Bank under any credit facility is ‘overdue’ if it is not paid on due date fixed by Bank.

Advances against term deposits, National Savings Certificates, Indira Vikas Patra, Kisan Vikas Patra and Life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts. Credit facilities backed by Central Government Guarantees though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and /or principal or any other amount due to the Bank remains overdue for more than 90 days.

Quantitative Disclosures

1. Total Gross Credit exposure:

(Amount in Rs million)

Category	31.12.2019
Fund Based	1127842.50
Non-Fund Based	138255.10

2. Geographic Distribution of credit exposure :

(Amount in Rs million)

Category	31.12.2019	
	Overseas	Domestic
Fund Based	NIL	1127842.50
Non-Fund Based	NIL	138255.10

3. Industry-wise Distribution:

(Amount in Rs million)

Sr. No.	Industry	Funded Exposure		Non-Fund Exposure	
3.1	**Mining and Quarrying (incl. Coal)**		**9128.40**		**215.60**
3.2	**Food Processing**		**3925.20**		**85.90**
3.2.1	Sugar	1649.30		44.70	
3.2.2	Edible Oil and Vanaspati	84.90		0.90	
3.2.3	Tea	361.00		0.20	
3.2.4	Others	1830.00		40.10	
3.3	**Beverage and Tobacco**		**211.10**		**6.10**
3.4	**Textiles**		**17360.00**		**2475.90**
3.4.1	Cotton Textiles	4659.80		716.90	
3.4.2	Jute Textiles	79.40		0.40	
3.4.3	Man-Made Textiles	18.60		0.80	
3.4.4	Other Textiles	12602.20		1757.80	

Sr. No.	Industry	Funded Exposure		Non-Fund Exposure	
3.5	**Leather and Leather Products**		**1006.10**		**58.40**
3.6	**Wood and Wood Products**		**1473.90**		**138.70**
3.7	**Paper and Paper Products**		**4140.70**		**294.50**
3.8	**Petroleum, Coal Products and Nuclear Fuels of which:**		**6958.70**		**56.00**
3.8.1	Petroleum	4625.10		17.90	
3.9	**Chemicals and Chemical Products**		**16384.80**		**1215.00**
3.9.1	Fertiliser	2384.20		48.60	
3.9.2	Drugs & Pharmaceuticals	9623.20		561.60	
3.9.3	Petro Chemicals	3372.50		573.00	
3.9.4	Others	1004.90		31.80	
3.10	**Rubber, Plastic & their Products**		**6735.40**		**605.30**
3.11	**Glass & Glassware**		**1183.00**		**1589.40**
3.12	**Cement & Cement Products**		**6588.40**		**358.00**
3.13	**Basic Metal & Metal Product**		**37139.20**		**3363.60**
3.13.1	Iron & Steel	16843.10		588.10	
3.13.2	Other Metal & Metal Product	20296.10		2775.50	
3.14	**All Engineering**		**30760.00**		**16673.80**
3.14.1	Electronics	7302.50		692.40	
3.14.2	Others	23457.50		15981.40	
3.15	**Vehicles, Vehicle Parts & Transport Equipment**		**14373.10**		**1823.60**
3.16	**Gems & Jewellery**		**3517.00**		**469.30**
3.17	**Construction (other than Infrastructure)**		**18.70**		**1.00**
3.18	**Infrastructure**		**87478.60**		**24759.00**
3.18.1	Power	42433.20		5564.90	
3.18.2	Telecommunication	35.30		16.20	
3.18.3	Roads	30086.80		10126.10	
3.18.4	Airports	0.00		0.00	
3.18.5	Ports	4769.00		0.70	
3.18.6	Railways (other than Indian Railways)	39.40		30.90	
3.18.7	Other Infrastructure	10114.90		9020.20	
3.19	**Other Industries**		**7171.30**		**2061.90**

Sr. No.	Industry	Funded Exposure		Non-Fund Exposure	
3.20	**Residuary Other Advances**		**872288.90**		**82004.10**
	Total		**1127842.50**		**138255.10**

Industry having more than 5% of gross credit exposure

Industry	% of Exposure
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4. Residual Maturity break down of Assets:

(Amount in Rs million)

Maturity Pattern	Investments	Advances	Foreign Currency Assets
1 day	40.00	8197.40	346.12
2 to 7 days	3616.70	20405.00	10207.05
8 to 14 days	2150.70	15400.80	1219.75
15 to 30 days	1015.30	26620.00	2978.38
31 days to 2 months	5782.30	48338.30	31903.64
Over 2 months to 3 months	3815.40	52568.60	7532.84
Over 3 months and up to 6 months	42497.80	121692.70	24715.60
Over 6 months and up to 1 year	51111.70	91689.50	34440.96
Over 1 year and upto 3 years	46065.10	203725.20	0.00
Over 3 years and upto 5 years	62476.20	149665.30	0.00
Over 5 years	386634.49	200513.05	0.00
Total	605205.69	**938815.85**	**113344.34**

5. Disclosures for NPAs & NPIs :

Domestic: (Amount in Rs million)

		31.12.2019
(A)	**Gross NPA**	
	Sub-standard	40626.50
	Doubtful 1	29938.72
	Doubtful 2	41905.71
	Doubtful 3	23394.32
	Loss	21590.13
	Total	**157455.38**
(B)	**Net NPA**	**45068.50**
(C)	**NPA Ratios**	
	% of Gross NPAs to Gross Advances	16.77%
	% of Net NPAs to Net Advances	5.46%

(D)	**Movement of Gross NPA**	
I	Opening Balance	153244.89
II	Add:-Addition during the period	33448.95
III	Less:- Reduction during the period	29238.46
	Closing balance as at the end of period (i +ii-iii)	**157455.38**
(E)	**Movement of provision**	
E1	**Specific Provision**	
i.	Opening Balance	105627.38
ii.	Provisions made during the period	22355.22
iii.	Write-off made during the period	17364.23
iv.	Write-back of excess provisions	0.00
v.	Any other adjustments including transfer between provisions	0.00
vi.	Closing Balance (i+ii-iii-iv(+/-v)	**110618.44**
E2	**General Provisions**	
i.	Opening Balance	1589.93
ii.	Provisions made during the period	0.00
iii.	Write-off made during the period	0.08
iv.	Write-back of excess provisions	0.00
v.	Any other adjustments including transfer between provisions	0.00
vi.	Closing Balance (i+ii-iii-iv(+/-v)	1589.85
(F)	**Write off during the period**	**17364.23**
(G)	**Recovery in the written off accounts during the period**	**2925.35**
(H)	**Non Performing Investments (NPI)**	**3682.50**
(I)	**Provisions for NPI**	**1435.65**
(J)	**Movement of provision for depreciation on investments (including provision of Non Performing Investments, MTM depreciation and Restructured Investments)**	
I	Opening balance	4666.33
II	Provisions made during the period	378.03
III	Reduction during the period	0.00
IV	Write-off made during the period	75.75
V	Provisions used during shifting securities	833.10
VI	Write back of excess provision made during period	90.66
	Closing balance (i+ii-iii-iv-v)	**4044.85**

(K)	**Industries**	
	Amount of NPAs	69710.70
	Specific Provisions	62766.70
	General Provisions	0.00
	Specific Provisions made during the period	0.00
	Write offs during the period	0.00

Overseas - NIL

The Industry-wise Provision of five major industries is as below

(Amount in Rs million)

		NPA	**Provision**
A	Basic Metal & Metal Product (Incl Iron and Steel)	17898.60	16991.90
B	All Engineering	16211.30	15391.70
D	Vehicles, Vehicle Parts & Transport Equipment	8299.60	7945.90
C	Roads	7360.80	7207.50
E	Cement and Cement Products	4865.30	4795.70

6. Disclosures of Unhedged Foreign Currency Exposure (UFCE) :

(Amount in Rs million)

Sr. No.	**Particulars**	**31.12.2019**
1.	Additional provisioning made on account of UFCE	18.60
2.	Incremental Capital held on account of UFCE	225.10

TABLE DF-4 - CREDIT RISK DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

a. Qualitative Disclosures:

For portfolios under Standardised Approach:

Bank uses standardized approach to measure capital requirements for credit risk. As per Standardised Approach, Bank accepts rating of following RBI approved ECAI (External Credit Assessment Institution) for credit risk rating and has used these ratings for calculating risk weighted assets wherever such ratings are available.

1. Credit Rating Information Services of India Limited (CRISIL),
2. Credit Analysis and Research limited (CARE),
3. India Ratings,
4. ICRA Limited,
5. Brickwork,
6. SMERA-ACUITE (Earlier SMERA)
7. INFOMERICS Valuation and Rating Private Limited

Types of exposures for which each agency is used:

Bank has used solicited ratings assigned by the above approved credit rating agencies for all eligible exposures. Bank has neither made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.
Key aspects of Bank's External Ratings application framework are as follows:

- Bank uses ratings assigned by any of these credit rating agencies as solicited and accepted by borrowers in line with RBI guidelines.
- Wherever available, Bank uses facility rating or bank loan rating for risk weighting borrower's exposures above Rs 5 crore. Where issuer rating is available Bank uses such ratings unless bank loan is specifically rated.
- When a borrower is assigned a rating that maps to a risk weight of 150%, then this rating is applied on all the unrated facilities of the borrower and risk weighted at 150%.
- RBI guidelines outline specific conditions for facilities that have multiple ratings. In this context, lower rating, where there are two ratings and second-lowest rating where there are two or more ratings are used for a given facility.
- While mapping/applying the ratings assigned by credit rating agencies, Bank is guided by Regulatory guidelines.
- As per RBI circular dated 25.08.2016, claims on Corporates, AFCs and NBFC – IFCs having aggregate exposure from banking system of more than Rs 100.00 crore which were rated earlier and subsequently have become unrated will attract a risk weight of 150%.
- W.e.f 30.06.2017, all unrated claims on Corporates, AFCs and NBFC – IFCs having aggregate exposure from banking system of more than Rs 200.00 crore will attract a risk weight of 150%.
- As per RBI circular 22.02.2019, Risk weights for exposures to NBFCs, excluding Core Investment Companies (CICs) is risk weighted as per ratings assigned by the rating agencies in a manner similar to that of corporates.
- As per RBI circular 25.08.2016, additional risk weight of 75 percentage points over and above applicable risk weight for the exposure to the eligible specified borrowers is applied.
- As per RBI circular dated 12.09.2019, risk weight for consumer credit, including personal loans, but excluding credit card receivables is reduced to 100%.

Treatment of undrawn exposures:

As required by the regulatory norms, Bank holds capital even for the undrawn portion of credit facilities which are not unconditionally cancellable without prior notice by Bank, by converting such exposures into a credit exposure equivalent based on the applicable Credit Conversion Factor (CCF). For credit facilities, which are unconditionally cancellable without prior notice, Bank applies a CCF of zero percent on the undrawn exposure.

b. Quantitative Disclosures:

Exposure amounts as of 31.12.2019 after risk mitigation subject to Standardized Approach, amount of a Bank's outstandings (rated and unrated) disclosed under following major risk buckets:-

(Amount in Rs million)

Sr. No.	Particulars	Exposure Outstanding
i	Below 100 % risk weight	1463487.92
ii	100 % risk weight	175054.72
iii	More than 100 % risk weight	120747.88
	sub total	**1759290.52**
iv	Deducted CRM Value	43408.39
	Total Exposure	**1802698.91**

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