BASEL III – PILLAR 3 DISCLOSURES FOR THE QUARTER ENDED 30.06.2016

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%, minimum Common Equity Tier -1 ratio would be 8.00% and minimum Tier 1 ratio would be 9.50%

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 Bank. These disclosures have been set out as under:

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.

Organizational 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.

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 capitalization 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 as risks it is exposed to in the normal course of its business and considers them for capital planning:

- Credit Risk – including residuary risk
- Market Risk
- Operational Risk
- Settlement Risk
- Interest Rate Risk on Banking Book
- Reputational Risk

- Credit Concentration Risk
- Liquidity Risk
- Country Risk
- Compliance Risk
- Strategic Risk
- Pension Obligation Risk
- Legal Risk
- Risk of underestimation of Credit Risk under the Standardized approach

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 Bank monitors capital adequacy levels of Bank. On a quarterly basis 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.

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 at 9.00% for credit, market and operational risks is given below. In addition to this Bank has also maintained capital conservation buffer (CCB) of 0.625%.

(Amount in Rs million)

Sr. No.	Particulars	Amount	Amount
(A)	**Capital Required for Credit Risk**		
(i)	Portfolios subject to Standardized Approach @ 9%	77210.87	
(ii)	For Securitization Exposure	0.00	
	Total capital charge for credit risks under standardized approach (i+ii)		**77210.87**
(B)	**Market Risk**		
(i)	Interest Rate Risk	1542.53	
(ii)	Foreign Exchange Risk (including Gold)	45.00	
(iii)	Equity Risk	2143.65	
	Total capital charge for market risks under standardized duration approach (i+ii+iii)		**3731.18**

(C)	**Capital Charge for Operational Risk**		
	Under Basic Indicator Approach		**6859.41**
(D)	**Capital Ratios (30.06.2016)**		**Standalone (In %)**
	Common Equity Tier 1 Capital Ratio		**7.69**
	Tier 1 Capital Ratio		**8.86**
	Total Capital Ratio(CRAR) – Including CCB		**11.53**

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. Important aspects of risk philosophy are embodied in various policies, circulars, guidelines etc. 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 guarantee

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. Policies prescribe various prudential and exposure limits, collateral standards, financial benchmarks for the purpose of credit risk management. Policy on Credit Risk Mitigation Techniques & Collateral Management lays down details of eligible collaterals for credit risk mitigation under Basel III framework. Investment Management Policy, Policy on exposure to real estate and Policy for issuance of Bank Guarantee forms an integral part of credit risk.

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. Exposure vis-à-vis limits are monitored.

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.

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 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 identify & detect any weakness at an early stage 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 favorable 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 and initiate corrective measures.
vi) To evaluate portfolio quality & identify potential problem areas.

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.

Bank traces the SMA status of Borrower and uses it as a guiding factor in credit decision.

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 outstanding balance remains continuously in excess of the 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 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 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 such accounts.

Quantitative Disclosures

1. The Total Gross Credit exposure:

(Amount in Rs million)

Category	30.06.2016
Fund Based	1208541.40
Non-Fund Based	204693.80

2. The Geographic Distribution of credit exposure is:

(Amount in Rs million)

Category	30.06.2016	
	Overseas	Domestic
Fund Based	NIL	1208541.40
Non-Fund Based	NIL	204693.80

3. Industry-wide Distribution:

(Amount in Rs million)

Sr No	Industry	Fund Exposure		Non Fund Exposure	
2.1	**Mining & Quarrying (incl. Coal)**		13676.30		180.50
2.2	**Food Processing**		8531.50		65.90
2.2.1	Sugar	5343.30		0.00	
2.2.2	Edible Oils & Vanaspati	156.60		0.00	
2.2.3	Tea	6.60		0.0	
2.2.4	Others	3025.00		65.90	
2.3	**Beverage & Tobacco**		222.60		1.50
2.4	**Textiles**		28883.70		4163.80

Sr No	Industry	Fund Exposure		Non Fund Exposure	
2.4.1	Cotton Textiles	10158.80		1716.60	
2.4.2	Jute Textiles	188.20		88.50	
2.4.3	Man-Made Textiles	31.60		12.60	
2.4.4	Other Textiles	18505.10		2346.10	
2.5	**Leather & Leather Products**		540.30		32.80
2.6	**Wood & Wood Products**		1389.60		275.00
2.7	**Paper & Paper Products**		4362.40		710.90
2.8	**Petroleum, Coal Products & Nuclear Fuels**		24456.50		781.00
2.8.1	Petroleum	15919.30		21.00	
2.9	**Chemicals & Chemical Products**		26307.90		2898.90
2.9.1	Fertiliser	6544.20		750.90	
2.9.2	Drugs & Pharmaceuticals	12831.0		1051.30	
2.9.3	Petro Chemicals	5827.30s		902.70	
2.9.4	Others	1105.40		194.00	
2.10	**Rubber, Plastic & their Products**		5101.20		1411.00
2.11	**Glass & Glassware**		1335.70		140.70
2.12	**Cement & Cement Products**		13281.20		362.80
2.13	**Basic Metal & Metal Product**		58439.70		13735.00
2.13.1	Iron & Steel	32964.50		3472.90	
2.13.2	Other Metal & Metal Product	25475.20		10262.10	
2.14	**All Engineering**		42268.40		26223.10
2.14.1	Electronics	9397.50		5268.10	
2.14.2	Others	32870.90		20955.00	
2.15	**Vehicles, Vehicle Parts & Transport Equipment**		19935.20		837.70
2.16	**Gems & Jewellery**		6481.20		741.00
2.17	**Construction (other than Infrastructure)**		55.40		0.70
2.18	**Infrastructure**		125200.80		33203.00
2.18.1	Power	73503.30		10761.30	
2.18.2	Telecommunication	4716.00		67.10	

Sr No	Industry	Fund Exposure		Non Fund Exposure	
2.18.3	Roads	26416.10		16738.60	
2.18.4	Airports	4852.10		0.00	
2.18.5	Ports	3538.70		0.00	
2.18.6	Railways (other than Indian Railways)	167.60		182.00	
2.18.7	Other Infrastructure	12007.00		5454.00	
2.19	**Other Industries**		5911.30		2724.70
2.20	**Residuary Other Advances**		822160.50		116203.80
	Total		1208541.40		204693.80

Industry having more than 5% of gross credit exposure

Industry	% of Exposure
Power	5.96%

4. The Residual Maturity break down of Assets:

(Amount in Rs million)

Maturity Pattern	Advances	Investments	Foreign Currency Assets
1 days	14546.50	9309.70	10666.95
2 to 7 days	19916.10	5499.70	10219.16
8 to 14 days	17433.06	504.70	393.23
15 to 28 days	35429.44	1395.10	896.46
29 days to 3 months	67207.64	11031.60	27453.93
Over 3 months and upto 6 months	50784.42	3419.80	5491.49
Over 6 months and upto 1 year	95810.04	11146.70	19829.15
Over 1 year and upto 3 years	429132.09	60757.10	12.50
Over 3 years and upto 5 years	180087.37	46370.30	0.00
Over 5 years	121130.33	198774.60	0.00
Total	1031476.99	348209.30	74962.88

5. Disclosures for NPAs & NPIs :

(*Amount in Rs million)*

(A)	**Gross NPA**	
	Sub-standard	68031.63
	Doubtful 1	28518.49
	Doubtful 2	22833.70
	Doubtful 3	3112.72

	Loss	7899.75
	Total	**130396.29**
(B)	**Net NPA**	**86094.40**
(C)	**NPA Ratios**	
	% of Gross NPAs to Gross Advances	12.64
	% of Net NPAs to Net Advances	8.73
(D)	**The movement of Gross NPA**	
I	Opening Balance	103858.53
II	Add:- Addition during the period	29257.08
III	Less:- Reduction during the period	2719.31
	Closing balance as at the end of the year (i+ ii - iii)	130396.30
(E)	**The movement of provision**	
E1	**Specific Provisions**	
i	Opening Balance	32666.28
ii	Provisions made during the period	8501.83
iii	Write off made during the period	16.73
iv	Write back of excess provisions	0.00
v	Any other adjustments, including transfer between provisions	186.40
	Closing balance (i+ ii-iii-iv +v))	41337.78
E2	**General Provisions**	
i	Opening Balance (including counter-cyclical provisioning buffer)	1589.86
ii	Provisions made during the period	0.00
iii	Write off made during the period	0.00
iv	Write back of excess provisions	0.00
v	Any other adjustments, including transfer between provisions	0.00
	Closing balance (i+ii-iii-iv (+/- v))	1589.86
(F)	**Write offs during the quarter**	**16.73**
(G)	**Recovery in the written off accounts during the quarter**	**45.63**

(H)	**Non Performing Investment (NPI)**	1023.12
(I)	**Amt of provisions held on NPI**	577.23
(J)	**Movement of Provisions for depreciation on investments (including provision of Non Performing Investment, MTM depreciation and restructured investments)**	
(i)	Opening Balance	1010.46
(ii)	Provisions made during the period	30.99
(iii)	Write-off made during the period	0.00
(iv)	Write back of excess provisions made during the period	175.91
(v)	Provisions used during shifting	0.00
	Closing balance (i+ii-iii-iv)	**865.54**
(K)	**Industry wise**	
	Amount of NPAs	69727.80
	If available, past due loans provided separately	
	Specific Provisions on Major industries	19870.00
	General Provisions	0.00
	Specific Provisions made during the quarter	0.00
	Write offs during the quarter	0.00

Overseas- NIL

Out of industries, NPAs and specific provision under top 5 industries is as under:

		NPA	Specific Provision
1.	**Basic Metal & Metal product**	**29451.40**	**6426.10**
2.	**Infrastructure**	**11913.60**	**2656.00**
	Power	4157.10	1198.90
	Roads	6385.10	1142.90
	Other infrastructure	1371.40	314.20
3.	**All engineering**	**9105.30**	**2489.40**
4	**Textiles**	**5161.80**	**1813.60**
5	**Chemical & Chemical Products**	**4825.00**	**3118.40**

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

(Amount in Rs million)

Sr. No.	Particulars	30.06.2016
1.	Additional provisioning made on account of UFCE	242.50
2.	Incremental Capital held on account of UFCE @9%	573.09

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

a. Qualitative Disclosures:

For portfolios under The Standardized Approach:

Bank uses standardized approach to measure capital requirements for credit risk. As per Standardized 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:

Bank is using solicited ratings assigned by the above approved credit rating agencies for all eligible exposures. Bank has not 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 under:

- Bank shall use the 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. 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 the credit rating agencies, Bank is guided by Regulatory guidelines.

Treatment of undrawn exposures:

As required by the regulatory norms, Bank holds capital even for 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).

b. Quantitative Disclosures:

Exposure amounts as of 30.06.2016 after risk mitigation subject to Standardized Approach, amount of a bank's outstanding (rated and unrated) disclosed under following major risk buckets:-

(Amount in Rs million)

Sr. No.	Particulars	Amount
I	Below 100 % risk weight exposure outstanding	1267438.17
Ii	100 % risk weight exposure outstanding	265123.18
iii	More than 100 % risk weight exposure outstanding	243067.69
	sub total	**1776529.05**
iv	Deducted CRM Value is added	47435.87
	Total Exposure	**1823064.92**