BASEL III – PILLAR 3 DISCLOSURES AS ON 31.12.2013

RBI issued Basel III guidelines, applicable w.e.f. 01.04.2013. These guidelines provide a transition schedule for Basel III implementation till 31.03.2018. Upon full implementation of 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 Integrated Risk Management Department under the overall supervision of the Board of Directors.

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 1apitalization 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 material 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 monitors the capital adequacy levels of the Banks. 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 (31.12.2013)

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:

(Rs. In Million)

Sr. No.	Particulars	Amount	Amount
(A)	**Capital Required for Credit Risk**		
(i)	Portfolios subject to Standardized Approach @9%	65092.05	
(ii)	For Securitisation Exposure	0.00	
	Total capital charge for credit risks under standardized approach (i+ii)		**65092.05**
(B)	**Market Risk**		
(i)	Interest Rate Risk	1579.06	

(ii)	Foreign Exchange Risk (including Gold)	45.00	
(iii)	Equity Risk	402.78	
	Total capital charge for credit risks under standardized duration approach (i+ii+iii)		**2026.83**
(C)	**Capital Required for Operational Risk under Basic Indicator Approach**		**5198.30**
(D)	**Capital Ratios**		**Standalone (in %)**
(i)	**Common Equity Tier 1 Capital Ratio**		**6.77**
(ii)	**Additional Tier 1**		**0.81**
(iii)	**Total Tier 1 Capital Ratio (i+ii)**		**7.58**
(iv)	**Tier 2 Capital**		**4.25**
(v)	**Total Capital Ratio (iii+iv)**		**11.83**

Table DF-3: Credit Risk - General Disclosures

<u>Qualitative Disclosures</u>

Credit Risk is defined as the possibility of losses associated with dimunition 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 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 is responsible for devising policy and strategy for credit risk management. Credit Risk Management Committee (CRMC), a separate committee is constituted for the purpose of managing the credit risk. The CRMC reports the Risk Management Committee of the Board. CRMC is responsible for overseeing the 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 Policy
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 and 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 on an ongoing basis.

Credit Risk Approval Grids: Credit Approval Grids have been constituted at various levels covering very large branches / Regional 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. Credit portfolio quality is monitored by undertaking bi-annual credit risk rating for high value exposures and inferior rated borrowers. Credit risk rating, as a concept, has been well internalized in the Bank.

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 improvement 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 Risk Exposure is:**

Fund Based	(Amount in Rs million)
Advances	876858.61
Investments	323462.89
Other Assets	154218.65
Total Fund Based Exposure	**1354540.15**
Non-Fund Based Market Related and Non-Market Related	311174.68
Total Exposure	**1665714.83**

2. The Geographic Distribution of exposure is:

(Amount in Rs million)

Category	31.12.2013	
	Overseas	**Domestic**
Fund Based	**NIL**	**1354540.15**
Non-Fund Based	**NIL**	**311174.68**
Total Exposure	**NIL**	**1665714.83**

3. Industry-wise Distribution of Advances as on 31.12.2013:

(Amount in Rs million)

Sr. No.	Industry	Funded Exposure	Non-Fund Exposure
1	**Mining & Quarrying (Incl. Coal)**	**4295.60**	**3.17**
2	**Food Processing**	**15071.30**	**874.06**
2a	Sugar	6980.70	167.79
2b	Edible Oils & Vanaspati	1847.90	671.68
2c	Tea	87.40	0.00
2d	Others	6155.40	34.59
3	**Beverage & Tobacco**	**1912.20**	**4.11**
4	**Textiles**	**18537.80**	**1908.26**
4a	Cotton Textiles	5927.40	418.09
4b	Jute Textiles	145.60	72.57
4c	Man-Made Textiles	6.20	0.00
4d	Other Textiles	12458.50	1417.60
5	**Leather & Leather Products**	**442.40**	**9.52**
6	**Wood & Wood Products**	**972.70**	**30.85**
7	**Paper & Paper Products**	**3612.20**	**322.97**
8	**Petroleum, Coal Products & Nuclear Fuel**	**20728.90**	**486.28**
9	**Chemicals & Chemicals Products**	**15803.20**	**793.11**
9a	Fertiliser	1163.30	16.50
9b	Drugs & Pharmaceuticals	8689.30	263.22
9c	Petro Chemicals	4951.30	380.34
9d	Others	999.40	133.05
10	**Rubber, Plastic & Products**	**4386.70**	**483.14**
11	**Glass & Glassware**	**1213.40**	**105.61**
12	**Cement & Cement Products**	**10180.50**	**71.09**
13	**Basic Metal & Metal Products**	**41520.80**	**4924.65**
13a	Iron & Steel	23626.30	3183.13
13b	Other Metal & Metal Products	17894.40	1741.52
14	**All Engineering**	**28659.30**	**16453.87**
14a	Electronics	5154.50	1029.87

Sr. No.	Industry	Funded Exposure	Non-Fund Exposure
14b	Others	23504.70	15424.00
15	**Vehicles, Vehicle Parts & Transport Equipment**	**16058.90**	**374.75**
16	**Gems & Jewellery**	**6672.80**	**403.07**
17	**Construction**	**3818.10**	**147.18**
18	**Infrastructure**	**131080.80**	**8026.87**
18a	Power	89373.20	1701.72
18b	Telecommunications	3365.50	21.28
18c	Roads	16980.90	2848.86
18d	Other Infrastructure	21361.20	3455.01
19	**Other Industries**	**5467.40**	**379.92**
(i)	**Total Industries**	**330435.0**	**35802.49**
(ii)	**Residuary Other Advances**	**530670.80**	**64898.45**
(iii)	**Total Non-Food Advances (i+ii)**	**861105.80**	**100700.94**
(iv)	**Total Food Advances**	**15752.80**	**0.00**
(v)	**Total Gross Advances (iii+iv)**	**876858.60**	**100700.94**

Industry having more than 5% of gross credit exposure

Industry	% of Exposure
Power	10.19

4. The Residual Maturity break down of Assets:

(Amount in Rs million)

Maturity Pattern	Investments	Advances	Foreign Currency Assets
1 day	28717.50	36660.10	11392.49
2 to 7 days	3418.90	17408.20	1968.11
8 to 14 days	998.10	25424.70	1811.15
15 to 28 days	499.00	30951.80	4544.95
29 days to 3 months	2603.80	90156.50	27559.29
Over 3 months and upto 6 months	3874.70	38599.90	29709.71
Over 6 months and upto 1 year	9620.50	94247.90	18113.49
Over 1 year and upto 3 years	43448.50	364175.40	0.00
Over 3 years and upto 5 years	67122.20	91332.90	0.00
Over 5 years	204197.70	52742.90	0.00
Total	**364500.90**	**841700.30**	**95099.21**

5. Disclosures for NPAs & NPIs : As at the end of December 2013

(Amount in Rs million)

		31.12.2013
(A).	**Gross NPA**	
	Sub-standard	25895.69
	Doubtful 1	6106.19
	Doubtful 2	1707.70
	Doubtful 3	743.00
	Loss	703.32
	Total	**35155.90**
(B).	**Net NPA**	**22006.10**
(C).	**NPA Ratios**	
	% of Gross NPAs to Gross Advances	4.01%
	% of Net NPAs to Net Advances	2.56%
(D).	**The movement of Gross NPA**	
i	Opening Balance	11375.50
ii	Add-Addition during the period	27846.00
iii	Less- Reduction during the period	4065.60
	Closing balance (i +ii-iii)	**35155.90**
(E).	**The movement of provision for NPAs**	
i	Opening Balance (including countercyclical provisioning buffer)	7096.90
ii	Provisions made during the period	6996.33
iii	Write-off made during the period	1424.03
iv	Write – back of excess provisions	0.00
	Closing balance (i+ii- iii-iv)	**12669.20**
(F).	**Non Performing Investments (NPI)**	**345.50**
(G).	**Provisions for NPI**	**51.57**
(H).	**The movement of provision for depreciation on investments**	
i	Opening balance	653.80
ii	Provisions made during the period	0.00
iii	Write-off made during the period	0.00
iv	Write–back of excess provision made during the period	295.20
	Closing balance (i+ii-iii-iv)	**358.60**

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

a. <u>Qualitative Disclosures:</u>

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 and
4. ICRA Limited.
5. Brickwork
6. SME Rating Agency of India Ltd. (SMERA)

Types of exposures for which each agency is used:

The Bank is using the solicited ratings assigned by the above approved credit rating agencies for all types of exposures in excess of Rs.5.00 crore, both on 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.
- The Bank ensures that the external rating of the facility/borrower has been reviewed at least once by the ECAI during the previous 15 months.
- 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 outlines 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:

At 31.12.2013, the credit risk exposures subject to the Standardised Approach after adjusting for credit risk mitigation by risk weights were as follows:

(Amount in Rs Million)

Sr. No.	**Particulars**	**31.12.2013**		
		Exposure F+NF	**Rated**	**Unrated**
I	Below 100 % risk weight exposure outstanding	1143304.22	220723.66	922580.56
Ii	100 % risk weight exposure outstanding	324408.77	128627.16	195781.61
Iii	More than 100 % risk weight exposure outstanding	152449.70	83939.79	68509.91
	sub total	**1620162.68**	**433290.61**	**1186872.08**
Iv	Deducted CRM Value is added	45552.14		
	Total Exposure	**1665714.82**		