BASEL III – PILLAR 3 DISCLOSURES FOR THE QUARTER ENDED 31.12.2014

RBI issued Basel III guidelines, applicable w.e.f. 01.04.2013. These guidelines provide a transition schedule for Basel III implementation till 31.03.2019. Upon full implementation, Basel III guidelines target minimum capital to risk-weighted assets ratio (CRAR) would be 11.50%.

Basel III framework consists of three mutually reinforcing pillars:

(i) Pillar 1: Minimum Capital Requirements for Credit Risk, Market Risk and Operational Risk
(ii) Pillar 2: Supervisory Review of Capital Adequacy
(iii) Pillar 3: Market Discipline

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

DF – 2: Capital Adequacy

Qualitative Disclosures

a. Capital Management

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

Organisational Set-up:

The Capital Management of the Bank is administered by the Financial Management and Accounts Department of the Bank in co-ordination with Risk Management Department under the supervision of the Board of Directors. The bank has also formed capital planning committee to provide guidance.

Internal Assessment of Capital:

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

- Credit Risk – including residuary risk
- Market Risk
- Operational Risk
- Credit Concentration Risk
- Liquidity Risk
- Country Risk
- Compliance Risk
- Settlement Risk
- Interest Rate Risk on Banking Book
- Reputational Risk
- Strategic Risk
- Pension Obligation Risk
- Legal Risk
- Risk of underestimation of Credit Risk under the Standardized approach

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

Monitoring and Reporting:

The Board of Directors of the Bank and also capital planning committee monitors the capital adequacy levels of the Bank. On a quarterly basis an analysis of the capital adequacy position and the risk weighted assets and an assessment of the various aspects of Basel III on capital and risk management as stipulated by RBI, are undertaken by the Board.

Quantitative Disclosures

b. **Capital Requirement**

Bank's capital requirements have been computed using the Standardized Approach for Credit Risk, Standardized Duration Method for Market Risk and Basic Indicator Approach for Operational Risk. The minimum capital required to be held at 9.00% 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 Standardised Approach @9%	71658.22	
(ii)	For Securitisation Exposure	0.00	
	Total capital charge for credit risks under standardized approach (i+ii)		**71658.22**
(B)	**Market Risk**		
(i)	Interest Rate Risk	1947.95	
(ii)	Foreign Exchange Risk (including Gold)	45.00	
(iii)	Equity Risk	467.23	

	Total capital charge for market risks under standardized duration approach (i+ii+iii)		**2460.18**
(C)	**Capital Required for Operational Risk under Basic Indicator Approach**		**5946.72**
(D)	**Capital Ratios**		**Standalone (In %)**
	Common Equity Tier 1 Capital Ratio		**7.48**
	Tier 1 Capital Ratio		**7.71**
	Total Capital Ratio		**11.31**

Table DF-3: Credit Risk - General Disclosures

Qualitative Disclosures

Credit Risk is defined as the possibility of losses associated with diminution in the 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

The Bank has comprehensive credit risk management architecture. The Board of Directors of the bank endorses the Credit Risk strategy and approves the credit risk policies of the Bank. The Board has formed committees to oversee the risk management processes, procedures and systems in the Bank. 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 the Bank. CRMC is responsible for overseeing implementation of credit risk management framework across the Bank and providing recommendations to the RMC.

Policy & Strategy

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

The Bank has put in place the following policies approved by the Board.

i) Lending & Loan Review Policy

ii) Credit Risk Management Policy
iii) Credit Risk Mitigation Techniques & Collateral Management
iv) Investment Management Policy & Investment Risk Management Policy

The Lending & Loan Review Policy, Credit Risk Management Policy documents define organizational structure, role and responsibilities and, the processes and tools whereby the credit risks carried by the Bank can be identified, quantified and managed within the framework that the 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 the details of eligible collaterals for credit risk mitigation under Basel III framework. The Investment Management Policy & Investment Risk Management Policy forms an integral part of credit risk in the Bank.

Systems / Process / tools for Credit Risk Management

Credit Appraisal standards: The Bank has in place proactive credit risk management practices like consistent standard for the 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.

Credit Approval Grids: Credit Approval Grids have been constituted at various levels covering very large branches / Zonal offices / Head Office for considering fresh / existing proposals with or without enhancement. A structure namely, New Business Group (NBG) is in place at Head Office level for considering in-principle approval for taking up fresh credit proposal above a specified cut-off.

Sanctioning Powers: The 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: The Bank manages its credit risk through continuous measuring and monitoring of risks at each obligor (borrower) and portfolio level. The Bank has in place an internal credit risk rating framework and well established standardized credit appraisal / approval processes. Credit risk rating enables the Bank to accurately assess the risk in a credit proposition and take a decision to accept or reject the proposal based on the risk appetite of the Bank. It also enables risk pricing of credit facilities for risk return trade off. The Bank has developed and put in place credit risk rating models for retail loans also. The

Bank has in-house developed software for undertaking credit risk rating, which is available on the Wide Area Network (WAN) of the Bank facilitating instant access by the Branches / Field Offices for undertaking credit risk rating of borrowers.

As a measure of robust credit risk management practices, the Bank has in place a framework for approval of credit risk ratings. Rating for every borrower is reviewed at least once in a year.

Loan review Mechanism: The objectives of the Loan Review Mechanism in place in the Bank are:

i) To ensure that credit decisions by various authorities are in conformity with the 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 the Bank are adhered to.

iii) To ensure that all credit facilities are reviewed / renewed well in time so as to revise the 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 the Bank through prevention / reduction / up gradation of NPAs.

v) To assess the health of credit portfolio of the Bank and to apprise the 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 concentration is in place.

Loans past due and Impaired:

The regulatory guidelines are adhered to in respect of income recognition, asset classification and provisioning, the 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

- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC)

- The bill remains overdue for a period of more than 90 days in the 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 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 also treated as **'out of order'**.

Overdue: Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Quantitative Disclosures

1. The Total Gross Credit exposure:

(Amount in million)

Category	31.12.2014
Fund Based	1151911.40
Non-Fund Based	170067.80

2. The Geographic Distribution of credit exposure is:

(Amount in Rs million)

Category	31.12.2014	
	Overseas	Domestic
Fund Based	NIL	1151911.40
Non-Fund Based	NIL	170067.80

3. Industry-wise Distribution:

(Amount in Rs million)

Sr. No.	Industry	Funded Exposure		Non-Fund Exposure	
1.	Iron & Steel		33404.30		4808.80
2.	Other Metal & Products		23068.60		5670.30
3.	All Engineering		39425.00		20139.70
3a.	Electronics	10092.10		1933.30	
3b.	Others	29332.90		18206.40	
4	Automobile including Trucks		18950.90		855.70
5	Textiles		26552.30		9204.00
5a.	Cotton Textile	7913.30		881.60	
5b.	Jute Textile	172.90		88.50	
5c.	Man-Made Textiles	21.10		6.60	
5d.	Other Textiles	18445.00		8227.30	
6.	Food Processing		20884.30		1585.90
6a.	Sugar	9205.30		10.50	
6b.	Tea	97.00		0.50	
6c.	Vegetable Oil	2889.30		1122.10	
6d.	Others	8692.70		452.80	
7.	Tobacco		1983.20		16.90
8.	Paper & Paper Products		5225.50		833.50
9.	Rubber & Rubber Products		6080.80		1289.30
10.	Chemical, Dyes & paints		19085.70		2716.10
10a.	Petro Chemicals	6157.20		1002.00	
10b.	Fertilizers	2457.80		679.80	
10c.	Drugs & Pharmaceuticals	9164.80		805.30	
10d.	Others	1305.90		229.00	
11.	Cement		14963.90		61.60
12.	Leather & Leather Products		581.90		20.40
13.	Gems & Jewellery		7534.70		926.90
14.	Construction		4568.90		318.90
15.	Petroleum		33338.40		385.00
16.	Mining & Quarrying		5442.60		4959.30
17.	Wood & Wood Products		1293.10		290.70
18.	Glass & Glassware		1467.70		159.50
19.	Infrastructure		134696.10		22268.00
19a.	Power	96164.80		6577.90	
19b.	Telecommunication	2859.10		690.50	
19c.	Road	24405.80		8657.10	
19d.	Other Infrastructure	11266.40		6342.50	
20.	Residuary Other Advances		753363.50		93557.30
	Total		1151911.40		170067.80

(Amount in Rs million)

Industry having more than 5% of gross credit exposure

Industry	% of Exposure
Power	7.77%

4. The Residual Maturity break down of Assets:

(Amount in Rs million)

Maturity Pattern	Investments	Advances	Foreign Currency Assets
1 day	5360.00	17911.77	942.05
2 to 7 days	3141.56	20754.37	34014.07
8 to 14 days	0.00	27305.17	509.58
15 to 28 days	374.17	25275.74	3927.44
29 days to 3 months	5798.00	71793.60	15830.53
Over 3 months and upto 6 months	2056.62	40358.04	14513.07
Over 6 months and upto 1 year	8554.20	102701.81	37258.14
Over 1 year and upto 3 years	44633.43	368184.66	0.00
Over 3 years and upto 5 years	66003.07	147510.25	0.00
Over 5 years	233791.70	108202.20	0.00
Total	**369712.75**	**929997.61**	**106994.87**

5. Disclosures for NPAs & NPIs :

(Amount in Rs million)

		31.12.2014
(A)	**Gross NPA**	
	Sub-standard	33584.56
	Doubtful 1	22104.81
	Doubtful 2	4761.15
	Doubtful 3	248.27
	Loss	1167.80
	Total	**61866.59**
(B)	**Net NPA**	**42654.40**
(C)	**NPA Ratios**	
	% of Gross NPAs to Gross Advances	6.65
	% of Net NPAs to Net Advances	4.71
(D)	**The movement of Gross NPA**	
I	Opening Balance	28598.50

II	Add:-Addition during the period	41423.36
III	Less:- Reduction during the period	8155.27
	Closing balance as at the end of the year (i +ii-iii)	**61866.59**
(E)	**The movement of provision for NPAs**	
I	Opening Balance (including countercyclical provisioning buffer)	10099.07
Ii	Provisions made during the period	9181.46
Iii	Write-off made during the period	1418.72
Iv	Write – back of excess provisions	0.00
	Closing balance (i+ii- iii-iv)	**17861.81**
(F)	**Non Performing Investments (NPI)**	**965.13**
(G)	**Provisions for NPI**	**234.35**
(H)	**The movement of provision for depreciation on investments**	
I	Opening balance	662.85
II	Provisions made during the period	155.44
III	Write-off made during the period	0.00
IV	Write –back of excess provision made during the period	366.85
V	Provisions used during shifting	0.00
	Closing balance (i+ii-iii-iv-v)	**451.44**

Table DF-4 - Credit Risk: Portfolios Subject to the Standardized Approach

a. **Qualitative Disclosures:**

For portfolios under the Standardised Approach:

The Bank uses the standardized approach to measure the capital requirements for credit risk. As per the 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. SME Rating Agency of India Ltd. (SMERA)

Types of exposures for which each agency is used:

The Bank has used the solicited ratings assigned by the above approved credit rating agencies for all eligible exposures, both the balance sheet and off balance sheet, whether short-term or long-term, in the manner permitted in the RBI guidelines on the New Capital Adequacy Framework (NCAF). The Bank has not made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.

The key aspects of the Bank's External Ratings application framework are as follows:

- The Bank shall use the ratings assigned by any of these credit rating agencies as solicited and accepted by the borrowers in line with RBI guidelines.
- Wherever available, the Bank uses facility rating or bank loan rating for risk weighting the borrower's exposures. Where issuer rating is available the Bank uses such ratings unless the 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%.
- The RBI guidelines outline specific conditions for facilities that have multiple ratings. In this context, the lower rating, where there are two ratings and the second-lowest rating where there are two or more ratings are used for a given facility.
- While mapping/applying the ratings assigned by the credit rating agencies, the Bank is guided by Regulatory guidelines / Bank's Board approved policy.

b. Quantitative Disclosures:

Exposure amounts as of 31.12.2014 after risk mitigation subject to the Standardized Approach, amount of a bank's outstandings (rated and unrated) disclosed under following major risk buckets:-

(Amount in Rs million)

Sr. No.	Particulars	Amount
i	Below 100 % risk weight exposure outstanding	1141769.81
ii	100 % risk weight exposure outstanding	294956.19
iii	More than 100 % risk weight exposure outstanding	223395.33
	sub total	**1660121.32**
iv	Deducted CRM Value is added	46305.65
	Total Exposure	**1706426.97**