

BASEL- III - PILLAR 3 DISCLOSURE AS ON 31.12.2018

1. Scope of Application and Capital Adequacy

Table DF - 2
Capital Adequacy

Qualitative Disclosures:

A. A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.

In order to strengthen the capital base of banks in India, the Reserve Bank of India in April 1992 introduced capital adequacy measures in banks, based on the capital adequacy framework (Basel I) issued by Basel Committee on Banking Supervision (BCBS). Initially, the framework addressed capital for credit risk, which was subsequently amended to include capital for market risk as well. The Bank has been compliant with regard to maintenance of minimum capital for credit and market risks.

Subsequently, the BCBS has released the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (popularly known as Basel II document) on June 26, 2004. Reserve Bank of India has issued final guidelines on April 27, 2007 for implementation of the New Capital Adequacy (Basel II) Framework.

In line with the RBI guidelines, the Bank has successfully migrated to the revised framework (Basel-II) from 31.03.2009. The Bank has continued the Parallel run of Basel II framework continuously tracking the exposures and studied the impact on Bank's Capital to Risk weighted Assets Ratio (CRAR) on a quarterly basis.

Reserve Bank of India issued guidelines based on the Basel III reforms on capital regulation during May 2012, to the extent applicable to banks operating in India. The Basel III capital regulation has been implemented from April 01, 2013 in India in phases and it was decided originally to implement fully as on March 31, 2018. RBI issued detailed Guidelines on Composition of Capital Disclosure Requirements on May 28, 2013. Another circular on "Implementation of Basel III Capital Regulations in India – Capital Planning" has been issued by RBI on March 27, 2014, in which, the transitional period for full implementation of Basel III Capital Regulations in India is extended upto March 31, 2019, instead of March 31, 2018.

Further, on 10.01.2019, RBI has issued a circular, in which, the transitional period for full implementation of Basel III Capital Regulations in India is extended upto March 31, 2020, instead of March 31, 2019. Accordingly, 'Capital Conservation Buffer Framework' as applicable from March 31, 2018 (i.e. CCB at 1.875%) will also apply from March 31, 2019 till the CCB attains the level of 2.5% on March 31, 2020.

RBI has issued circular on "Prudential Guidelines on Capital Adequacy and Liquidity Standards – Amendments" on 31.03.2015. The Basel III Capital Regulations have been consolidated in Master Circular – Basel III Capital Regulations vide circular No. DBOD.No. BP.BC.1 / 21.06.201 / 2015-16 dated July 1, 2015.

Under the Basel II framework, the total regulatory capital comprises of Tier I (core capital) and Tier 2 capital (supplementary capital). In order to improve the quality of regulatory capital, the

capital will predominantly consist of Common Equity Tier1 (CET1) under Basel III. Non-equity Tier 1 and Tier 2 capital would continue to form part of regulatory capital subject to eligibility criteria as laid down in Basel III. The Basel III capital regulations continue to be based on three-mutually reinforcing Pillars, viz. Minimum Capital Requirements (Pillar 1), Supervisory Review of Capital Adequacy (Pillar 2) and Market Discipline (Pillar 3) of the Basel II Capital Adequacy framework.

The Basel-III norms mainly seek to:

- Raise the quality of capital to ensure that the banks are capable to absorb losses on both as going concern and as gone concern basis.
- Increase the risk coverage of the capital framework.
- Introduce leverage ratio to serve as a backstop to the risk-based capital measure.
- Raise the standards for the supervisory review process and public disclosures etc.

The macro prudential aspects of Basel III are largely enshrined in the capital buffers. Both the buffers i.e. the capital conservation buffer and the countercyclical buffer are intended to protect the banking sector from stressed situations and business cycles.

Minimum capital requirements under Basel-III:

Under the Basel III Capital Regulations, banks are required to maintain a minimum Pillar 1 Capital (Tier-I + Tier-II) to Risk-weighted Assets Ratio (CRAR) of 9% on an on-going basis. Besides these minimum capital requirements, Basel III also provides for creation of capital conservation buffer (CCB) and countercyclical capital buffer (CCCB). At present, RBI mandates for CCB @ 2.5% of Risk Weighted Assets to be maintained at 0.625% every year starting March 2016. Accordingly, the total regulatory capital funds under Basel- III norms will consist of the sum of the following categories and banks are required to maintain 11.5% of Risk Weighted Assets (9% + 2.5%) by March 2019. Now, as per the recent circular by RBI on 10.01.2019, transitional arrangement has been extended till March 2020.

Transitional Arrangements as per the RBI norms:-

Capital Ratios	(% to RWAs)			
	31.03.2016	31.03.2017	31.03.2018/ 31.03.2019 *	31.03.2020
Minimum Common Equity Tier I (CET-1)	5.50	5.50	5.50	5.50
Capital Conservation Buffer	0.625	1.250	1.875	2.50
Minimum CET1 + CCB	6.125	6.75	7.375	8.00
Minimum Tier 1 Capital (excluding CCB)	7.00	7.00	7.00	7.00
Tier-2 Maximum allowed	2.00	2.00	2.00	2.00
Minimum Total Capital	9.00	9.00	9.00	9.00
Minimum Total Capital + CCB	9.625	10.250	10.875	11.50

* as per the recent guidelines by RBI vide their circular dt.10.01.2019.

B. The Bank's approach in assessment of capital adequacy

The Bank is following standardized approach, Standardized Duration approach and Basic Indicator approach for measurement of capital charge in respect of credit risk, market risk and operational risk respectively. Besides computing CRAR under the Pillar I requirement, the Bank also undertakes stress testing periodically in various risk areas to assess the impact of stressed scenario or plausible events on asset quality, liquidity, profitability and capital adequacy. The bank conducts Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis to

assess the sufficiency of its capital funds to cover the risks specified under Pillar – I and Pillar-II of Basel guidelines. The adequacy of Bank’s capital funds to meet the future business growth is being assessed in the ICAAP document.

C. Quantitative Disclosures:

		Rs in Crore	
a)	Capital requirements for Credit Risk: (@ 9.00% on Risk weighted Assets)		
	• Portfolios subject to standardised approach		2254.17
	• Securitisation exposures		Nil
b)	Capital requirements for Market Risk:		
	• Standardised duration approach		39.26
	○ Interest Rate Risk	8.23	
	○ Equity risk	29.03	
	○ Foreign exchange risk	2.00	
c)	Capital requirements for Operational Risk:		
	• Basic indicator approach		242.98
	Minimum capital required (a+b+c)		2536.41
d)	Capital Conservation Buffer (CCB) at 1.875%		535.77
	Minimum Total Capital + CCB		3072.18
e)	Total Capital Funds available		4227.47
	Total Risk Weighted Assets		28574.37
	Common Equity Tier I CRAR % (excluding CCB)		12.915%
	Capital Conservation Buffer %		1.875%
	Tier I CRAR %		14.39%
	Tier II CRAR %		0.40%
	Total CRAR %		14.79%

2. Risk Exposure and Assessment

Risk is an integral part of banking business in an ever dynamic environment, which is undergoing radical changes both on the technology front and product offerings. The main risks faced by the bank are credit risk, market risk and operational risk. The bank aims to achieve an optimum balance between risk and return to maximize shareholder value. The relevant information on the various categories of risks faced by the bank is given in the ensuing sections. This information is intended to give market participants a better idea on the risk profile and risk management practices of the bank.

The Bank has a comprehensive risk management system in order to address various risks and has set up an Integrated Risk Management Department (RMD), which is independent of operational departments. Bank has a Risk Management Committee of Board functioning at apex level for formulating, implementing and reviewing bank’s risk management measures pertaining to credit, market and operational risks. Apart from the Risk Management Committee of the Board at apex level, the Bank has a strong bank-wide risk management structure comprising of Risk Management Committee of Executives (RMCE) assisted by Asset Liability Management Committee (ALCO), Credit Risk Management Committee (CRMC) and Operational Risk Management Committee (ORMC) at senior management level. Credit Risk Management

Committee deals with credit policies and procedures, Asset Liability Management Committee deals with Asset Liability Management (ALM) and Investment Policy of the Bank and Operational Risk Management Committee formulates policies and procedures for managing operational risks.

The Bank has formulated the required policies such as Integrated Risk Management Policy, Loan Policy, Credit Risk Management Policy, ALM Policy, Integrated Treasury Policy, Inspection and Audit policies, KYC policy, Risk Based Internal Audit Policy, Stress Testing Policy, Disclosure Policy, ICAAP policy and Credit Risk Mitigation & Collateral Management Policy, Risk Rating and Pricing policy, etc for mitigating the risk in various areas and monitoring the same.

The structure and organization of Risk Management functions of the bank is as follows:

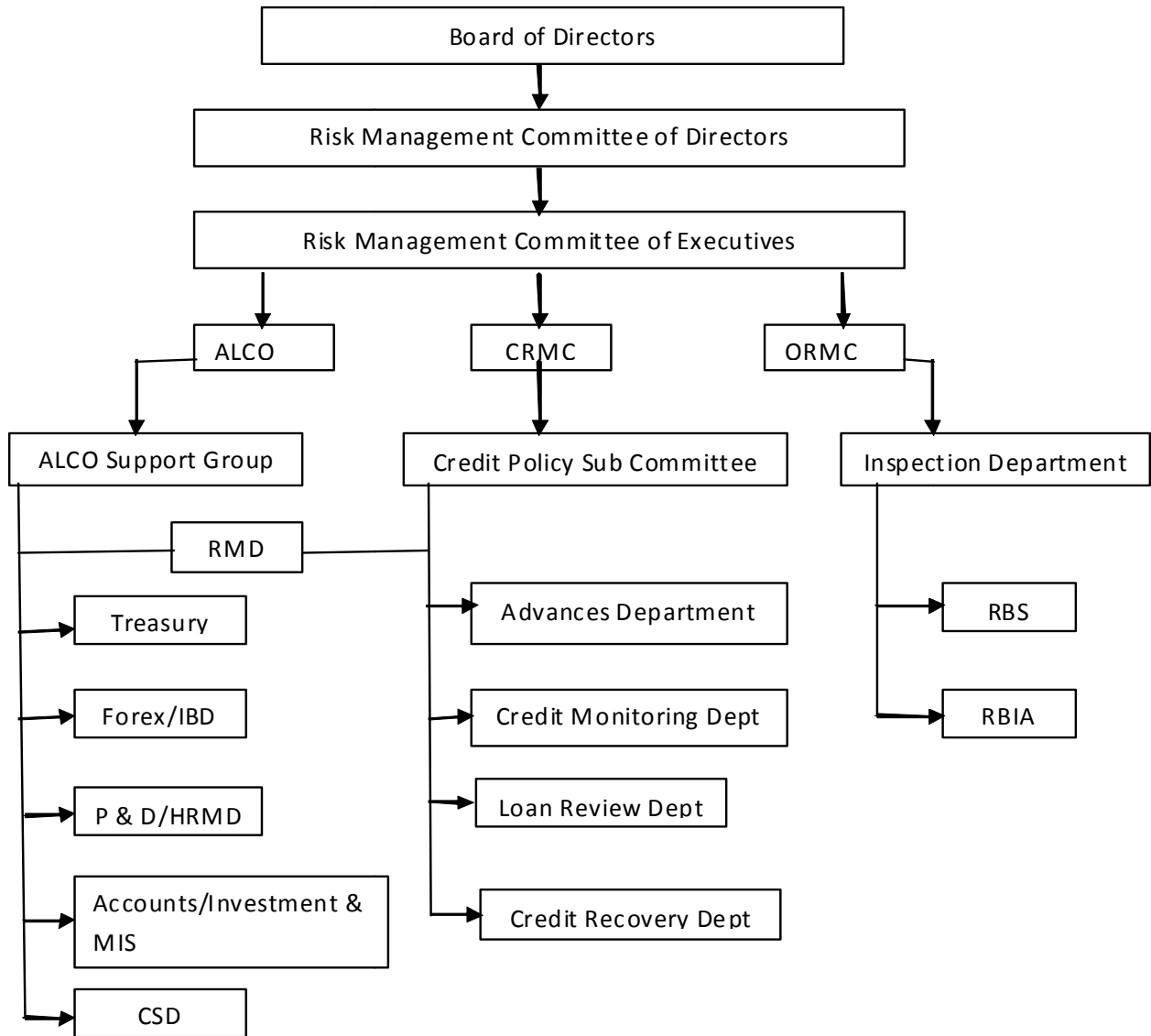


TABLE DF – 3
Credit Risk: General Disclosures

Credit Risk:

Credit Risk is a possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, Credit Risk arises mostly from lending activities of the bank, when a borrower is unable to meet its financial obligations emanating from potential changes in the credit quality / worthiness of the borrowers or counterparties.

Credit Risk Management encompasses a host of management techniques, which help the banks in mitigating the adverse impacts of credit risk. The objective of the Credit Risk Management is to identify, measure, monitor and control credit risk by adopting suitable methodology.

The Bank has formulated Loan Policy which stipulates various prudential norms, bench marks, guidelines for sanctioning of credits and recovery of the same. The Bank has also formulated a separate Credit Risk Management Policy, besides a Policy on Credit Risk Mitigation and Collateral Management.

Credit Risk is assessed by a robust internal credit risk rating system. Credit Risk Rating is the process wherein the merits and demerits of a borrower are captured and assigned with scorings, which enables the Bank to take a view on the acceptability or otherwise of any credit proposal.

Credit Risk Management Policy:

The Bank has put in place a well-structured Credit Risk Management Policy duly approved by the Board. The Policy document defines organization structure, roles and responsibilities and the processes whereby the Credit Risks carried by the Bank can be identified, quantified and managed. Credit Risk is monitored on a bank wide basis and the compliance with regard to the risk limits approved by the Credit Risk Management Committee (CRMC)/ Board is ensured.

The Bank adopts the definition of 'past due' and 'impaired credits' (for reporting purposes) as defined by Reserve Bank of India under Income Recognition, Asset Classification and provisioning (IRAC) norms (vide RBI Master Circular dated July 01, 2015).

Quantitative Disclosures

Total Gross Credit Risk Exposures including Geographic Distribution of Exposure:

	Rs. in crore		
Exposure as on 31.12.2018	Domestic	Overseas	Total
Fund based	33081.87	--	33081.87
Non-fund based	2413.19	--	2413.19
Investment (Non SLR)	359.06	--	359.06
Total	35854.12	--	35854.12

Industry type distribution of exposures – 31.12.2018

Rs. in crore

INDUSTRY /ACTIVITY	FUNDED EXPOSURE	NON-FUNDED EXPOSURE	INVESTMENT EXPOSURE (NON SLR)	TOTAL EXPOSURE
Mining and Quarrying	59.58	4.98	0.53	65.09
Iron and Steel	1244.06	203.38	0.33	1447.77
Other Metal and Metal Products	536.11	79.09	0.00	615.20
Engineering of which Electronics	146.06	82.30	0.00	228.36
Others (incl Electrical & Home Appliances)	501.20	140.96	0.00	642.16
Cotton Textiles	1594.43	104.05	0.00	1698.48
Other textiles	1826.93	80.95	0.00	1907.88
Food Processing	188.93	53.87	0.00	242.80
Beverages and Tobacco	41.54	4.50	0.00	46.04
Leather and Leather products	26.42	0.27	0.00	26.69
Wood and Wood Products	118.61	59.02	0.00	177.63
Paper and Paper Products	734.53	30.63	0.00	765.16
Petroleum, Coal Products and Nuclear Fuels	73.21	2.38	0.00	75.59
Drugs and Pharmaceuticals	62.34	17.54	0.17	80.05
Chemicals and Chemical Products (Dyes, Paints, etc.)	268.74	146.98	0.00	415.72
Rubber, Plastic and their Products	374.27	46.88	0.00	421.15
Glass & Glassware	19.39	0.00	0.00	19.39
Cement and Cement Products	21.43	3.42	0.00	24.85
Vehicles, Vehicle Parts and Transport Equipments & auto parts	221.33	44.46	0.00	265.79
Gems and Jewellery	95.20	20.38	0.00	115.58
Construction	1322.31	18.82	0.00	1341.13
Infrastructure	299.89	29.89	0.10	329.88
Other Industries	116.09	9.26	0.00	125.35
All Industries Total	9892.60	1184.01	1.13	11077.74
Residuary other advances	23189.27	1229.18	357.93	24776.38
Total Gross Exposure	33081.87	2413.19	359.06	35854.12

Note: The exposure to Other Textiles industry accounted for 5.32% of Total Gross Exposure as of 31.12.2018. The coverage of advances to the above industry occupies the top position among the total industry sectors.

Residual contractual maturity breakdown of assets 31.12.2018

Rs in Crore

(computed as per the guidelines of RBI on Asset Liability Management)

PERIOD	Cash, RBI Balance and Balance with all Banks	Advances (Net)	Investments (Net)	Fixed & Other Assets	Total
1 Day	435.19	71.27	1308.48	53.34	1868.28
2 to 7 Days	0.00	1167.62	438.48	62.60	1668.70
8 to 14 Days	0.00	1893.00	335.40	75.82	2304.22
15 to 30 Days	139.56	513.01	680.36	22.11	1355.04
31 days to 60 days	533.36	565.33	559.20	10.65	1668.54
61 days to 90 days	299.22	740.17	440.22	11.18	1490.79
Over 3 Months & upto 6 Months	198.82	1324.24	969.26	210.61	2702.93
Over 6 Months & upto 1 Year	400.33	3408.13	867.22	288.20	4963.88
Over 1 Year & upto 3 Years	439.89	15434.07	1602.78	272.70	17749.44
Over 3 Years & upto 5 Years	14.59	2550.24	65.25	213.45	2843.53
Over 5 Years	35.00	2599.27	391.32	588.34	3613.93
Total	2495.96	30266.35	7657.97	1809.00	42229.28

Amount of NPAs (Gross) Rs in crore

Sub-standard	473.19
Doubtful 1	110.92
Doubtful 2	255.14
Doubtful 3	38.10
Loss	14.56
Gross NPA Total	891.92

Geographical Area-wise NPAs: Rs in crore

Gross NPA – Domestic	891.92
Gross NPA – overseas	Nil
Gross NPA – Total	891.92

The Amount of Net NPAs is Rs. 527.60 crore

The NPA ratios are as under

- Gross NPA to Gross Advances - 2.91%
- Net NPA to Net Advances - 1.74%

Major Industry-wise NPA as on 31.12.2018 Rs in Crore

Industry	Gross NPA	Provision held
Other Textiles	33.32	9.58

The movement of NPA is as under:

	Rs in crore
i. Opening balance at the beginning of the quarter (01.10.2018)	847.88
ii. Additions made during the quarter	165.75
iii. Reductions during the quarter	121.71
iv. Closing balance at the end of the quarter (31.12.2018) (i + ii - iii)	891.92

The movements of provisions for NPAs are as under:

Nature	Rs in crore		
	Floating Provision	Specific Provision	Total Provision
i. Opening balance at the beginning of the quarter(01.10.2018)	18.65	326.45	345.10
ii. Provisions made during the quarter	---	77.00	77.00
iii. Write-off/Write-back of excess provisions during the quarter	---	62.43	62.43
iv. Closing Balance at the end of quarter (31.12.18) (i + ii - iii)	18.65	341.02	359.67

Recovery made during the quarter ended 31.12.2018 which is directly taken to Income Account amounts to Rs. 19.14 crore.

The amount of non-performing investment - Nil

The amount of provision held for non-performing investment is Nil

The movement of provisions for depreciation on investments

	Rs in crore
i. Opening balance at the beginning of the quarter (01.10.2018)	151.87
ii. Provisions made during the quarter	0.00
iii. Write-off during the quarter	0.00
iv. Write-back of excess provisions during the quarter	0.00
v. Closing Balance at the end of the quarter (31.12.18) (i + ii – iii – iv)	151.87

TABLE - DF - 4

CREDIT RISK: DISCLOSURES FOR PORTFOLIO SUBJECT TO THE STANDARDISED APPROACH

Qualitative Disclosures

The Bank is using the services of the External Credit Rating Agencies approved by Reserve Bank of India, namely a) CRISIL, b) ICRA, c) CARE, d) FITCH India, e) Brickwork, f) SMERA ratings and g) Infomerics Valuation and Rating Pvt Ltd to facilitate the corporate borrower customers who enjoy credit facilities above Rs.5.00 crore to solicit the ratings. The corporates which are yet to get the approved ratings from these rating agencies are treated as 'unrated'.

The Bank computes risk weight on the basis of external rating assigned, both Long Term and Short Term, for the facilities availed by the borrower. The external ratings assigned are generally facility specific. The Bank follows the below mentioned procedures as laid down in the Basel III guidelines for usage of external ratings:

- Rating assigned by one rating agency is used for all the types of claims on the borrowing entity.
- Long term ratings are used for facilities with contractual maturity of one year & above.
- Short term ratings are generally applied for facilities with contractual maturity of less than one year.

Quantitative Disclosures

The exposures after risk mitigation as per standardised approach, (rated and unrated) in the following three major risk buckets, as well as, those that are deducted as per risk mitigation are given below.

	Rs. in crore		
Risk Weight	Rated	Unrated	Total
Below 100 %	289.46	22058.24	22347.70
At 100 %	575.02	12309.53	12884.55
More than 100 %	923.10	1719.44	2642.54
Total outstanding after mitigation	1787.58	36087.21	37874.79
Deducted (as per Risk Mitigation)	3.13	4620.31	4623.44

Table DF-16: Equities – Disclosure for Banking Book Positions

There are no equity investments as on 31.12.2018 under Banking Book (HTM).

Leverage Ratio

Leverage ratio is a non-risk based measure of all exposures for the Tier-I capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. Presently the indicative benchmark Leverage Ratio prescribed by RBI is 4.50% (minimum).

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

Table DF 17- Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	31.12.2018 (Rs. In Million)
1	Total consolidated assets as per published financial statements	422292.80
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(0.37)
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-----
4	Adjustments for derivative financial instruments	1419.36
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-----
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	19095.67
7	Other adjustments (intangible)	(280.22)
8	Leverage ratio exposure	442527.24

Table DF 18: Leverage ratio common disclosure template – 31.12.2018		
	Item	Leverage ratio framework (Rs. In Million)
On – balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	422292.80
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(280.59)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	422012.21
Derivative Exposures		
4	Replacement cost associated with all <i>derivative</i> transactions (i.e. net of eligible cash variation margin)	1419.36
5	Add-on amounts for PFE associated with <i>all</i> derivative transactions	----
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	----
7	(Deductions of receivables assets for cash variation margin provided in derivative transactions)	----
8	(Exempted CCP leg of client-cleared trade exposures)	----
9	Adjusted effective notional amount of written credit derivatives	----
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	----
11	Total derivative exposures (sum of lines 4 to 10)	1419.36
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	----
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	----
14	CCR exposure for SFT assets	----
15	Agent transaction exposures	----
16	Total securities financing transaction exposures (sum of lines 12 to 15)	----
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	46724.67
18	(Adjustments for conversion to credit equivalent amounts)	(27629.00)
19	Off-balance sheet items (sum of lines 17 and 18)	19095.67
Capital and total exposures		
20	Tier 1 capital (after cross holding)	41108.52
21	Total exposures (sum of lines 3, 11, 16 and 19)	442527.24
Leverage ratio		
22	Basel III leverage ratio	9.29%